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Old National's strong 3rd quarter driven by 12% annualized commercial loan growth

3RD QUARTER 2017 HIGHLIGHTS:

Earnings of \$39.4 million, or \$0.29 per share

Adjusted pre-tax, pre-provision income¹ of \$61.1 million

Commercial and commercial real estate loan growth of 12.0% annualized from 2nd quarter 2017

Cost of interest-bearing deposits (excluding brokered CD's) increased just 2 basis points to 0.25%

Tangible book value¹ increase of 1.9% from 2nd quarter 2017

¹ *Non-GAAP measures refer to Table 3 and Table 11 for Non-GAAP reconciliations*

Evansville, Ind. (October 24, 2017) Today Old National Bancorp (the Company or Old National) (NASDAQ: ONB) reported 3rd quarter 2017 net income of \$39.4 million, or \$0.29 per diluted share. Included in the current quarter were the following pre-tax charges: \$2.1 million for branch consolidations, \$1.9 million for a client experience improvement initiative, \$0.4 million for merger and integrations, and \$0.3 million in severance. This current quarter net income represents an increase of 1.3% over the 2nd quarter of 2017 net income of \$38.9 million. During the 2nd quarter, Old National incurred \$0.5 million in pre-tax net branch consolidation charges and \$1.0 million in pre-tax charges for the client experience improvement initiative.

This quarter is a good illustration of the transformation of the Old National franchise. said Old National Chairman and CEO Bob Jones. Our recent entry into many of the higher growth markets in the Midwest is reflected in the strong commercial loan growth we have seen now for 10 quarters. This consistent growth, coupled with the ability to fund our balance sheet through core deposits and take advantage of low funding costs provides for stable margins and positions us well for future growth.

Our transformation continues with the anticipated November 1 closing of our newest partnership with St. Paul, Minnesota-based Anchor Bancorp, Jones continued. This entry into yet another vibrant Midwestern market provides Old National with another quality platform to execute our basic bank strategy.

Committed to our Strategic Imperatives

Old National's continued steady performance and strong credit and capital positions can be attributed to the Company's unwavering commitment to the three strategic imperatives that have guided Old National for 12 years:

1. Strengthen the risk profile;
2. Enhance management discipline;
- and 3. Achieve consistent quality earnings.

Balance Sheet and Net Interest Margin

Old National's period-end loans, including loans held for sale, at September 30, 2017, totaled \$9.428 billion, an increase of \$168.8 million, or 7.3% annualized, from the \$9.259 billion at June 30, 2017. Importantly, Old National's portfolio of commercial and commercial real estate loans grew by 12.0%, annualized, from the 2nd quarter to the 3rd quarter of 2017.

Total period-end core deposits, including demand and interest-bearing deposits, decreased \$69.3 million to \$10.492 billion at September 30, 2017, compared to \$10.561 billion at June 30, 2017. Noninterest-bearing deposit balances increased \$23.5 million during that same period, from \$3.011 billion to \$3.035 billion.

Net interest income for the 3rd quarter of 2017 totaled \$108.5 million compared to \$104.3 million in the 2nd quarter of 2017, and \$107.8 million in the 3rd quarter of 2016. On a fully taxable equivalent basis, net interest income was \$114.1 million for the 3rd quarter of 2017 and represented a net interest margin on total average earning assets of 3.52%. These results compare to net interest income on a fully taxable equivalent basis of \$110.0 million and a margin of 3.42% in the 2nd quarter of 2017. In the 3rd quarter of 2016, Old National reported net interest income on a fully taxable equivalent basis of \$113.1 million and a margin of 3.60%. *Refer to Table 4 for Non-GAAP taxable equivalent reconciliations.*

In the 3rd quarter of 2017, Old National recorded \$11.1 million in accretion income as part of net interest income, which represents 34 basis points of the Company's net interest margin. Accretion income is related to purchase accounting discounts from the Company's various acquisitions. Total accretion income in the 2nd quarter of 2017 and the 3rd quarter of 2016 reported by Old National was \$9.7 million, or 30 basis points of the net interest margin, and \$15.9 million, or 51 basis points of the net interest margin, respectively.

Noninterest Income

Total noninterest income for the 3rd quarter of 2017 amounted to \$46.4 million and compares to \$49.3 million reported in the 2nd quarter of 2017 and \$47.2 million in the 3rd quarter of 2016. The current quarter included \$0.6 million of recoveries on loans originated by AnchorBank, fsb that had been fully charged-off prior to the acquisition; the 2nd quarter of 2017 included \$1.6 million of such recoveries.

Noninterest Expenses

Noninterest expenses for Old National totaled \$103.7 million for the 3rd quarter of 2017. The current quarter included \$4.7 million in pre-tax charges: \$2.1 million related to branch consolidations, \$1.9 million related to a client-experience improvement initiative, \$0.4 million for merger and integrations and \$0.3 million in severance. Old National did not incur any tax credit amortization in noninterest expenses in the 3rd quarter of 2017 as originally projected. Noninterest expenses for the 2nd quarter of 2017 totaled \$102.8 million and included \$1.7 million in pre-tax charges: \$0.7 million related to branch consolidations and \$1.0 million related to the client-experience improvement initiative. In the 3rd quarter of 2016, noninterest expenses totaled \$108.1 million and included \$5.5 million in pre-tax merger and integration charges. Old National consolidated 15 branches in the 1st quarter of 2017 and plans to consolidate another 14 branches in the 4th quarter of the current year. Old National currently operates 188 branches throughout its franchise.

Capital

Old National's capital position at September 30, 2017, remained well above regulatory guideline minimums with regulatory tier 1 and total risk-based capital ratios of 12.0% and 12.5%, respectively, compared to 11.8% and 12.3% at June 30, 2017, and 11.9% and 12.5% at September 30, 2016. Old National did not repurchase any stock in the open

market during the 3rd quarter of 2017.

The following table presents Old National's risk-based and leverage ratios compared to industry requirements:

Table 1	Fully Phased-In Regulatory Guidelines Minimum	Consolidated ONB at September 30, 2017
Tier 1 Risk-Based Capital Ratio	≥ 8.5%	12.0%
Total Risk-Based Capital Ratio	≥ 10.5%	12.5%
Common Equity Tier 1 Capital Ratio	≥ 7.0%	11.7%
Tier 1 Leverage Capital Ratio	≥ 4.0%	8.8%

Old National's ratio of tangible common equity to tangible assets was 8.50% at September 30, 2017, compared to 8.41% at June 30, 2017, and 8.13% at September 30, 2016. *Refer to Table 11 for Non-GAAP reconciliations.*

As part of the Dodd-Frank Act Stress Test requirements, on October 24, 2017, Old National publicly disclosed the results of its 2017 stress test. These results can be found on the Company's website at oldnational.com.

Credit

Old National recorded a provision expense of \$0.3 million and had net charge-offs of \$1.1 million in the 3rd quarter of 2017. These results compare to \$1.4 million in provision expense and net charge-offs of \$0.2 million, and provision expense of \$1.3 million and net charge-offs of \$1.6 million, in the 2nd quarter of 2017 and the 3rd quarter of 2016, respectively. Net charge-offs for the 3rd quarter of 2017 were 0.05% of average total loans on an annualized basis, compared to net charge-offs of 0.01% of average total loans in the 2nd quarter of 2017 and 0.07% in the 3rd quarter of 2016. On a year-to-date basis, Old National recorded provision expense of \$2.0 million and had net charge-offs of \$1.7 million.

Delinquencies remained low as Old National reported 30+ day delinquent loans of 0.34% in the 3rd quarter of 2017 compared to 0.32% in the 2nd quarter of 2017. Old National's 90+ day delinquent loans for the 3rd quarter of 2017 were 0.01% compared to near zero for the 3rd quarter of 2016.

At September 30, 2017, Old National's allowance for loan losses was \$50.2 million, or 0.53% of total loans, compared to an allowance of \$51.0 million, or 0.55% of total loans at June 30, 2017, and \$51.5 million, or 0.58% of total loans, at September 30, 2016. The coverage ratio (allowance to non-performing loans) stood at 37% at September 30, 2017, compared to 37% at June 30, 2017, and 31% at September 30, 2016.

In accordance with current accounting practices, the loans acquired from recent acquisitions were recorded at fair value with no allowance recorded at the acquisition date. As of September 30, 2017, the remaining discount on these acquired loans was \$96.5 million.

The following table presents certain credit quality metrics related to Old National's loan portfolio:

Table 2 (\$ in millions)	3Q17	2Q17	3Q16
Non-Performing Loans (NPLs)	\$ 137.1	\$ 139.6	\$ 165.3
Problem Loans (Including NPLs)	209.5	238.0	233.5
Special Mention Loans	130.2	99.5	125.8
Net Charge-Off (Recoveries) Ratio	0.05%	0.01%	0.07%

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Provision for Loan Losses	\$ 0.3	\$ 1.4	\$ 1.3
Allowance for Loan Losses	50.2	51.0	51.5
Remaining Loan Discount on Acquired Loans	96.5	107.6	144.3

About Old National

Old National Bancorp (NASDAQ: ONB), the holding company of Old National Bank, is the largest financial services holding company headquartered in Indiana. With \$15.1 billion in assets, it ranks among the top 100 banking companies in the U.S. *and has been recognized as a World's Most Ethical Company by the Ethisphere Institute for six consecutive years.* Since its founding in Evansville in 1834, Old National Bank has focused on community banking by building long-term, highly valued partnerships with clients. Today, Old National's footprint includes Indiana, Kentucky, Michigan and Wisconsin. In addition to providing extensive services in retail and commercial banking, Old National offers comprehensive wealth management, investments and brokerage services. For more information and financial data, please visit Investor Relations at oldnational.com.

Conference Call

Old National will hold a conference call at 10:00 a.m. Central Time on Tuesday, October 24, 2017, to discuss 3rd quarter 2017 financial results, strategic developments, and the Company's financial outlook. The live audio web cast of the call, along with the corresponding presentation slides, will be available on the Company's Investor Relations web page at oldnational.com and will be archived there for 12 months. A replay of the call will also be available from 7:00 a.m. Central Time on October 25 through November 7. To access the replay, dial 1-855-859-2056, Conference ID Code 93364517.

Use of Non-GAAP Financial Measures

This earnings release contains GAAP financial measures and non-GAAP financial measures where management believes it to be helpful in understanding Old National's results of operations or financial position. Where non-GAAP financial measures are used, the comparable GAAP financial measure, as well as the reconciliation to the comparable GAAP financial measure, can be found in the tables of this release.

Table 3 Pre-Tax, Pre-Provision Income

(\$ in millions)	3Q17
Net Interest Income (FTE Basis)	\$ 114.1
Noninterest Income	46.4
Total Revenue (FTE Basis)	\$ 160.5
Noninterest Expense	(103.7)
Pre-Tax, Pre-Provision Income	\$ 56.8
Securities Gains	\$ 3.0
Branch Consolidations, Severance and Client Experience Initiative Charges	4.3
Merger and Integration Charges	0.4
Tax Credit Amortization	
Intangible Amortization	2.6
Adjusted Total Revenue (FTE Basis)	\$ 157.5
Adjusted Noninterest Expenses	(\$ 96.4)
Adjusted Pre-Tax, Pre-Provision Income	\$ 61.1

Table 4 Non-GAAP Reconciliations-Fully Taxable Equivalent Net Interest Margin

(\$ in millions)	3Q17	2Q17	3Q16
Net Interest Income	\$ 108.5	\$ 104.3	\$ 107.8
Taxable Equivalent Adjustment	5.6	5.7	5.3
Net Interest Income Taxable Equivalent	\$ 114.1	\$ 110.0	\$ 113.1
Average Earning Assets	\$ 12,959.7	\$ 12,844.5	\$ 12,575.5
Net Interest Margin	3.52%	3.42%	3.60%

Additional Information for Shareholders of Anchor Bancorp, Inc.

Communications in this document do not constitute an offer to sell or the solicitation of an offer to buy any securities or a solicitation of any vote or approval. In connection with the proposed merger, Old National Bancorp (ONB) has filed with the Securities and Exchange Commission (SEC) a Registration Statement on Form S-4 (Registration Statement No. 333-220434) that includes a Proxy Statement of Anchor Bancorp, Inc. (Anchor) and a Prospectus of ONB, as well as other relevant documents concerning the proposed transaction. Anchor shareholders are urged to read the Registration Statement and the Proxy Statement/Prospectus regarding the merger and any other relevant documents filed with the SEC, as well as any amendments or supplements to those documents, because they will contain important information. A free copy of the Proxy Statement/Prospectus, as well as other filings containing information about ONB and Anchor, may be obtained at the SEC s Internet site (<http://www.sec.gov>). You will also be able to obtain these documents, free of charge, from ONB at www.oldnational.com under the tab Investor Relations and then under the heading Financial Information or from Anchor by accessing Anchor s website at www.anchorlink.com under the tab About Us.

ONB and Anchor and certain of their directors and executive officers may be deemed to be participants in the solicitation of proxies from the shareholders of Anchor in connection with the proposed merger. Information about the directors and executive officers of ONB is set forth in the proxy statement for ONB s 2017 annual meeting of shareholders, as filed with the SEC on a Schedule 14A on March 6, 2017. Additional information regarding the interests of those participants and other persons who may be deemed participants in the transaction may be obtained by reading the Proxy Statement/Prospectus regarding the proposed merger when it becomes available. Free copies of this document may be obtained as described in the preceding paragraph.

Forward-Looking Statement

This press release contains certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements include, but are not limited to, descriptions of Old National Bancorp s (Old National s) financial condition, results of operations, asset and credit quality trends and profitability. Forward-looking statements can be identified by the use of the words anticipate, believe, expect, intend, could and should, and words of similar meaning. These forward-looking statements express management s current expectations or forecasts of future events and, by their nature, are subject to risks and uncertainties and there are a number of factors that could cause actual results to differ materially from those in such statements. Factors that might cause such a difference include, but are not limited to: expected cost savings, synergies and other financial benefits from the proposed merger with Anchor might not be realized within the expected timeframes and costs or difficulties relating to integration matters might be greater than expected; satisfaction of closing conditions for the Anchor merger; market, economic, operational, liquidity, credit and interest rate risks associated with Old National s business; competition; government legislation and policies (including the impact of the Dodd-Frank Wall Street Reform and Consumer Protection Act and its related regulations); ability of Old National to execute its business plan; changes in the economy which could materially impact credit quality trends and the ability to generate loans and gather deposits; failure or circumvention of our internal controls; failure or disruption of our information systems; significant changes in accounting, tax or regulatory practices or requirements; new legal obligations or liabilities or unfavorable resolutions of litigations; disruptive technologies in payment systems and other services traditionally provided by banks; computer hacking and other cybersecurity threats; other matters discussed in this press release and other factors identified in our Annual Report on Form 10-K and other periodic filings with the SEC. These forward-looking statements are made only as of the date of this press release, and Old National does not undertake an obligation to release revisions to these forward-looking statements to reflect events or conditions after the date of this press release.

TABLE 5

Financial Highlights (unaudited)

(\$ and shares in thousands, except per share data)

	Three Months Ended			Nine Months Ended	
	September 30, 2017	June 30, 2017	September 30, 2016	September 30, 2017	September 30, 2016
Income Statement					
Net interest income	\$ 108,478	\$ 104,333	\$ 107,803	\$ 318,612	\$ 292,786
Provision for loan losses	311	1,355	1,306	2,013	2,716
Noninterest income	46,366	49,271	47,243	138,557	190,079
Noninterest expense	103,702	102,811	108,062	308,404	327,889
Net income	39,372	38,854	34,709	114,218	100,808
Per Common Share Data (Diluted)					
Net income available to common shareholders	\$ 0.29	\$ 0.28	\$ 0.25	\$ 0.84	\$ 0.80
Average diluted shares outstanding	135,796	135,697	135,011	135,693	125,839
Book value	14.07	13.92	13.59	14.07	13.59
Stock price	18.30	17.25	14.06	18.30	14.06
Dividend payout ratio	43%	46%	52%	46%	49%
Tangible common book value (1)	9.02	8.85	8.43	9.02	8.43
Performance Ratios					
Return on average assets	1.05%	1.05%	0.96%	1.02%	1.01%
Return on average common equity	8.31%	8.33%	7.62%	8.18%	8.03%
Net interest margin (FTE)	3.52%	3.42%	3.60%	3.48%	3.56%
Efficiency ratio (2)	64.17%	64.05%	66.05%	64.29%	64.50%
Net charge-offs (recoveries) to average loans	0.05%	0.01%	0.07%	0.02%	0.06%
Allowance for loan losses to ending loans	0.53%	0.55%	0.58%	0.53%	0.58%
Non-performing loans to ending loans	1.46%	1.51%	1.86%	1.46%	1.86%
Balance Sheet					
Total loans	\$ 9,398,124	\$ 9,232,040	\$ 8,904,985	\$ 9,398,124	\$ 8,904,985
Total assets	15,065,800	14,957,281	14,703,071	15,065,800	14,703,071
Total deposits	10,606,784	10,683,714	10,646,708	10,606,784	10,646,708
Total borrowed funds	2,411,111	2,259,918	2,023,099	2,411,111	2,023,099
Total shareholders equity	1,906,823	1,886,594	1,834,457	1,906,823	1,834,457
Capital Ratios (1)					
Risk-based capital ratios (EOP):					
Tier 1 common equity	11.7%	11.5%	11.8%	11.7%	11.8%
Tier 1	12.0%	11.8%	11.9%	12.0%	11.9%
Total	12.5%	12.3%	12.5%	12.5%	12.5%
Leverage ratio (to average assets)	8.8%	8.7%	8.4%	8.8%	9.2%
Total equity to assets (averages)	12.65%	12.56%	12.60%	12.53%	12.59%
Tangible common equity to tangible assets	8.50%	8.41%	8.13%	8.50%	8.13%

Nonfinancial Data

Full-time equivalent employees	2,592	2,652	2,910	2,592	2,910
Number of branches	188	188	201	188	201

(1) See non-GAAP measures on Table 11.

(2) Efficiency ratio is defined as noninterest expense before amortization of intangibles as a percent of FTE net interest income and noninterest revenues, excluding net gains from securities transactions. This presentation excludes intangible amortization and net securities gains, as is common in other company releases, and better aligns with true operating performance.

FTE - Fully taxable equivalent basis

EOP - End of period actual balances

TABLE 6

Income Statement (unaudited)

(\$ and shares in thousands, except per share data)

	Three Months Ended			Nine Months Ended	
	September 30, 2017	June 30, 2017	September 30, 2016	September 30, 2017	September 30, 2016
Interest income	\$ 123,525	\$ 118,209	\$ 119,713	\$ 360,202	\$ 325,285
Less: interest expense	15,047	13,876	11,910	41,590	32,499
<i>Net interest income</i>	108,478	104,333	107,803	318,612	292,786
Provision for loan losses	311	1,355	1,306	2,013	2,716
<i>Net interest income after provision for loan losses</i>	108,167	102,978	106,497	316,599	290,070
Wealth management fees	8,837	9,679	8,572	27,515	26,048
Service charges on deposit accounts	10,535	10,040	11,054	30,418	31,130
Debit card and ATM fees	4,248	4,436	4,330	12,920	12,586
Mortgage banking revenue	5,104	5,186	7,718	14,516	15,841
Insurance premiums and commissions	170	160	132	437	20,375
Investment product fees	5,193	5,004	5,038	15,186	13,667
Capital markets income	1,843	2,747	849	5,621	2,262
Company-owned life insurance	2,022	2,117	2,163	6,288	6,281
Change in Indemnification Asset					233
Other income	5,400	6,776	5,668	17,970	15,094
Net gain on sale of ONB Insurance Group, Inc.					41,864
Gains (losses) on sales of securities	2,972	3,075	1,647	7,547	4,609
Gains (losses) on derivatives	42	51	72	139	89
<i>Total noninterest income</i>	46,366	49,271	47,243	138,557	190,079
Salaries and employee benefits	57,783	57,606	60,861	171,953	180,548
Occupancy	11,670	10,539	12,944	34,343	39,356
Equipment	3,485	3,350	3,564	10,062	9,773
Marketing	2,646	3,673	3,528	9,369	11,125
Data processing	7,696	8,226	8,242	23,530	24,041
Communication	2,163	2,288	2,755	6,865	7,154
Professional fees	4,589	4,077	3,252	11,317	11,801
Loan expenses	1,542	1,693	2,213	4,866	5,669
Supplies	547	594	799	1,720	1,980
FDIC assessment	2,197	2,130	2,149	6,814	6,098
Other real estate owned expense	511	1,009	728	2,635	3,251
Intangible amortization	2,641	2,781	3,233	8,442	9,245
Other expense	6,232	4,845	3,794	16,488	17,848

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<i>Total noninterest expense</i>	103,702	102,811	108,062	308,404	327,889
<i>Income before income taxes</i>	50,831	49,438	45,678	146,752	152,260
<i>Income tax expense</i>	11,459	10,584	10,969	32,534	51,452
Net income	\$ 39,372	\$ 38,854	\$ 34,709	\$ 114,218	\$ 100,808
<u>Diluted Earnings Per Share</u>					
Net income	\$ 0.29	\$ 0.28	\$ 0.25	\$ 0.84	\$ 0.80
<u>Average Common Shares Outstanding</u>					
Basic	135,120	135,085	134,492	135,040	125,366
Diluted	135,796	135,697	135,011	135,693	125,839
Common shares outstanding at end of period	135,523	135,516	134,985	135,523	134,985

TABLE 7

Balance Sheet (unaudited)

(\$ in thousands)

	September 30, 2017	June 30, 2017	September 30, 2016
Assets			
Federal Reserve Bank account	\$ 32,333	\$ 22,117	\$ 31,634
Money market investments	17,382	9,815	4,513
Investments:			
Treasury and government sponsored agencies	582,051	586,258	622,726
Mortgage-backed securities	1,458,385	1,470,687	1,495,683
States and political subdivisions	1,095,975	1,118,437	1,148,147
Other securities	451,082	449,045	449,614
<i>Total investments</i>	3,587,493	3,624,427	3,716,170
Loans held for sale	30,221	27,425	60,465
Loans:			
Commercial	2,049,054	2,001,621	1,836,380
Commercial and agriculture real estate	3,370,211	3,259,998	3,092,575
Consumer:			
Home equity	477,100	472,198	481,995
Other consumer loans	1,382,639	1,398,849	1,388,803
Subtotal of commercial and consumer loans	7,279,004	7,132,666	6,799,753
Residential real estate	2,119,120	2,099,374	2,105,232
<i>Total loans</i>	9,398,124	9,232,040	8,904,985
<i>Total earning assets</i>	13,065,553	12,915,824	12,717,767
Allowance for loan losses	(50,169)	(50,986)	(51,547)
Non-earning Assets:			
Cash and due from banks	202,652	230,809	224,893
Premises and equipment	412,488	413,933	333,266
Goodwill and intangible assets	684,253	686,894	696,128
Company-owned life insurance	356,897	354,875	351,431
Net deferred tax assets	137,951	146,780	169,466
Loan servicing rights	24,900	25,023	25,920
Other real estate owned	10,259	11,071	23,719
Other assets	221,016	223,058	212,028
<i>Total non-earning assets</i>	2,050,416	2,092,443	2,036,851
<i>Total assets</i>	\$ 15,065,800	\$ 14,957,281	\$ 14,703,071

Liabilities and Equity			
Noninterest-bearing demand deposits	\$ 3,034,696	\$ 3,011,156	\$ 2,944,331
NOW accounts	2,539,233	2,639,813	2,486,190
Savings accounts	2,932,488	2,924,689	2,963,637
Money market accounts	648,378	672,391	687,895
Other time deposits	1,337,156	1,313,199	1,400,068
<i>Total core deposits</i>	10,491,951	10,561,248	10,482,121
Brokered CD s	114,833	122,466	164,587
<i>Total deposits</i>	10,606,784	10,683,714	10,646,708
Federal funds purchased and interbank borrowings	317,021	227,029	125,121
Securities sold under agreements to repurchase	285,409	298,094	347,804
Federal Home Loan Bank advances	1,589,367	1,515,628	1,331,379
Other borrowings	219,314	219,167	218,795
<i>Total borrowed funds</i>	2,411,111	2,259,918	2,023,099
Accrued expenses and other liabilities	141,082	127,055	198,807
<i>Total liabilities</i>	13,158,977	13,070,687	12,868,614
Common stock, surplus, and retained earnings	1,941,020	1,917,714	1,853,286
Other comprehensive income	(34,197)	(31,120)	(18,829)
<i>Total shareholders equity</i>	1,906,823	1,886,594	1,834,457
<i>Total liabilities and shareholders equity</i>	\$ 15,065,800	\$ 14,957,281	\$ 14,703,071

TABLE 8

Average Balance Sheet and Interest Rates (unaudited)

(\$ in thousands)

	Three Months Ended September 30, 2017			Three Months Ended June 30, 2017			Three Months Ended September 30, 2016		
	Average Balance	Income (1)/ Expense	Yield/ Rate	Average Balance	Income (1)/ Expense	Yield/ Rate	Average Balance	Income (1)/ Expense	Yield/ Rate
Earning Assets:									
Money market and other interest-earning investments	\$ 32,755	\$ 85	1.03%	\$ 27,222	\$ 55	0.80%	\$ 21,923	\$ 23	0.42%
Investments:									
Treasury and government sponsored agencies	585,354	2,844	1.94%	575,940	2,798	1.94%	671,295	3,390	2.02%
Mortgage-backed securities	1,456,034	7,235	1.99%	1,485,582	7,590	2.04%	1,414,753	6,353	1.80%
States and political subdivisions	1,103,721	13,065	4.73%	1,122,769	13,375	4.76%	1,139,983	13,329	4.68%
Other securities	453,782	3,043	2.68%	446,521	2,866	2.57%	446,870	2,566	2.30%
<i>Total investments</i>	3,598,891	26,187	2.91%	3,630,812	26,629	2.93%	3,672,901	25,638	2.79%
Loans: (2)									
Commercial	2,021,614	20,731	4.01%	1,938,751	19,352	3.95%	1,861,906	18,268	3.84%
Commercial and agriculture real estate	3,298,435	43,646	5.18%	3,240,318	39,830	4.86%	2,975,029	41,906	5.51%
Consumer:									
Home equity	479,492	5,065	4.19%	474,308	4,837	4.09%	483,678	4,895	4.03%
Other consumer loans	1,384,057	12,242	3.51%	1,405,226	11,881	3.39%	1,404,947	11,960	3.39%
Subtotal commercial and consumer loans	7,183,598	81,684	4.51%	7,058,603	75,900	4.31%	6,725,560	77,029	4.56%
Residential real estate loans	2,144,478	21,190	3.95%	2,127,867	21,268	4.00%	2,155,070	22,343	4.14%
<i>Total loans</i>	9,328,076	102,874	4.35%	9,186,470	97,168	4.21%	8,880,630	99,372	4.41%
<i>Total earning assets</i>	\$ 12,959,722	\$ 129,146	3.95%	\$ 12,844,504	\$ 123,852	3.84%	\$ 12,575,454	\$ 125,033	3.94%
Less: Allowance for loan losses	(51,130)			(50,937)			(52,809)		

Non-earning
Assets:

Cash and due from banks	\$ 233,017			\$ 200,209			\$ 204,991		
Other assets	1,845,612			1,860,676			1,721,772		
<i>Total assets</i>	\$ 14,987,221			\$ 14,854,452			\$ 14,449,408		

Interest-Bearing
Liabilities:

NOW accounts	\$ 2,570,321	\$ 544	0.08%	\$ 2,643,123	\$ 511	0.08%	\$ 2,461,799	\$ 456	0.07%
Savings accounts	2,934,445	1,289	0.17%	2,944,314	1,209	0.16%	2,708,307	962	0.14%
Money market accounts	661,635	142	0.09%	684,911	146	0.09%	936,232	326	0.14%
Other time deposits	1,347,095	2,800	0.82%	1,330,026	2,536	0.76%	1,352,876	2,704	0.79%
<i>Total interest-bearing deposits</i>	7,513,496	4,775	0.25%	7,602,374	4,402	0.23%	7,459,214	4,448	0.24%
Brokered CD s	119,707	350	1.16%	111,972	322	1.15%	174,375	371	0.85%

<i>Total interest-bearing deposits and CD s</i>	7,633,203	5,125	0.27%	7,714,346	4,724	0.25%	7,633,589	4,819	0.25%
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Federal funds purchased and interbank borrowings	220,918	655	1.18%	166,690	422	1.02%	178,770	226	0.50%
Securities sold under agreements to repurchase	315,285	280	0.35%	329,182	334	0.41%	355,734	375	0.42%
Federal Home Loan Bank advances	1,506,606	6,618	1.74%	1,443,453	6,017	1.67%	1,129,756	4,137	1.46%
Other borrowings	219,241	2,369	4.32%	219,085	2,379	4.34%	218,720	2,353	4.30%

<i>Total borrowed funds</i>	2,262,050	9,922	1.74%	2,158,410	9,152	1.70%	1,882,980	7,091	1.50%
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<i>Total interest-bearing liabilities</i>	\$ 9,895,253	\$ 15,047	0.61%	\$ 9,872,756	\$ 13,876	0.56%	\$ 9,516,569	\$ 11,910	0.50%
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Noninterest-Bearing
Liabilities

Demand deposits	\$ 3,049,503			\$ 2,988,147			\$ 2,895,945		
Other liabilities	146,271			128,231			215,620		
Shareholders equity	1,896,194			1,865,318			1,821,274		
	\$ 14,987,221			\$ 14,854,452			\$ 14,449,408		

*Total liabilities and
shareholders
equity*

Net interest rate spread	3.34%	3.28%	3.44%
Net interest margin (FTE)	3.52%	3.42%	3.60%
FTE adjustment	\$ 5,621	\$ 5,643	\$ 5,320

- (1) Interest income is reflected on a fully taxable equivalent basis (FTE).
(2) Includes loans held for sale.

TABLE 9

Average Balance Sheet and Interest Rates (unaudited)

(\$ in thousands)

	Nine Months Ended September 30, 2017			Nine Months Ended September 30, 2016		
	Average Balance	Income (1)/ Expense	Yield/ Rate	Average Balance	Income (1)/ Expense	Yield/ Rate
Earning Assets:						
Money market and other interest-earning investments	\$ 29,172	\$ 171	0.78%	\$ 29,979	\$ 93	0.42%
Investments:						
Treasury and gov t sponsored agencies	567,403	8,422	1.98%	713,285	10,454	1.95%
Mortgage-backed securities	1,484,132	22,643	2.03%	1,225,528	16,992	1.85%
States and political subdivisions	1,119,846	40,047	4.77%	1,120,344	39,545	4.71%
Other securities	448,544	8,738	2.60%	436,466	7,522	2.30%
<i>Total investments</i>	3,619,925	79,850	2.94%	3,495,623	74,513	2.85%
Loans: (2)						
Commercial	1,949,921	59,171	4.00%	1,823,223	53,138	3.83%
Commercial and agriculture real estate	3,237,053	123,800	5.04%	2,488,888	105,217	5.55%
Consumer:						
Home equity	476,729	14,560	4.08%	450,805	15,759	4.67%
Other consumer loans	1,399,040	35,890	3.43%	1,320,386	33,078	3.35%
Subtotal commercial and consumer loans	7,062,743	233,421	4.42%	6,083,302	207,192	4.55%
Residential real estate loans	2,137,982	63,712	3.97%	1,939,148	59,274	4.08%
<i>Total loans</i>	9,200,725	297,133	4.28%	8,022,450	266,466	4.40%
<i>Total earning assets</i>	\$ 12,849,822	\$ 377,154	3.90%	\$ 11,548,052	\$ 341,072	3.92%
Less: Allowance for loan losses	(50,927)			(52,054)		
Non-earning Assets:						
Cash and due from banks	\$ 209,752			\$ 186,506		
Other assets	1,861,261			1,612,410		
<i>Total assets</i>	\$ 14,869,908			\$ 13,294,914		
Interest-Bearing Liabilities:						
NOW accounts	\$ 2,599,696	\$ 1,511	0.08%	\$ 2,331,596	\$ 1,099	0.06%
Savings accounts	2,949,412	3,655	0.17%	2,475,739	2,585	0.14%
Money market accounts	684,346	437	0.09%	784,057	698	0.12%

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Other time deposits	1,336,729	7,704	0.77%	1,147,969	7,184	0.84%
<i>Total interest-bearing deposits</i>	7,570,183	13,307	0.24%	6,739,361	11,566	0.23%
Brokered CD s	113,111	925	1.09%	158,724	1,000	0.84%
<i>Total interest-bearing deposits and CD s</i>	7,683,294	14,232	0.25%	6,898,085	12,566	0.24%
Federal funds purchased and interbank borrowings	192,343	1,433	1.00%	157,499	566	0.48%
Securities sold under agreements to repurchase	325,230	870	0.36%	373,474	1,139	0.41%
Federal Home Loan Bank advances	1,460,293	17,947	1.64%	1,073,414	11,164	1.39%
Other borrowings	219,097	7,108	4.33%	224,000	7,064	4.20%
<i>Total borrowed funds</i>	2,196,963	27,358	1.66%	1,828,387	19,933	1.46%
<i>Total interest-bearing liabilities</i>	\$ 9,880,257	\$ 41,590	0.56%	\$ 8,726,472	\$ 32,499	0.50%
Noninterest-Bearing Liabilities						
Demand deposits	\$ 2,985,386			\$ 2,698,873		
Other liabilities	141,616			195,078		
Shareholders equity	1,862,649			1,674,491		
<i>Total liabilities and shareholders equity</i>	\$ 14,869,908			\$ 13,294,914		
Net interest rate spread			3.34%			3.42%
Net interest margin (FTE)			3.48%			3.56%
FTE adjustment		\$ 16,952			\$ 15,787	

- (1) Interest income is reflected on a fully taxable equivalent basis (FTE).
(2) Includes loans held for sale.

TABLE 10

Asset Quality (EOP) (unaudited)

(\$ in thousands)

	Three Months Ended			Nine Months Ended	
	September 30, 2017	June 30, 2017	September 30, 2016	September 30, 2017	September 30, 2016
Beginning allowance for loan losses	\$ 50,986	\$ 49,834	\$ 51,804	\$ 49,808	\$ 52,233
Provision for loan losses	311	1,355	1,306	2,013	2,716
Gross charge-offs	(2,821)	(3,380)	(4,519)	(9,440)	(11,138)
Gross recoveries	1,693	3,177	2,956	7,788	7,736
Net (charge-offs) recoveries	(1,128)	(203)	(1,563)	(1,652)	(3,402)
Ending allowance for loan losses	\$ 50,169	\$ 50,986	\$ 51,547	\$ 50,169	\$ 51,547
Net charge-offs (recoveries) / average loans (1)	0.05%	0.01%	0.07%	0.02%	0.06%
Average loans outstanding (1)	\$ 9,320,868	\$ 9,180,987	\$ 8,865,400	\$ 9,194,396	\$ 8,012,299
EOP loans outstanding (1)	\$ 9,398,124	\$ 9,232,040	\$ 8,904,985	\$ 9,398,124	\$ 8,904,985
Allowance for loan losses / EOP loans (1)	0.53%	0.55%	0.58%	0.53%	0.58%
<u>Underperforming Assets:</u>					
Loans 90 Days and over (still accruing)	\$ 879	\$ 201	\$ 443	\$ 879	\$ 443
<u>Non-performing loans:</u>					
Nonaccrual loans (2)	119,256	125,519	151,484	119,256	151,484
Renegotiated loans	17,886	14,123	13,860	17,886	13,860
Total non-performing loans	137,142	139,642	165,344	137,142	165,344
Foreclosed properties	10,259	11,071	23,719	10,259	23,719
Total underperforming assets	\$ 148,280	\$ 150,914	\$ 189,506	\$ 148,280	\$ 189,506
Classified loans - problem loans	\$ 209,524	\$ 237,997	\$ 233,469	\$ 209,524	\$ 233,469
Other classified assets	7,526	7,449	6,634	7,526	6,634
Criticized loans - special mention loans	130,197	99,502	125,840	130,197	125,840
Total classified and criticized assets	\$ 347,247	\$ 344,948	\$ 365,943	\$ 347,247	\$ 365,943
Non-performing loans / EOP loans (1)	1.46%	1.51%	1.86%	1.46%	1.86%
Allowance to non-performing loans (3)	37%	37%	31%	37%	31%

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Under-performing assets / EOP loans (1)	1.58%	1.63%	2.13%	1.58%	2.13%
EOP total assets	\$ 15,065,800	\$ 14,957,281	\$ 14,703,071	\$ 15,065,800	\$ 14,703,071
Under-performing assets / EOP assets	0.98%	1.01%	1.29%	0.98%	1.29%
EOP - End of period actual balances					

- (1) Excludes loans held for sale.
- (2) Includes renegotiated loans totaling \$43.7 million at September 30, 2017, \$46.2 million at June 30, 2017 and \$29.9 million at September 30, 2016.
- (3) Includes acquired loans that were recorded at fair value in accordance with ASC 805 at the date of acquisition. As such, the credit risk was incorporated in the fair value recorded and no allowance for loan losses was recorded on the acquisition date.

TABLE 11

Non-GAAP Measures (unaudited)

(\$ in thousands)

	Three Months Ended			Nine Months Ended	
	September 30, 2017	June 30, 2017	September 30, 2016	September 30, 2017	September 30, 2016
<u>Actual End of Period Balances</u>					
GAAP shareholders equity	\$ 1,906,823	\$ 1,886,594	\$ 1,834,457	\$ 1,906,823	\$ 1,834,457
<u>Deduct:</u>					
Goodwill	655,018	655,018	655,210	655,018	655,210
Intangibles	29,235	31,876	40,918	29,235	40,918
	684,253	686,894	696,128	684,253	696,128
Tangible shareholders equity	\$ 1,222,570	\$ 1,199,700	\$ 1,138,329	\$ 1,222,570	\$ 1,138,329
<u>Average Balances</u>					
GAAP shareholders equity	\$ 1,896,194	\$ 1,865,318	\$ 1,821,274	\$ 1,862,649	\$ 1,674,491
<u>Deduct:</u>					
Goodwill	655,018	655,018	655,519	655,018	628,859
Intangibles	30,502	33,189	42,522	33,242	40,679
	685,520	688,207	698,041	688,260	669,538
Average tangible shareholders equity	\$ 1,210,674	\$ 1,177,111	\$ 1,123,233	\$ 1,174,389	\$ 1,004,953
<u>Actual End of Period Balances</u>					
GAAP assets	\$ 15,065,800	\$ 14,957,281	\$ 14,703,071	\$ 15,065,800	\$ 14,703,071
<u>Add:</u>					
Trust overdrafts	45	31	47	45	47
<u>Deduct:</u>					
Goodwill	655,018	655,018	655,210	655,018	655,210
Intangibles	29,235	31,876	40,918	29,235	40,918
	684,253	686,894	696,128	684,253	696,128
Tangible assets	\$ 14,381,592	\$ 14,270,418	\$ 14,006,990	\$ 14,381,592	\$ 14,006,990
Risk-weighted assets	\$ 10,495,407	\$ 10,367,804	\$ 9,703,233	\$ 10,495,407	\$ 9,703,233
GAAP net income	\$ 39,372	\$ 38,854	\$ 34,709	\$ 114,218	\$ 100,808
<u>Add:</u>					

Intangible amortization (net of tax)	1,717	1,807	2,101	5,487	6,009
Tangible net income	\$ 41,089	\$ 40,661	\$ 36,810	\$ 119,705	\$ 106,817
Tangible Ratios					
Return on tangible common equity	13.44%	13.56%	12.93%	13.06%	12.51%
Return on average tangible common equity	13.58%	13.82%	13.11%	13.59%	14.17%
Return on tangible assets	1.14%	1.14%	1.05%	1.11%	1.02%
Tangible common equity to tangible assets	8.50%	8.41%	8.13%	8.50%	8.13%
Tangible common equity to risk-weighted assets	11.65%	11.57%	11.73%	11.65%	11.73%
Tangible common book value (1)	9.02	8.85	8.43	9.02	8.43

Tangible common equity presentation includes other comprehensive income as is common in other company releases.

(1) Tangible common shareholders equity divided by common shares issued and outstanding at period-end.

Tier 1 capital	\$ 1,254,790	\$ 1,222,250	\$ 1,156,274	\$ 1,254,790	\$ 1,156,274
Deduct:					
Trust Preferred Securities	45,000	45,000	45,000	45,000	45,000
Additional Tier 1 capital deductions	(13,498)	(14,977)	(30,466)	(13,498)	(30,466)
	31,502	30,023	14,534	31,502	14,534
Tier 1 common equity	\$ 1,223,288	\$ 1,192,227	\$ 1,141,740	\$ 1,223,288	\$ 1,141,740
Risk-weighted assets	10,495,407	10,367,804	9,703,233	10,495,407	9,703,233
Tier 1 common equity to risk-weighted assets	11.66%	11.50%	11.77%	11.66%	11.77%

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		
		Other-Than- Temporary Impairment Recognized In Accumulated Other Comprehensive Loss				
September 30, 2015	Amortized Cost	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	
		Other-Than- Temporary Impairment Recognized In Accumulated Other Comprehensive Loss				
December 31, 2014	Amortized Cost	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)
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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.

(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 Consumer	228	—	1,132	1,360	39,557	40,917	737	395
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 Consumer	—	—	1,688	1,688	44,758	46,446	317	1,361
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 indicator 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 indicator 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 Business	Commercial Real Estate	Mortgage Warehouse	Residential Real Estate	Loans to Individuals	Other	Unallocated	Deferred Loan Fees	Total
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		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)	—	—	—	—	—	—	(511)
Recoveries of loans charged off	—	3	—	—	—	—	—	—	3
Balance - March 31, 2014	\$ 1,265	\$ 1,218	\$ 3,136	\$ 522	\$ 182	\$ 93	\$ 1	\$ 614	\$ 7,031

Provision charged (credited) to operations	(315)	4,041	471	388	(9)	(2)	—	(474)	4,100
Loans charged off	—	(3,714)	—	—	—	—	—	—	(3,714)
Recoveries of loans charged off	—	1	—	—	—	—	—	—	1
Balance - June 30, 2014	\$ 950	\$ 1,546	\$ 3,607	\$ 910	\$ 173	\$ 91	\$ 1	\$ 140	\$ 7,418
Provision charged (credited) to operations	149	185	223	(123)	44	1	—	171	650
Loans charged off	—	(99)	(894)	—	(15)	—	—	—	(1,008)
Recoveries of loans charged off	—	9	39	—	—	—	—	—	48
Balance - September 30, 2014	\$ 1,099	\$ 1,641	\$ 2,975	\$ 787	\$ 202	\$ 92	\$ 1	\$ 311	\$ 7,108

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

Impaired Loans Receivables (By Class) – September 30, 2015

(Dollars in thousands)

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Three Months Ended September 30, 2015 Average Recorded Investment	Interest Income Recognized	Nine Months Ended September 30, 2015 Average Recorded Investment	Interest Income Recognized
With no related allowance:							
Commercial							
Construction	\$494	\$494	\$—	\$489	\$7	\$471	\$20
Commercial Business	512	1,171	—	448	3	489	10
Commercial Real Estate	3,682	4,205	—	2,895	27	2,766	89
Mortgage Warehouse Lines	—	—	—	—	—	—	—
Subtotal	4,688	5,870	—	3,832	37	3,726	119
Residential Real Estate	94	94	—	617	—	1,113	—
Consumer							
Loans to Individuals	263	263	—	263	—	263	—
Other	—	—	—	—	—	—	—
Subtotal	263	263	—	263	—	263	—
With no related allowance:	\$5,045	\$6,227	\$—	\$4,712	\$37	\$5,102	\$119
With a related allowance:							
Commercial							
Construction	\$—	\$—	\$—	\$—	\$—	\$—	\$—
Commercial Business	209	235	38	294	—	340	2
Commercial Real Estate	3,595	3,608	155	4,477	88	4,662	246
Mortgage Warehouse Lines	—	—	—	—	—	—	—
Subtotal	3,804	3,843	193	4,771	88	5,002	248
Residential Real Estate	301	316	7	100	—	33	—
Consumer							
Loans to Individuals	—	—	—	—	—	234	—
Other	—	—	—	—	—	—	—
Subtotal	—	—	—	—	—	234	—
With a related allowance:	4,105	4,159	200	4,871	88	5,269	248
Total:							
Construction	494	494	—	489	7	471	20
Commercial Business	721	1,406	38	742	3	829	11
Commercial Real Estate	7,276	7,813	155	7,372	115	7,428	334
Mortgage Warehouse Lines	—	—	—	—	—	—	—
Residential Real Estate	395	410	7	717	—	1,146	—
Consumer	263	263	—	263	—	263	—
Total	\$9,149	\$10,386	\$200	\$9,583	\$125	\$10,137	\$365

Impaired Loans Receivables (By Class) –December 31, 2014

(Dollars in thousands)

For the year ended
December 31, 2014

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance:					
Commercial					
Construction	\$450	\$450	\$—	\$329	\$ 18
Commercial Business	558	1,145	—	586	20
Commercial Real Estate	4,058	4,344	—	4,144	139
Mortgage Warehouse Lines	—	—	—	—	—
Subtotal	5,066	5,939	—	5,059	177
Residential Real Estate	1,361	1,376	—	1,410	—
Consumer					
Loans to Individuals	—	—	—	—	—
Other	—	—	—	—	—
Subtotal	—	—	—	—	—
With no related allowance	6,427	7,315	—	6,469	177
With a related allowance:					
Commercial					
Construction	—	—	—	—	—
Commercial Business	374	374	122	531	3
Commercial Real Estate	3,409	3,409	593	3,439	214
Mortgage Warehouse Lines	—	—	—	—	—
Subtotal	3,783	3,783	715	3,970	217
Residential Real Estate	—	—	—	—	—
Consumer					
Loans to Individuals	263	263	26	251	—
Other	—	—	—	—	—
Subtotal	263	263	26	251	—
With a related allowance	4,046	4,046	741	4,221	217
Total:					
Construction	450	450	—	329	18
Commercial Business	932	1,519	122	1,117	23
Commercial Real Estate	7,467	7,753	593	7,583	353
Mortgage Warehouse Lines	—	—	—	—	—
Residential Real Estate	1,361	1,376	—	1,410	—
Consumer	263	263	26	251	—
Total	\$10,473	\$11,361	\$741	\$10,690	\$ 394

Impaired Loans Receivables (By Class)

(Dollars in thousands)

	Three months ended September 30, 2014		Nine months ended September 30, 2014	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
With no related allowance:				
Commercial				
Construction	\$450	\$6	\$302	\$11
Commercial Business	786	7	580	20
Commercial Real Estate	2,432	35	1,512	106
Mortgage Warehouse Lines	—	—	—	—
Subtotal	3,668	48	2,394	137
Residential Real Estate	1,468	7	1,298	21
Consumer				
Loans to Individuals	77	8	136	15
Other	—	—	—	—
Subtotal	77	8	136	15
With no related allowance:	5,213	63	3,828	173
With a related allowance:				
Commercial				
Construction	\$—	\$—	\$—	\$—
Commercial Business	95	—	246	—
Commercial Real Estate	8,701	55	8,975	160
Mortgage Warehouse Lines	—	—	—	—
Subtotal	8,796	55	9,221	160
Residential Real Estate	—	—	—	—
Consumer				
Loans to Individuals	—	—	—	—
Other	—	—	—	—
Subtotal	—	—	—	—
With a related allowance:	8,796	55	9,221	160
Total:				
Construction	450	6	302	11
Commercial Business	881	7	826	20
Commercial Real Estate	11,133	90	10,487	266
Mortgage Warehouse Lines	—	—	—	—
Residential Real Estate	1,468	7	1,298	21
Consumer	77	8	136	15
Total	\$14,009	\$118	\$13,049	\$333

Purchased Credit-Impaired Loans

Purchased Credit-Impaired loans (“PCI”) are loans acquired at a discount that are due in part to credit quality. The following table presents additional information regarding acquired credit-impaired loans at September 30, 2015 and December 31, 2014:

(Dollars in thousands)

	September 30, 2015	December 31, 2014
Outstanding balance	\$2,692	\$2,705
Carrying amount	\$1,952	\$2,025

There was a change in the expected cash flows on one PCI loan with a balance of \$206,000 at September 30, 2015. An allowance for loan losses in the amount of \$40,000 has been recorded for this acquired loan as of September 30, 2015.

Changes in accretable discount for acquired credit-impaired loans for the three and nine months ended September 30, 2015 and September 30, 2014 were as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
(Dollars in thousands)				
Balance at beginning of period	\$101	\$194	\$135	\$—
Acquisition of impaired loans	—	—	—	241
Accretion of discount	(13	) (37	) (47	) (84
Balance at end of period	\$88	\$157	\$88	\$157

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

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

(Dollars in thousands)

	September 30, 2015		2014	
	Number of loans	Recorded Investment	Number of loans	Recorded Investment
	4	\$843	1	\$33

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

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

There were no loans modified that were TDRs in the three and nine months ended September 30, 2015. For the year ended December 31, 2014, there were 3 loans with a recorded investment of \$162,000 that were modified as TDRs. There were no troubled debt restructurings that subsequently defaulted within twelve months of restructuring during the three and nine months ended September 30, 2015 and the year ended December 31, 2014.

(6) Share-Based Compensation

The Company's share-based incentive plans ("Stock Plans") authorize the issuance of an aggregate of 437,450 shares of the Company's common stock (as adjusted for stock dividends) pursuant to awards that may be granted in the form of stock options to purchase common stock ("Options") and awards of shares of common stock ("Stock Awards"). The purpose of the Stock Plans is to attract and retain personnel for positions of substantial responsibility and to provide additional incentive to certain officers, directors, employees and other persons to promote the success of the Company. Under the Stock Plans, options may have a term of not more than ten years after the date of grant, subject to earlier termination in certain circumstances. Options are granted with an exercise price at the closing price of the Company's common stock on the date of grant or otherwise as provided for in the Company's Stock Plans. The grant date fair value is calculated using the Black – Scholes option valuation model.

As of September 30, 2015, there were 280,160 shares of common stock available for future grants under the Stock Plans, of which 233,960 shares are available for future grants under the 2013 Equity Incentive Plan and 46,200 shares are available for future grant under the 2015 Directors Stock Plan.

Stock-based compensation expense related to options was \$12,000 and \$6,800 for the three months ended September 30, 2015 and 2014, respectively and \$36,000 and \$77,000 for the nine months ended September 30, 2015 and 2014, respectively.

Transactions under the Stock Plans during the nine months ended September 30, 2015 are summarized as follows:

(Dollars in thousands, except share amounts)	Number of	Weighted Average	Weighted	Aggregate
			Average Remaining Contractual		Intrinsic
	Shares	Exercise Price	Term (years)	Value
Stock Options				
Outstanding at January 1, 2015	235,124	\$8.19		
Granted	13,230	10.61		
Exercised	(35,682)	7.76		
Forfeited	(10,485)	11.07		
Expired	—	—		
Outstanding at September 30, 2015	202,187	\$8.36	5.0	\$699
Exercisable at September 30, 2015	167,035	\$8.37	4.4	\$583

The fair value of each option and the significant weighted average assumptions used to calculate the fair value of the options granted for the nine months ended September 30, 2015 are as follows:

	January 2015	
Fair value of options granted	\$4.05	
Risk-free rate of return	1.37	%
Expected option life in years	7	
Expected volatility	32.37	%
Expected dividends ⁽¹⁾	—	

(1) To date, the Company has not paid cash dividends on its common stock.

As of September 30, 2015, there was approximately \$76,000 of unrecognized compensation cost related to non-vested stock option-based compensation arrangements granted under the Company's stock incentive plans. That cost is expected to be recognized over the next four years.

The following table summarizes the activity in non-vested restricted shares for the nine months ended September 30, 2015:

	Number of Shares	Average Grant-Date Fair Value
Non-vested shares		
Non-vested at January 1, 2015	141,556	\$7.51
Granted	67,158	11.19
Vested	(37,851	) 9.09
Forfeited	(506	) 9.14
Non-vested at September 30, 2015	170,357	\$8.61

The value of restricted shares is based upon the closing price of the common stock on the date of grant. The shares generally vest over a 4 year service period with compensation expense recognized on a straight-line basis.

Stock-based compensation expense related to stock grants was \$146,000 and \$113,000 for the three months ended September 30, 2015 and 2014, respectively and \$447,000 and \$367,000 for the nine months ended September 30, 2015 and 2014, respectively.

As of September 30, 2015, there was approximately \$1.3 million of unrecognized compensation cost related to non-vested stock grants. Compensation costs related to non-vested stock grants are recognized over four years from the date of grant.

(7) Benefit Plans

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

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

In connection with the benefit plans, the Bank has life insurance policies on the lives of its executives, directors and divisional officers. The Bank is the owner and beneficiary of the policies. The cash surrender values of the policies total approximately \$21.4 million and \$21.2 million at September 30, 2015 and December 31, 2014, respectively.

The components of net periodic expense for the Company's supplemental executive retirement plans for the three and nine months ended September 30, 2015 and 2014 were as follows:

(Dollars in thousands)	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2015	2014	2015	2014
Service cost	\$51	\$102	217	160
Interest cost	29	78	153	121
Actuarial gain recognized	(55	) (4	) (210	) (6
	\$25	\$176	160	275

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

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

	Before-Tax Amount	Income Tax Effect	Net-of-Tax Amount
(Dollars in thousands)			
September 30, 2015			
Unrealized holding gains on available-for-sale securities	\$507	\$(224)	\$283
Unrealized impairment (loss) on held to maturity security	(501)	170	(331)
Unfunded pension liability:			
Plan actuarial gains and losses included in other comprehensive income	314	(126)	188
Accumulated other comprehensive income	\$320	\$(180)	\$140
	Before-Tax Amount	Income Tax Effect	Net-of-Tax Amount
September 30, 2014			
Unrealized holding (losses) on available-for-sale securities	\$(232)	\$46	\$(186)
Unrealized impairment (loss) on held to maturity security:	(501)	170	(331)
Unfunded pension liability:			
Plan actuarial gains and losses included in other comprehensive income	345	(139)	206
Accumulated other comprehensive loss	\$(388)	\$77	\$(311)

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

	Unrealized Holding Gains (Losses) on Available for Sale Securities	Unrealized Impairment Loss on Held to Maturity Security	Unfunded Pension Liability	Accumulated Other Comprehensive (Loss) Income
(Dollars in thousands)				
Three Months Ended September 30, 2015:				
Balance, beginning of period	\$(161)	\$(331)	\$265	\$(227)
Other comprehensive income (loss) before reclassifications	444	—	(44)	400
Amounts reclassified from accumulated other comprehensive income (loss)	—	—	(33)	(33)
Other comprehensive income (loss)	444	—	(77)	367
Balance, end of period	\$283	\$(331)	\$188	\$140

	Unrealized Holding Gains (Losses) on Available for Sale Securities	Unrealized Impairment Loss on Held to Maturity Security	Unfunded Pension Liability	Accumulated Other Comprehensive (Loss) Income	
Three Months Ended September 30, 2014:					
Balance, beginning of period	\$ (408	) \$ (331	) \$ 111	\$ (628)
Other comprehensive income (loss) before reclassifications	222	—	97	319	
Amounts reclassified from accumulated other comprehensive income		—	(2	) (2)
Other comprehensive income	222	—	95	317	
Balance, end of period	\$ (186	) \$ (331	) \$ 206	\$ (311)

	Unrealized Holding Gains (Losses) on Available for Sale Securities	Unrealized Impairment Loss on Held to Maturity Security	Unfunded Pension Liability	Accumulated Other Comprehensive (Loss) Income	
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(Dollars in thousands)

Nine Months Ended September 30, 2015:					
Balance, beginning of period	\$ 276	\$ (331) \$ 303	\$ 248	
Other comprehensive income (loss) before reclassifications	7	—	11	18	
Amounts reclassified from accumulated other comprehensive income (loss)	—	—	(126	) (126)
Other comprehensive income (loss)	7	—	(115	) (108)
Balance, end of period	\$ 283	\$ (331	) \$ 188	\$ 140	

	Unrealized Holding Gains (Losses) on Available for Sale Securities	Unrealized Impairment Loss on Held to Maturity Security	Unfunded Pension Liability	Accumulated Other Comprehensive (Loss) Income	
Nine Months Ended September 30, 2014:					
Balance, beginning of period	\$ (1,933	) \$ (331	) \$ 16	\$ (2,248)
Other comprehensive income (loss) before reclassifications	1,745	—	194	1,939	
Amounts reclassified from accumulated other comprehensive income	2	—	(4	) (2)
Other comprehensive income	1,747	—	190	1,937	
Balance, end of period	\$ (186	) \$ (331	) \$ 206	\$ (311)

(9) Recent Accounting Pronouncements

ASU Update 2015-16 Business Combination (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments.

In September 2015, the FASB issued ASU 2015-16, "Simplifying the Accounting for Measurement-Period Adjustments," to require adjustments to provisional amounts that are identified during the measurement period to be recognized in the reporting period in which the adjustment amounts are determined. This includes any effect on earnings of changes in depreciation, amortization or other income effects as a result of the change to the provisional amounts, calculated as if the accounting had been completed at the acquisition date. The amendments in the proposed Update would require an entity to disclose (either on the face of the income statement or in the notes) the nature and amount of measurement-period adjustments recognized in the current period, including separately the amounts in current-period income statement line items that would have been recorded in previous reporting periods if the adjustment to the provisional amounts had been recognized as of the acquisition date. The amendments are effective for public business entities for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2016 and for interim periods within fiscal years beginning after December 15, 2017. Early adoption is permitted. The amendments in this Update should be applied prospectively to measurement-period adjustments that occur after the effective date of this Update. The Company does not expect that the adoption of this guidance will have a material impact on the Company's consolidated financial statements.

ASU Update 2015-01 (Subtopic 225-20): Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items.

In January 2015, the FASB issued ASU 2015-01, "Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items," to eliminate the concept of extraordinary items from U.S. GAAP. The presentation and disclosure guidance for items that are unusual in nature or occur infrequently will be retained and will be expanded to include items that are both unusual in nature and infrequently occurring. ASU 2015-01 eliminates the requirement in Subtopic 225-20 to consider whether an underlying event or transaction is extraordinary and if so, to separately present the item in the income statement, net of tax, after income from continuing operations. Items that are either unusual in nature or infrequently occurring will continue to be reported as a separate component of income from continuing operations. For all entities (public and private), the ASU is effective for fiscal years beginning after December 15, 2015. Early adoption is permitted provided that the guidance is applied from the beginning of the fiscal year of adoption. The Company does not expect that the adoption of this guidance will have a material impact on the Company's consolidated financial statements.

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

In May 2014, the FASB issued ASU 2014-9, "Revenue from Contracts with Customers (Topic 606)." The objective of this amendment is to clarify the principles for recognizing revenue and to develop a common revenue standard for U.S. GAAP. This update affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of non-financial assets unless those contracts are in the scope of other standards. On July 9, 2015, the FASB decided to delay the effective date of the new revenue standard by one year. The new revenue standard will be effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017. The Company does not anticipate a material impact on the consolidated financial statements related to this guidance.

(10) Fair Value Disclosures

U.S. GAAP has established a fair value hierarchy that prioritizes the inputs to valuation methods used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

Level 1: Unadjusted quoted prices in active markets that are accessible at the measurement date for identical unrestricted assets or liabilities.

Level 2: Quoted prices in markets that are not active, or inputs that are observable either directly or indirectly, for substantially the full term of the asset or liability.

Level 3: Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (i.e., supported with little or no market activity).

An asset's or liability's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

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

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

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

Impaired loans. Loans included in the following table are those which the Company has measured and recognized impairment, generally based on the fair value of the loan's collateral. Fair value is generally determined based upon independent third party appraisals of the collateral or discounted cash flows based on the expected proceeds. These assets are included as Level 3 fair values, based upon the lowest level of input that is significant to the fair value measurements. The fair value consists of the loan balances less specific valuation allowances.

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

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

(Dollars in thousands)	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
September 30, 2015:				
Securities available for sale:				
U. S. Treasury securities and obligations of U.S. Government sponsored corporations (“GSE”) and agencies	\$—	\$1,539	\$—	\$1,539
Residential collateralized mortgage obligations- GSE	—	3,520	—	3,520
Residential mortgage backed securities – GSE	—	24,773	—	24,773
Obligations of State and Political subdivisions	—	21,119	—	21,119
Trust preferred debt securities – single issuer	—	2,212	—	2,212
Corporate debt securities	—	16,782	—	16,782
Other debt securities	—	1,031	—	1,031
Restricted stock	—	3,581	—	3,581
Total		\$74,557		\$74,557

(Dollars in thousands)	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
December 31, 2014:				
Securities available for sale:				
U. S. Treasury securities and obligations of U.S. Government sponsored corporations (“GSE”) and agencies	\$—	\$1,524	\$—	\$1,524
Residential collateralized mortgage obligations- GSE	—	4,533	—	4,533
Residential mortgage backed securities – GSE	—	27,771	—	27,771
Obligations of State and Political subdivisions	—	21,703	—	21,703
Trust preferred debt securities – single issuer	—	2,069	—	2,069
Corporate debt securities	—	19,521	—	19,521
Other debt securities	—	1,280	—	1,280
Restricted stock	—	1,760	—	1,760
Total		\$80,161		\$80,161

Certain assets and liabilities are measured at fair value on a nonrecurring basis; that is, the instruments are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances (for example, when there is evidence of impairment). Assets and financial liabilities measured at fair value on a nonrecurring basis, where there was evidence of impairment, at September 30, 2015 and December 31, 2014 were as follows:

(Dollars in thousands)	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
September 30, 2015:				
Impaired loans	\$—	\$—	\$2,401	\$2,401
Other real estate owned	—	—	—	—
December 31, 2014:				
Impaired loans	\$—	\$—	\$3,883	\$3,883
Other real estate owned	—	—	5,710	5,710

Impaired loans measured at fair value and included in the above table at September 30, 2015 consisted of 6 loans having an aggregate recorded investment of \$2.4 million and specific loan loss allowances of \$40,000. Impaired loans measured at fair value and included in the above table at December 31, 2014 consisted of 8 loans having an aggregate

balance of \$4.0 million with a specific loan loss allowance of \$700,000 and 3 loans totaling \$578,000 which were charged down during the year.

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

Quantitative Information about Level 3 Fair Value Measurements				
(Dollars in thousands)	Fair Value Estimate	Valuation Techniques	Unobservable Input	Range (Weighted Average)
September 30, 2015				
Impaired loans	\$2,401	Appraisal of collateral (1)	Appraisal adjustments (2)	15%-84% (33%)
Other real estate owned	\$—	Appraisal of collateral (1)	Appraisal adjustments (2)	—%
December 31, 2014				
Impaired loans	\$3,883	Appraisal of collateral (1)	Appraisal adjustments (2)	8%-17% (10.66%)
Other real estate owned	\$5,710	Appraisal of collateral (1)	Appraisal adjustments (2)	0%-39 (25.1%)

(1) Fair value is generally determined through independent appraisals of the underlying collateral, which generally include various Level 3 inputs which are not identifiable.

(2) Includes qualitative adjustments by management and estimated liquidation expenses.

The fair value of other real estate owned was determined using appraisals, which may be discounted based on management's review and changes in market conditions.

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

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

Securities Held to Maturity (Carried at Amortized Cost). The fair values of securities held to maturity are determined in the same manner as for securities available for sale.

Loans Held For Sale (Carried at Lower of Aggregated Cost or Fair Value). The fair values of loans held for sale are determined, when possible, using quoted secondary market prices. If no such quoted market prices exist, fair values are determined using quoted prices for similar loans, adjusted for the specific attributes of the loans.

Gross Loans Receivable (Carried at Cost). The fair values of loans, excluding impaired loans subject to specific loss reserves, are estimated using discounted cash flow analyses that use market rates at the balance sheet date that reflect the credit and interest rate-risk inherent in the loans. Projected future cash flows are calculated based upon contractual maturity or call dates, projected repayments and prepayments of principal. Generally, for variable rate loans that re-price frequently and with no significant change in credit risk, fair values are based on carrying values.

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

Borrowings and Subordinated Debentures (Carried at Cost). The carrying amounts of short-term borrowings approximate their fair values. The fair values of long-term FHLB advances and subordinated debentures are estimated using discounted cash flow analysis, based on quoted or estimated interest rates for new borrowings with similar

credit risk characteristics, terms and remaining maturity.

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The estimated fair values and carrying amounts of financial assets and liabilities as of September 30, 2015 and December 31, 2014 were as follows:

September 30, 2015

(Dollars in thousands)	Carrying Value	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Fair Value
Cash and cash equivalents	\$ 14,865	\$ 14,865	\$—	\$—	\$ 14,865
Securities available for sale	74,557	—	74,557	—	74,557
Securities held to maturity	121,025	—	125,445	—	125,445
Loans held for sale	5,707	—	5,793	—	5,793
Loans, net	702,266	—	—	717,045	717,045
Accrued interest receivable	2,644	—	2,644	—	2,644
Deposits	(793,842)	—	(797,201)	—	(797,201)
Borrowings	(65,187)	—	(66,246)	—	(66,246)
Redeemable subordinated debentures	(18,557)	—	(18,557)	—	(18,557)
Accrued interest payable	(753)	—	(753)	—	(753)

December 31, 2014

(Dollars in thousands)	Carrying Value	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Fair Value
Cash and cash equivalents	\$ 14,545	\$ 14,545	\$—	\$—	\$ 14,545
Securities available for sale	80,161	—	80,161	—	80,161
Securities held to maturity	143,638	—	148,476	—	148,476
Loans held for sale	8,372	—	8,500	—	8,500
Loans, net	647,372	—	—	656,153	656,153
Accrued interest receivable	3,096	—	3,096	—	3,096
Deposits	(817,761)	—	(818,265)	—	(818,265)
Borrowings	(25,107)	—	(25,838)	—	(25,838)
Redeemable subordinated debentures	(18,557)	—	(18,557)	—	(18,557)
Accrued interest payable	(907)	—	(907)	—	(907)

Loan commitments and standby letters of credit as of September 30, 2015 and December 31, 2014 were based on fees charged for similar agreements; accordingly, the estimated fair value of loan commitments and standby letters of credit was nominal.

(11) Subsequent Event

In the fourth quarter of 2015, the Company entered into a non-binding agreement to sell two OREO properties that were carried on the Company's financial statements at an aggregate value of approximately \$4.0 million at September 30, 2015. If the contingencies in the non-binding agreement are satisfied and the transaction closes, the Company expects to record a pre-tax charge of approximately \$700,000, or \$420,000 after tax, in the fourth quarter of 2015. Due to the generally favorable terms of the non-binding agreement, management concluded that a sale at a price lower than the carrying value on the Company's financial statements at September 30, 2015 would be in the best interests of the Company.

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

This discussion and analysis of the operating results and financial condition at September 30, 2015 is intended to help readers analyze the accompanying financial statements, notes and other supplemental information contained in this document. Results of operations for the three and nine month periods ended September 30, 2015 are not necessarily indicative of results to be attained for any other period.

This discussion and analysis should be read in conjunction with the consolidated financial statements, notes and tables included elsewhere in this report and Part II, Item 7 of the Company's Form 10-K (Management's Discussion and Analysis of Financial Condition and Results of Operation) for the year ended December 31, 2014, as filed with the Securities and Exchange Commission (the "SEC") on March 26, 2015.

General

Throughout the following sections, the “Company” refers to 1st Constitution Bancorp and, as the context requires, its wholly-owned subsidiary, 1st Constitution Bank (the “Bank”), and the Bank’s wholly-owned subsidiaries, 1st Constitution Investment Company of New Jersey, Inc., FCB Assets Holdings, Inc., LLC, 204 South Newman Street Corp. and 249 New York Avenue, LLC. 1st Constitution Capital Trust II (“Trust II”), a subsidiary of the Company, is not included in the Company’s consolidated financial statements as it is a variable interest entity and the Company is not the primary beneficiary.

Trust II, a subsidiary of the Company, was created in May 2006 to issue trust preferred securities to assist the Company in raising additional capital.

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

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

Forward-Looking Statements

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

Factors that may cause actual results to differ from those results expressed or implied, include, but are not limited to, those listed under “Business”, “Risk Factors” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in the Company’s Annual Report on Form 10-K for the year ended December 31, 2014 filed with the SEC on March 26, 2015, such as the overall economy and the interest rate environment; the ability of customers to repay their obligations; the adequacy of the allowance for loan losses; competition; significant changes in accounting, tax or regulatory practices and requirements; certain interest rate risks; risks associated with investments in mortgage-backed securities; risks associated with speculative construction lending; and risks associated with safeguarding information technology systems. Although management has taken certain steps to mitigate any negative effect of the aforementioned items, significant unfavorable changes could severely impact the assumptions used and could have an adverse effect on profitability. The Company undertakes no obligation to publicly revise any forward-looking statements to reflect anticipated or unanticipated events or circumstances occurring after the date of such statements, except as required by law.

Recent Developments

On February 20, 2015 the Board of Directors of the Company declared a five percent common stock dividend to common shareholders of record as of the close of business on March 16, 2015, which was paid on April 6, 2015. As appropriate, common shares and per common share data presented for 2015 and 2014 have been adjusted to reflect the common stock dividend.

Merger of Rumson-Fair Haven Bank and Trust Company with and into the Bank in 2014

On February 7, 2014, the Company completed its acquisition of Rumson-Fair Haven Bank and Trust Company, a New Jersey state-chartered 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, 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 their 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.

RESULTS OF OPERATIONS

Three and Nine Months Ended September 30, 2015 Compared to Three and Nine Months Ended September 30, 2014
Summary

The Company reported net income of \$2.5 million for the three months ended September 30, 2015, a 15% increase compared to net income of \$2.1 million for the three months ended September 30, 2014. Net income per diluted share was \$0.32 for the third quarter of 2015, a 14% increase compared to net income per diluted share of \$0.28 for the third quarter of 2014.

The Company reported net income of \$7.0 million or \$0.92 per diluted share for the nine months ended September 30, 2015 compared to Adjusted Net Income (as defined below) of \$5.5 million or Adjusted Net Income per diluted share of \$0.73 for the nine months ended September 30, 2014. Net income and net income per diluted share as reported were \$2.3 million and \$0.31, respectively, for the nine months ended September 30, 2014.

Adjusted Net Income excludes the after-tax effect of merger related expenses that were incurred in the first and second quarters of 2014 in connection with the merger of Rumson with and into the Bank on February 7, 2014 and the provision for loan losses related to the full charge-off of a loan due to fraudulent misrepresentations by the borrower and its principals recorded in the second quarter of 2014.

The significant increase in net income for the third quarter of 2015 compared to net income for the third quarter of 2014 was due in part to the \$717,000 increase in net interest income to \$9.7 million, which was driven primarily by the growth of the Bank's loan portfolio in 2015. Due to stable loan quality and a moderate level of net charge-offs during the third quarter of 2015, the provision for loan losses declined to \$100,000 compared to \$650,000 in the third quarter of 2014. Lower non-interest income and higher non-interest expenses in the third quarter of 2015 compared to the third quarter of 2014 partially offset the higher net interest income and lower provision for loan losses in the third quarter of 2015.

The significant increase in net income for the nine months ended September 30, 2015 compared to Adjusted Net Income for the nine months ended September 30, 2014 was due primarily to the \$3.4 million increase in net interest income to \$27.6 million, which was driven by the growth of the Bank's loan portfolio in 2015.

Adjusted Net Income and Adjusted Net Income per Diluted Share are non-GAAP measures. The following table provides a reconciliation of these non-GAAP measures to net income and net income per diluted share as reported:

Reconciliation of Non-GAAP Measures (1)

(Dollars in thousands, except per share amounts) (Unaudited)

	Nine Months Ended September 30,	
	2014	
Adjusted Net Income:		
Net income	\$2,340	
Adjustment		
Provision for loan losses (2)	3,656	
Merger-related expenses	1,532	
Income tax effect of Adjustment (3)	(2,031)
Adjusted Net Income	\$5,497	
Adjusted Net Income per Diluted Share		
Adjusted Net Income	\$5,497	
Diluted shares outstanding	7,498,647	
Adjusted Net Income per Diluted Share	\$0.73	
Adjusted Return on Assets (4)	0.78	%
Adjusted Return on Equity (4)	9.16	%

(1) The Company used these non-GAAP financial measures, Adjusted Net Income and Adjusted Net Income per Diluted Share, because the Company believes that it is useful for the users of the financial information to understand the effect on net income of the merger related expenses incurred in the merger with Rumson and the

large provision for loan losses recorded

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as a result of the loss on a loan due to the fraudulent misrepresentations of a borrower and its principals. Management believes that these non-GAAP financial measures improve the comparability of the current period results with the results of prior periods. The Company cautions that the non-GAAP financial measures should be considered in addition to, but not as a substitute for, the Company's U.S. GAAP results.

- (2) The amount represents the full charge-off of the loan that was subject to fraudulent misrepresentation by a borrower and its principals.
- (3) Tax effected at an income tax rate of 39.94%, less the impact of non-deductible merger expenses.
- (4) Adjusted Return on Assets and Adjusted Return on Equity exclude the after-tax effect of the merger-related expenses and the fraud related loan loss provision in 2014.

Third Quarter Highlights

Net interest income was \$9.7 million in the third quarter of 2015 compared to \$9.4 million in the second quarter of 2015 and \$8.9 million in the third quarter of 2014. The net interest margin for each of these periods was 4.19%, 4.19% and 4.07%, respectively.

During the third quarter of 2015, the total loan portfolio decreased \$49.1 million, or 6.5%, to \$709.4 million.

Mortgage warehouse lines outstanding decreased \$34.1 million to \$245.5 million at September 30, 2015, reflecting total paydowns on lines that exceeded the total loan fundings during the quarter. Approximately 67% of the \$1.1 billion of mortgage warehouse funding activity during the third quarter were for home purchases. The loan to asset ratio was 72% at September 30, 2015 compared to 68% at December 31, 2014 and 64% at September 30, 2014.

The Company recorded a provision for loan losses in the amount of \$100,000 in the third quarter of 2015 due to the Bank's stable loan quality, the moderate level of net-charge offs and management's assessment of strengthening economic conditions in the Bank's markets.

SBA loan sales were \$2.2 million and generated gains on sales of loans of \$193,000, and SBA commercial loan originations were \$850,000 during the third quarter of 2015.

During the third quarter of 2015, the Bank's residential mortgage banking operation originated \$22.9 million of residential mortgages and sold \$38.0 million of residential mortgage loans, which generated gains from the sales of loans of \$262,000. At September 30, 2015, the pipeline of residential mortgage loans in process was \$41.5 million.

The Company's efficiency ratio for the third quarter of 2015 was 64.0% compared to 67.4% for the second quarter of 2015 and 62.8% for the third quarter of 2014.

Earnings Analysis

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

Net Interest Income

Net interest income, the Company's largest and most significant component of operating income, is the difference between interest and fees earned on loans and other earning assets and interest paid on deposits and borrowed funds. This component represented 89.8% of the Company's net revenues (defined as net interest income plus non-interest income) for the three months ended September 30, 2015 compared to 85.8% of net revenues for the three months ended September 30, 2014. Net interest income also depends upon the relative amount of average interest-earning assets, average interest-bearing liabilities, and the interest rate earned or paid on them, respectively.

For the nine months ended September 30, 2015, net interest income represented 85.7% of the Company's net revenues compared to 84.7% of net revenues for the nine months ended September 30, 2014.

The following tables set forth the Company's consolidated average balances of assets and liabilities and shareholders' equity as well as interest income and expense on related items, and the Company's average yield or rate for the three and nine month periods ended September 30, 2015 and 2014. The average rates are derived by dividing interest income and expense by the average balance of assets and liabilities, respectively.

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	Three months ended September 30, 2015			Three months ended September 30, 2014			
	Average Balance	Interest	Average Yield	Average Balance	Interest	Average Yield	
Assets:							
Federal Funds Sold/Short-Term Investments	14,827	7	0.20	% 18,858	10	0.22	%
Investment Securities:							
Taxable	122,094	776	2.54	% 168,913	961	2.28	%
Tax-exempt (4)	76,971	773	4.02	% 90,191	852	3.78	%
Total	199,065	1,549	3.11	% 259,104	1,813	2.80	%
Loan Portfolio: (1)							
Construction	93,953	1,470	6.21	% 84,776	1,408	6.59	%
Residential real estate	41,828	445	4.22	% 49,466	525	4.21	%
Home Equity	19,685	272	5.49	% 23,098	356	6.12	%
Commercial and commercial real estate	293,937	4,314	5.82	% 286,369	4,306	5.97	%
Mortgage warehouse lines	243,273	2,634	4.30	% 155,716	1,690	4.31	%
Installment	516	5	4.11	% 418	6	5.20	%
All Other Loans	33,692	387	4.54	% 24,886	295	4.70	%
Total	726,884	9,527	5.20	% 624,729	8,586	5.45	%
Total Interest-Earning Assets	940,776	11,083	4.68	% 902,691	10,409	4.58	%
Allowance for Loan Losses	(7,665	)		(7,542)		
Cash and Due From Bank	5,807			13,873			
Other Assets	62,094			58,467			
Total Assets	1,001,012			967,489			
Liabilities and Shareholders' Equity:							
Money Market and NOW Accounts	295,479	248	0.33	% 290,077	244	0.33	%
Savings Accounts	194,948	231	0.47	% 196,937	227	0.46	%
Certificates of Deposit	170,500	442	1.03	% 172,114	484	1.12	%
Other Borrowed Funds	52,082	159	1.21	% 35,421	144	1.61	%
Trust Preferred Securities	18,557	89	1.89	% 18,557	87	1.82	%
Total Interest-Bearing Liabilities	731,566	1,169	0.63	% 713,106	1,186	0.66	%
Net Interest Spread (2)			4.05	%		3.92	%
Demand Deposits	167,526			165,618			
Other Liabilities	9,406			6,011			
Total Liabilities	908,498			884,735			
Shareholders' Equity	92,514			82,754			
Total Liabilities and Shareholders' Equity	1,001,012			967,489			
Net Interest Margin (3)		9,914	4.19	%	9,223	4.07	%

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

non-accrual loans.

- (2) The net interest rate spread is the difference between the average yield on interest-earning assets and the average rate paid on interest-bearing liabilities.
- (3) The net interest margin is equal to net interest income divided by average interest earning assets.
- (4) Tax- equivalent basis.

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	Nine months ended September 30, 2015			Nine months ended September 30, 2014			
	Average Balance	Interest	Average Yield	Average Balance	Interest	Average Yield	
Assets:							
Federal Funds Sold/Short-Term Investments	22,042	38	0.23	% 60,616	111	0.24	%
Investment Securities:							
Taxable	128,404	2,383	2.47	% 177,880	3,141	2.36	%
Tax-exempt (4)	82,207	2,380	3.86	% 87,096	2,584	3.97	%
Total	210,611	4,763	3.02	% 264,976	5,725	2.89	%
Loan Portfolio: (1)							
Construction	95,936	4,551	6.34	% 73,497	3,791	6.90	%
Residential real estate	43,796	1,381	4.22	% 44,762	1,363	4.07	%
Home Equity	22,308	777	4.67	% 21,985	922	5.60	%
Commercial and commercial real estate	291,657	12,525	5.74	% 264,618	11,779	5.95	%
Mortgage warehouse lines	205,753	6,714	4.36	% 118,960	4,023	4.52	%
Installment	468	16	4.54	% 321	14	5.69	%
All Other Loans	29,756	1,090	4.89	% 21,901	803	4.90	%
Total	689,674	27,054	5.24	% 546,044	22,695	5.56	%
Total Interest-Earning Assets	922,327	31,855	4.62	% 871,636	28,531	4.38	%
Allowance for Loan Losses	(7,533	)		(7,548)		
Cash and Due From Bank	7,816			15,326			
Other Assets	62,475			57,087			
Total Assets	985,085			936,501			
Liabilities and Shareholders' Equity:							
Money Market and NOW Accounts							
	302,777	754	0.33	% 279,311	693	0.33	%
Savings Accounts	196,266	686	0.47	% 200,284	676	0.45	%
Certificates of Deposit	162,085	1,325	1.09	% 169,628	1,458	1.15	%
Other Borrowed Funds	41,767	438	1.40	% 24,631	387	2.10	%
Trust Preferred Securities	18,557	263	1.87	% 18,557	257	1.85	%
Total Interest-Bearing Liabilities	721,452	3,466	0.64	% 692,411	3,471	0.67	%
Net Interest Spread (2)			3.98	%		3.71	%
Demand Deposits	164,867			157,000			
Other Liabilities	8,782			6,859			
Total Liabilities	895,101			856,270			
Shareholders' Equity	89,984			80,231			
Total Liabilities and Shareholders' Equity	985,085			936,501			
Net Interest Margin (3)		28,389	4.11	%	25,060	3.84	%

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

non-accrual loans.

- (2) The net interest rate spread is the difference between the average yield on interest-earning assets and the average rate paid on interest-bearing liabilities.
- (3) The net interest margin is equal to net interest income divided by average interest earning assets.
- (4) Tax- equivalent basis.

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Three months ended September 30, 2015 compared to three months ended September 30, 2014

The Company's net interest income increased on a tax-equivalent basis by \$691,000, or 7.5%, to \$9.9 million for the three months ended September 30, 2015 from \$9.2 million reported for the three months ended September 30, 2014. The increase in the Company's net interest income for the three months ended September 30, 2015 compared to the comparable 2014 period was due primarily to the growth of the loan portfolio, the higher proportion of average loans to average assets, which generated the higher yield on earning assets of 4.68% compared to 4.58% in the third quarter of 2014. Interest expense on average interest bearing liabilities was 0.63% for the third quarter of 2015 compared to 0.66% in the third quarter of 2014.

The net interest margin (on a tax-equivalent basis), which is net interest income divided by average interest-earning assets, was 4.19% for the three months ended September 30, 2015 compared to 4.07% the three months ended September 30, 2014.

Average interest-earning assets increased by \$38.1 million, or 4.2%, to \$940.8 million for the three month period ended September 30, 2015 from \$902.7 million for the three month period ended September 30, 2014. The overall yield on interest-earning assets, on a tax-equivalent basis, increased 10 basis points to 4.68% for the three month period ended September 30, 2015 when compared to 4.58% for the three month period ended September 30, 2014 due primarily to the increase in the average balance of the loan portfolio in the quarter ended September 30, 2015. The growth of the average balance of the loan portfolio in the quarter ended September 30, 2015 was due primarily to the growth in mortgage warehouse, construction and commercial real estate loans compared to the quarter ended September 30, 2014.

Average interest-bearing liabilities increased by \$18.5 million, or 2.6%, to \$731.6 million for the three month period ended September 30, 2015 from \$713.1 million for the three month period ended September 30, 2014 due primarily to increases in borrowed funds and money market and NOW accounts, which were partially offset by decreases in savings accounts and certificates of deposit. Overall, the cost of total interest-bearing liabilities decreased 3 basis points to 0.63% for the three months ended September 30, 2015 from 0.66% for the three months ended September 30, 2014.

Nine months ended September 30, 2015 compared to nine months ended September 30, 2014

For the nine months ended September 30, 2015, the Company's net interest income increased on a tax-equivalent basis by \$3.3 million, or 13.3%, to \$28.4 million compared to \$25.1 million for the nine months ended September 30, 2014. This increase was due primarily to the growth of the loan portfolio, an increase in the average yield on interest-earning assets and lower rates paid on interest-bearing liabilities.

For the nine months ended September 30, 2015, the net interest margin (on a tax-equivalent basis) was 4.11% compared to 3.84% for the nine months ended September 30, 2014.

Average interest-earning assets increased by \$50.7 million, or 5.8%, to \$922.3 million for the nine month period ended September 30, 2015 from \$871.6 million for the nine month period ended September 30, 2014. The overall yield on interest-earning assets, on a tax-equivalent basis, increased 24 basis points to 4.62% for the nine month period ended September 30, 2015 compared to 4.38% for the nine months ended September 30, 2014 primarily due to the \$143.6 million increase in the average balance of the loan portfolio during the nine months ended September 30, 2015.

Average interest-bearing liabilities increased by \$29.0 million, or 4.2%, to \$721.5 million for the nine month period ended September 30, 2015 compared to \$692.4 million for the nine months ended September 30, 2014 due primarily to increases in money market and NOW accounts and borrowed funds. The total cost of interest-bearing liabilities decreased by 3 basis points to 0.64% for the nine months ended September 30, 2015 from 0.67% for the nine months ended September 30, 2014.

Provision for Loan Losses

Three Months Ended September 30, 2015 compared to three months ended September 30, 2014

Management considers a complete review of the following specific factors in determining the provisions for loan losses: historical losses by loan category, the level of non-accrual loans and problem loans as identified through internal review and classification, collateral values, and the growth and size of the loan portfolio.

In addition to these factors, management takes into consideration current economic conditions and local real estate market conditions. On the basis of this evaluation process, the moderate level of net charge-offs, the Bank's stable loan quality trends over the last four quarters and management's assessment of the strengthening economic conditions in the Bank's markets, a provision for loan losses of \$100,000 was recorded for the three months ended September 30, 2015 compared to a provision of \$650,000 for the three months ended September 30, 2014.

At September 30, 2015, non-performing loans decreased by \$444,000, or 9.2%, to \$4.4 million from \$4.8 million at December 31, 2014 and the ratio of non-performing loans to total loans decreased to 0.62% at September 30, 2015 compared to 0.74% at December 31, 2014.

Nine Months Ended September 30, 2015 compared to nine months ended September 30, 2014

The provision for loan losses was \$600,000 for the nine months ended September 30, 2015 compared to \$5.3 million for the nine months ended September 30, 2014. The lower provision for loan losses for the first nine months of 2015 reflected a significantly lower level of net charge-offs of \$393,000 compared to net charge-offs of \$5.2 million for the first nine months of 2014. The higher level of net charge-offs in the 2014 period included \$3.7 million of net charge-offs related to the loss on a loan due to fraudulent misrepresentations by the borrower and its principals.

Non-performing loans declined to \$4.4 million at September 30, 2015 compared to \$4.8 million at December 31, 2014 and \$7.9 million at September 30, 2014.

Non-Interest Income

Three months ended September 30, 2015 compared to three months ended September 30, 2014

Total non-interest income for the three months ended September 30, 2015 was \$1.1 million, a decrease of \$383,000, or 25.8%, compared to total non-interest income of \$1.5 million for the three months ended September 30, 2014.

Gains on the sale of SBA and residential mortgage loans in the third quarter of 2015 were \$101,000 lower than the gains on the sales of these loans in the third quarter of 2014 and service charge income was \$82,000 lower due to lower customer activity.

Service charge revenues decreased to \$186,000 for the three months ended September 30, 2015 from \$268,000 for the three months ended September 30, 2014. This decrease was the result of a lower volume of uncollected funds and overdraft fees collected on deposit accounts during the third quarter of 2015 compared to the third quarter of 2014.

Gain on sales of loans originated for sale decreased by \$101,000 to \$455,000 for the three months ended September 30, 2015 compared to \$556,000 for the three months ended September 30, 2014. The Bank sells both loans guaranteed by the Small Business Administration ("SBA") and residential mortgage loans in the secondary market. SBA loan sales during the third quarter of 2015 were \$2.2 million and generated gains on sales of loans of \$193,000. SBA commercial loan originations were \$850,000 during the third quarter of 2015. Gains on the sale of SBA loans were \$326,000 in the third quarter of 2014.

During the third quarter of 2015, the Bank's residential mortgage banking operation originated \$34.0 million of residential mortgages and sold \$38.0 million of residential mortgage loans, which generated gains from the sales of loans of \$262,000 compared to gains of \$230,000 in the third quarter of 2014. At September 30, 2015, the pipeline of residential mortgage loans in process was \$41.5 million.

Non-interest income also includes income from bank-owned life insurance ("BOLI"), which amounted to \$144,000 for each of the three months ended September 30, 2015 and September 30, 2014.

The Bank also generates non-interest income from a variety of fee-based services. These include safe deposit box rental fees, wire transfer service fees and automated teller machine fees for non-Bank customers. The other income component of non-interest income decreased to \$314,000 for the three months ended September 30, 2015 compared to \$514,000 for the three months ended September 30, 2014 due to lower transaction activity.

Nine months ended September 30, 2015 compared to nine months ended September 30, 2014

Total non-interest income for the nine months ended September 30, 2015 was \$4.6 million, an increase of \$224,000, or 5.1%, compared to total non-interest income of \$4.4 million for the nine months ended September 30, 2014. This increase was due principally to higher gains on the sale of loans.

Service charge revenues decreased to \$615,000 for the nine months ended September 30, 2015 from \$754,000 for the nine months ended September 30, 2014. This decrease was the result of a lower volume of uncollected funds and overdraft fees collected on deposit accounts.

Gain on sales of loans originated for sale increased by \$774,000 to \$2.3 million for the nine months ended September 30, 2015 compared to \$1.6 million for the nine months ended September 30, 2014. The Bank sells both loans guaranteed by the SBA and residential mortgage loans in the secondary market. SBA loan sales were \$14.1 million and generated gains on sales of loans of approximately \$1.4 million for the nine months ended September 30, 2015. SBA commercial loan originations were \$14.2 million during the nine months ended September 30, 2015. Gains on sales of SBA loans were \$1.0 million for the nine months ended September 30, 2014.

For the nine months ended September 30, 2015, the Bank's residential mortgage banking operation originated \$113.0 million of residential mortgages and sold \$116.0 million of residential mortgage loans, which generated gains from the sales of loans of \$941,000. Gains on sales of residential mortgages were \$562,000 for the nine months ended September 30, 2014.

Non-interest income also includes income from BOLI, which amounted to \$420,000 for the nine months ended September 30, 2015 compared to \$422,000 for the nine months ended September 30, 2014.

The Bank also generates non-interest income from a variety of fee-based services. These include safe deposit box rental fees, wire transfer service fees and automated teller machine fees for non-Bank customers. The other income component of non-interest income decreased to \$1.2 million for the nine months ended September 30, 2015 compared to \$1.6 million for the nine months ended September 30, 2014 due to lower transaction activity.

Non-Interest Expense

Non-interest expenses were \$7.1 million for the three months ended September 30, 2015, an increase of \$329,000 or 4.9% compared to \$6.7 million for the third quarter of 2014. Non-interest expenses increased in the third quarter of 2015 compared to the third quarter of 2014 due to a \$123,000, or 3.1%, increase in salaries and employee benefits expense and an increase in other expenses of \$314,000 partially offset by decreases in various expense categories. Non-interest expenses were \$21.3 million for the nine months ended September 30, 2015, an increase of \$2.0 million or 10.5%, compared to \$19.2 million for the nine months ended September 30, 2014, excluding \$1.5 million in Rumson merger-related expenses. As reported, non-interest expenses increased \$492,000 or 2.4% to \$21.3 million for the nine months ended September 30, 2015 compared to \$20.8 million for the nine months ended September 30, 2014. Approximately \$233,000 of the total increase in non-interest expenses reflects the inclusion of the former Rumson operations for the entire first quarter of 2015 compared to only a portion of the first quarter of 2014. Increases in non-interest expense are due primarily to an increase of \$901,000 or 8.0% in salaries and employee benefit expenses, an increase of \$358,000 or 25.1% in other operating expenses, an increase of \$359,000 in other real estate owned expenses and an increase of \$205,000 or 8.2% in occupancy expenses. The increase in salaries and employee benefits expense, occupancy and other operating expenses are due primarily to the growth and expansion of the Bank's operations.

The following table presents the major components of non-interest expenses for the three and nine months ended September 30, 2015 and 2014.

Non-interest Expenses

(Dollars in thousands)	Three months ended		Nine months ended	
	September 30,		September 30,	
	2015	2014	2015	2014
Salaries and employee benefits	\$4,045	\$3,922	\$12,096	\$11,195
Occupancy expenses	843	834	2,704	2,499
Data processing services	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
Equipment expense	151	225	497	645
Marketing	104	86	247	240
Regulatory, professional and other fees	390	399	1,411	1,066
Directors' fees	21	22	69	67
Amortization of intangible assets	120	121	345	345
Other expenses	773	459	1,786	1,428
Total	\$7,052	\$6,723	\$21,267	\$20,775

Three months ended September 30, 2015 compared to three months ended September 30, 2014

Salaries and employee benefits, which represent the largest portion of non-interest expenses, increased by \$123,000, or 3.1%, to \$4.0 million for the three months ended September 30, 2015 compared to \$3.9 million for the three months ended September 30, 2014. The increase in salaries and employee benefits for the three months ended September 30, 2015 was a result of an increase in the number of employees, regular merit increases and increased health care costs. Full time equivalent employees at September 30, 2015 increased to 184 as compared to 177 full time equivalent employees at September 30, 2014.

Occupancy expenses increased by \$9,000, or 1.1%, to \$843,000 for the three months ended September 30, 2015 compared to \$834,000 for the three months ended September 30, 2014. The increase for the quarter ended September 30, 2015 compared to the quarter ended September 30, 2014 resulted primarily from an increase in building maintenance expense, which was partially offset by decreases in rent expense and leasehold depreciation expense. The cost of data processing services increased slightly to \$326,000 for the three months ended September 30, 2015 from \$313,000 for the three months ended September 30, 2014, reflecting the cost containment and operating scale obtained through the integration of the former Rumson operations.

FDIC insurance expense decreased to \$160,000 for the three months ended September 30, 2015 compared to \$210,000 for the three months ended September 30, 2014 primarily as a result of the lower assessment rate for FDIC insurance premiums. The assessment rate decreased during the third quarter of 2015 compared to 2014 due primarily to the lower level of charge-offs and non-performing assets and a higher ratio of net income before taxes to risk weighted assets in the third quarter of 2015 and the two immediately preceding quarters.

Other real estate owned expenses decreased by \$13,000 to \$119,000 for the three months ended September 30, 2015 compared to \$132,000 for the three months ended September 30, 2014. At September 30, 2015, the Company held three properties with an aggregate value of \$4.9 million as other real estate owned compared to one property with an aggregate value of \$1.7 million at September 30, 2014.

Regulatory, professional and other fees decreased by \$9,000, or 2.2%, to \$390,000 for the three months ended September 30, 2015 compared to \$399,000 for the three months ended September 30, 2014 due primarily to a decline in examination fees and legal expenses.

Other expenses increased by \$314,000 to \$773,000 for the three months ended September 30, 2015 compared to \$459,000 for the three months ended September 30, 2014 as a result of increases in telephone expense, payroll processing and ATM operating expenses. Other operating expenses were also comprised of a variety of operating

expenses as well as expenses associated with lending activities.

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Nine months ended September 30, 2015 compared to nine months ended September 30, 2014

Salaries and employee benefits, which represent the largest portion of non-interest expenses, increased by \$901,000, or 8.0%, to \$12.1 million for the nine months ended September 30, 2015 compared to \$11.2 million for the nine months ended September 30, 2014. Approximately \$115,000 of the increase was due to the inclusion of the former Rumson operations for the entire first quarter of 2015 compared to a portion of the first quarter of 2014. The balance of the increase in salaries and employee benefits was primarily due to an increase in the number of employees, regular merit increases and increased health care costs.

Occupancy expenses increased by \$205,000, or 8.2%, to \$2.7 million for the nine months ended September 30, 2015 compared to \$2.5 million for the nine months ended September 30, 2014. The increase in occupancy expense resulted primarily from an increase in building maintenance expense related to the costs of the five properties acquired in the Rumson merger in the first quarter of 2014, which was partially offset by decreases in rent expense and leasehold depreciation expense.

The cost of data processing services increased slightly to \$951,000 for the nine months ended September 30, 2015 from \$941,000 for the nine months ended September 30, 2014, reflecting the cost containment and operating scale obtained through the integration of the former Rumson operations.

FDIC insurance expense decreased to \$530,000 for the nine months ended September 30, 2015 compared to \$545,000 for the nine months ended September 30, 2014 primarily as a result of a lower assessment rate for FDIC premiums due primarily to the lower level of net charge-offs and non-performing assets for the nine months ended September 30, 2015 compared to the nine months ended September 30, 2014. This decrease was partially offset by the higher assessment base due to the growth of average assets during the first nine months of 2015.

Other real estate owned expenses increased by \$359,000 to \$631,000 for the nine months ended September 30, 2015 compared to \$272,000 for the nine months ended September 30, 2014 primarily due to the write-down of one OREO property of \$382,000 to the net realizable value of a contract for sale.

Regulatory, professional and other fees increased by \$345,000 to \$1.4 million for the nine months ended September 30, 2015 compared to \$1.1 million for the nine months ended September 30, 2014 due to higher legal fees incurred in pursuing the potential recovery of the loss on a loan that was a result of fraudulent misrepresentations by the borrower and its principals.

Other expenses increased \$358,000, or 25.1%, to \$1.8 million for the nine months ended September 30, 2015 compared to \$1.4 million for the nine months ended September 30, 2014 due primarily to increases in telephone expense, ATM operating expense and payroll processing expense. Other operating expenses were also comprised of a variety of operating expenses as well as expenses associated with lending activities.

Income Taxes

Three months ended September 30, 2015 compared to three months ended September 30, 2014

Pre-tax income increased to \$3.6 million for the three months ended September 30, 2015 compared to pre-tax income of \$3.1 million for the three months ended September 30, 2014.

The Company recorded income tax expense of \$1.1 million for the three months ended September 30, 2015, which resulted in an effective tax rate of 31.8% compared to income tax expense of \$917,000 and an effective tax rate of 30.0% for the three months ended September 30, 2014. The increase in income tax expense for the three months ended September 30, 2015 was primarily due to the significantly higher amount of pre-tax income in the period compared to the three months ended September 30, 2014.

Nine months ended September 30, 2015 compared to nine months ended September 30, 2014

Pre-tax income increased to \$10.4 million for the nine months ended September 30, 2015 compared to pre-tax income of \$2.6 million for the nine months ended September 30, 2014.

The Company recorded income tax expense of \$3.3 million for the nine months ended September 30, 2015, which resulted in an effective tax rate of 32.0% compared to income tax expense of \$235,000 and an effective tax rate of 9.1% for the nine months ended September 30, 2014. The low effective tax rate for the nine months ended September 30, 2014 was due primarily to the amount of tax-exempt income relative to the pre-tax income for the period.

Financial Condition

September 30, 2015 Compared with December 31, 2014

Total consolidated assets at September 30, 2015 were \$980.5 million, representing an increase of \$23.71 million, or 2.5%, from total consolidated assets of \$956.8 million at December 31, 2014. The increase in assets was primarily attributable to a \$54.9 million increase in net loans, which was primarily funded by a \$40.1 million increase in FHLB borrowings.

Cash and Cash Equivalents

Cash and cash equivalents at September 30, 2015 totaled \$14.9 million compared to \$14.5 million at December 31, 2014, an increase of \$320,000, or 2.2%. To the extent that the Bank did not utilize funds for loan originations or securities purchases, the cash inflows accumulated in cash and cash equivalents.

Loans Held for Sale

Loans held for sale at September 30, 2015 were \$5.7 million compared to \$8.4 million at December 31, 2014. As indicated in the Consolidated Statements of Cash Flows, the amount of residential mortgage loans originated for sale was \$113.0 million for the nine months ended September 30, 2015 compared to \$84.0 million for the nine months ended September 30, 2014. The decrease in long-term market interest rates that occurred during late 2014 and continued into 2015 increased the demand for residential mortgage loan financings during the first nine months of 2015. The amount of loans held for sale varies from period to period due to changes in the amount and timing of sales of residential mortgages.

Investment Securities

Investment securities represented approximately 20.0% of total assets at September 30, 2015 and approximately 23.4% of total assets at December 31, 2014. Total investment securities decreased \$28.2 million, or 12.6%, to \$195.6 million at September 30, 2015 from \$223.8 million at December 31, 2014. Purchases of investment securities totaled \$14.6 million during the nine months ended September 30, 2015, and proceeds from calls, maturities and repayments totaled \$42.2 million during the period.

Securities available for sale are investments that may be sold in response to changing market and interest rate conditions or for other business purposes. Activity in this portfolio is undertaken primarily to manage liquidity and interest rate risk and to take advantage of market conditions that create more economically attractive returns. At September 30, 2015, securities available for sale totaled \$74.6 million, a decrease of \$5.6 million, or 7.0%, compared to securities available for sale totaling \$80.2 million at December 31, 2014.

At September 30, 2015, the securities available for sale portfolio had net unrealized gains of \$507,000 compared to net unrealized gains of \$427,000 at December 31, 2014. These unrealized gains were reflected, net of tax, in shareholders' equity as a component of accumulated other comprehensive income.

Securities held to maturity, which are carried at amortized historical cost, are investments for which there is the positive intent and ability to hold to maturity. At September 30, 2015, securities held to maturity were \$121.0 million, a decrease of \$22.6 million from \$143.6 million at December 31, 2014. The fair value of the held to maturity portfolio at September 30, 2015 was \$125.4 million.

Loans

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

The following table represents the components of the loan portfolio at September 30, 2015 and December 31, 2014.

Loan Portfolio Composition

(Dollars in thousands)

Component	September 30, 2015		December 31, 2014		
	Amount	%	Amount	%	
Construction loans	\$94,176	13	% \$95,627	15	%
Residential real estate loans	40,917	6	% 46,446	7	%
Commercial business	98,037	14	% 110,771	17	%
Commercial real estate	206,368	27	% 198,211	30	%
Mortgage warehouse lines	245,546	37	% 179,172	27	%
Loans to individuals	22,900	3	% 23,156	4	%
Deferred loan costs	1,221	—	% 715	—	%
All other loans	233	—	% 199	—	%
	\$709,398	100	% \$654,297	100	%

The loan portfolio increased by \$55.1 million, or 8.4%, to \$709.4 million at September 30, 2015 compared to \$654.3 million at December 31, 2014.

Mortgage warehouse lines outstanding balances increased \$66.4 million, reflecting higher levels of residential mortgage originations by the Bank's mortgage banking customers that was due to the seasonal home buying market and favorable residential mortgage market interest rates. The growth of this portfolio segment was the primary driver of the increase in the loan portfolio.

The Bank's Mortgage Warehouse Funding Group offers revolving lines of credit that are available to licensed mortgage banking companies. The warehouse line of credit is used by the mortgage banker to finance the origination of one-to-four family residential mortgage loans that are pre-sold to the secondary mortgage market, which includes state and national banks, national mortgage banking firms, insurance companies and government-sponsored enterprises, including the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation and the Government National Mortgage Association. On average, an advance under the warehouse line of credit remains

outstanding for a period of less than 30 days, with repayment coming directly from the sale of the loan into the secondary mortgage market. Interest and a transaction fee are collected by the Bank at the time of

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repayment. Additionally, customers of the warehouse lines of credit are required to maintain deposit relationships with the Bank that, on average, represent 10% to 12% of the loan balances.

Commercial business loans decreased \$12.7 million, or 11.5%, during the first nine months of 2015. Commercial loans consist primarily of loans to small and middle market businesses and are typically working capital loans used to finance inventory, receivables or equipment needs. These loans are generally secured by business assets of the commercial borrower.

Commercial real estate loans increased \$8.2 million, or 4.1%, during the first nine months of 2015. Commercial real estate loans consist primarily of loans to businesses collateralized by real estate employed in the business and loans to finance income producing properties.

Construction loans decreased \$1.5 million, or 1.5%, during the first nine months of 2015. Construction financing is provided to businesses to expand their facilities and operations and to real estate developers for the acquisition, development and construction of residential properties primarily and income producing properties secondarily. First mortgage construction loans are made to developers and builders primarily for single family homes or smaller multi-family buildings (less than ten units) that are presold, or are to be sold or leased on a speculative basis. The Bank lends to developers and builders with established relationships, successful operating histories and sound financial resources.

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

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

Non-Performing Assets

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

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

Non-accrual loans decreased \$891,000 to \$3.6 million at September 30, 2015 from \$4.5 million at December 31, 2014. The major segments of non-accrual loans consist of commercial real estate loans and residential real estate loans, which are in the process of collection. The table below sets forth non-performing assets and risk elements in the Bank's portfolio for the periods indicated.

Non-Performing Assets and Loans (Dollars in thousands)	September 30, 2015	December 31, 2014		
Non-Performing loans:				
Loans 90 days or more past due and still accruing	\$764	\$317		
Non-accrual loans	3,632	4,523		
Total non-performing loans	4,396	4,840		
Other real estate owned	4,927	5,710		
Other repossessed assets	—	66		
Total non-performing assets	9,323	10,616		
Performing troubled debt restructurings	3,955	3,925		
Performing troubled debt restructurings and total non-performing assets	\$13,278	\$14,541		
Non-performing loans to total loans	0.62	% 0.74		%
Non-performing loans to total loans excluding mortgage warehouse lines	0.95	% 1.02		%
Non-performing assets to total assets	0.95	% 1.11		%
Non-performing assets to total assets excluding mortgage warehouse lines	1.27	% 1.37		%
Total non-performing assets and performing troubled debt restructurings to total assets	1.35	% 1.52		%

Non-performing loans to total loans decreased to 0.62% at September 30, 2015 from 0.74% at December 31, 2014 principally due to the increase in total loans and decrease in non-performing loans. Loan quality is considered to be sound. This was accomplished through quality loan underwriting, a proactive approach to loan monitoring and aggressive workout strategies.

Non-performing assets decreased by \$1.3 million to \$9.3 million at September 30, 2015 from \$10.6 million at December 31, 2014. Other real estate owned totaled \$4.9 million at September 30, 2015 compared to \$5.7 million at December 31, 2014. Loans in the process of foreclosure totaled \$3.3 million at September 30, 2015 and consisted of four residential loans totaling \$843,000 and five commercial real estate loans totaling \$2.5 million.

At September 30, 2015, the Bank had nine loans totaling \$4.4 million which were troubled debt restructurings. Two of these loans totaling \$449,000 are included in the above table as non-accrual loans; the remaining seven loans totaling \$3.9 million are considered performing.

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

Non-performing assets represented 0.95% of total assets at September 30, 2015 compared to 1.11% of total assets at December 31, 2014.

Management takes a proactive approach in addressing delinquent loans. The Company's President and Chief Executive Officer meets weekly with all loan officers to review the status of credits past-due 10 days or more. An action plan is discussed for delinquent

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loans to determine the steps necessary to induce the borrower to cure the delinquency and restore the loan to a current status. Also, delinquency notices are system-generated when loans are five days past-due and again at 15 days past-due.

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

Summary of Real Estate Owned Activity for the Three and Nine Months Ended September 30, 2015

(in thousands)

	Three months ended September 30, 2015		Nine months ended September 30, 2015
Balance - June 30, 2015	\$5,328	Balance - January 1, 2015	\$5,710
Transfers into real estate owned	966	Transfer into real estate owned	966
Sale of real estate owned	(1,367	) Sale of real estate owned	(1,367
Write-down of real estate owned	—	Write-down of real estate owned	(382
Balance - September 30, 2015	\$4,927	Balance - September 30, 2015	\$4,927

Changes in other real estate owned during the three months ended September 30, 2015 consisted of the foreclosure of one residential real estate property with a fair value of \$966,000 and the sale of a nine-unit condominium building in the amount of \$1.4 million. Additionally during the nine months ended September 30, 2015, the nine-unit condominium building was written down to its updated fair value in June 2015.

Allowance for Loan Losses and Related Provision

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

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

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

Management reviews the adequacy of the allowance on at least a quarterly basis to ensure that the provision for loan losses has been charged against earnings in an amount necessary to maintain the allowance at a level that is adequate based on management's assessment of probable estimated losses. The Company's methodology for assessing the adequacy of the allowance for loan losses consists of several key elements and is consistent with U.S. GAAP and interagency supervisory guidance. The allowance for loan losses methodology consists of two major components. The first component is an estimation of losses associated with individually identified impaired loans, which follows Accounting Standards Codification (ASC) Topic 310 (formerly SFAS 114). The second major component is an estimation of losses under ASC Topic 450 (formerly SFAS 5), which provides guidance for estimating losses on groups of loans with similar risk characteristics. The Company's methodology results in an allowance for loan losses which includes a specific reserve for impaired loans, an allocated reserve, and an unallocated portion.

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

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

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

collectively evaluated based on delinquency status, loan type, and historical losses. These loan groups are then internally risk rated.

The watch list includes loans that are assigned a rating of special mention, substandard, doubtful and loss. Loans classified as special mention have potential weaknesses that deserve management's close attention. If uncorrected, the potential weaknesses may result in deterioration of the repayment prospects. Loans classified as substandard have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They include loans that are inadequately protected by the current sound net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans classified as doubtful have all the weaknesses inherent in loans classified as substandard with the added characteristic that collection or liquidation in full, on the basis of current conditions and facts, is highly improbable. Loans rated as doubtful in whole, or in part, are placed in nonaccrual status. Loans classified as a loss are considered uncollectible and are charged-off against the allowance for loan losses.

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

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

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

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

Commercial

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

Mortgage Warehouse Lines of Credit

The Company's Mortgage Warehouse Unit provides revolving lines of credit that are available to licensed mortgage banking companies. The warehouse line of credit is used by the mortgage banker to originate one-to-four family residential mortgage loans that are pre-sold to the secondary mortgage market, which includes state and national banks, national mortgage banking firms, insurance companies and government-sponsored enterprises, including the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation and others. On average, an advance under the warehouse line of credit remains outstanding for a period of less than 30 days, with repayment coming directly from the sale of the loan into the secondary mortgage market. Interest and a transaction fee are collected by the Bank at the time of repayment. Additionally, customers of the warehouse lines of credit are required to maintain deposit relationships with the Bank that, on average, represent 10% to 12% of the loan balances.

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

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

Consumer

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

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

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

• Consumer credit scores

- Internal credit risk grades

• Loan-to-value ratios

• Collateral

• Collection experience

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

Allowance for Loan Losses

(Dollars in thousands)

	Nine Months Ended September 30, 2015		Year Ended December 31, 2014		Nine Months Ended September 30, 2014
Balance, beginning of period	\$6,925		\$7,039		\$7,039
Provision charged to operating expenses	600		5,750		5,250
Loans charged off :					
Construction loans	—		—		—
Residential real estate loans	—		(15	)	(15
Commercial and commercial real estate	(402	)	(5,906	)	(5,218
Loans to individuals	(14	)	(1)	—
Lease financing	—		—		—
All other loans	—		—		—
	(416	)	(5,922	)	(5,233
Recoveries					
Construction loans	—		—		—
Residential real estate loans	—		—		—
Commercial and commercial real estate	19		58		52
Loans to individuals	4		—		—
Lease financing	—		—		—
All other loans	—		—		—
	23		58		52
Net charge offs	(393	)	(5,864	)	(5,181
Balance, end of period	\$7,132		\$6,925		\$7,108
Loans :					
At period end	\$709,398		\$654,297		\$620,396
Average during the period	682,401		556,361		532,479
Net charge offs to average loans outstanding	(0.06	)%	(1.05	)%	(0.97
Net charge offs to average loans outstanding, excluding mortgage warehouse loans	(0.08	)%	(1.33	)%	(1.25
Allowance for loan losses to :					
Total loans at period end	1.01	%	1.06	%	1.15
	1.33	%	1.27	%	1.34

Total loans at period end excluding mortgage warehouse loans					
Non-performing loans	162.24	%	143.10	%	94.28 %

The following table represents the allocation of the allowance for loan losses (“ALL”) among the various categories of loans and certain other information as of September 30, 2015 and December 31, 2014, respectively. The allocation is made for analytical purposes and is not necessarily indicative of the categories in which future losses may occur. The total allowance is available to absorb losses from any segment of loans.

(Dollars in thousands)

	September 30, 2015			December 31, 2014			
	Amount	ALL as a % of Loans	% of Loans	Amount	ALL as a % of Loans	% of Loans	
Commercial and Commercial real estate	\$4,431	1.46	% 41	% 4,154	1.34	% 48	%
Construction loans	1,020	1.08	% 13	% 1,215	1.27	% 15	%
Residential real estate loans	219	0.54	% 6	% 197	0.42	% 7	%
Loans to individuals	103	0.44	% 3	% 131	0.57	% 3	%
Subtotal	5,773	1.25	% 63	% 5,697	1.20	% 73	%
Mortgage warehouse lines	982	0.40	% 37	% 896	0.50	% 27	%
Unallocated reserves	377	—	—	332	—	—	
Total	\$7,132	1.01	% 100	% \$6,925	1.06	% 100	%

The Company recorded a provision for loan losses in the amount of \$600,000 for the nine months ended September 30, 2015 compared to a provision in the amount of \$5.3 million for the nine months ended September 30, 2014. The Company recorded a provision for loan losses in the amount of \$100,000 in the third quarter of 2015 due to the moderate level of net charge-offs, the Bank's stable loan quality trends over the last four quarters and management's assessment of the strengthening economic conditions in the Bank's markets. Net charge-offs amounted to \$393,000 for the nine months ended September 30, 2015.

At September 30, 2015, the allowance for loan losses was \$7.1 million, a \$207,000 increase from the allowance for loan losses at December 31, 2014. As a percentage of total loans, the allowance was 1.01% at the end of the third quarter of 2015 compared to 1.06% at year-end 2014. The allowance for loan losses was 162% of non-accrual loans at September 30, 2015 compared to 143% of non-accrual loans at December 31, 2014. Management believes that the quality of the loan portfolio remains sound considering the economic climate in the State of New Jersey and that the allowance for loan losses is adequate in relation to credit risk exposure levels.

With respect to the remaining acquired Rumson loans of \$94.3 million at September 30, 2015, the remaining accretable general credit discount was \$748,000 and the non-accretable credit discount was \$546,000.

Deposits

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

The following table summarizes deposits at September 30, 2015 and December 31, 2014.

(Dollars in thousands)

	September 30, 2015	December 31, 2014
Demand		
Non-interest bearing	\$170,255	\$162,281
Interest bearing	276,289	297,679
Savings	193,364	190,817

Time	153,934	166,984
	\$793,842	\$817,761

At September 30, 2015, total deposits were \$793.8 million, a decrease of \$23.9 million, or 2.9%, from \$817.8 million at December 31, 2014. The decrease in deposits was due primarily to a decrease of \$23.0 million in municipal deposits, a decrease in certificates of deposits and partially offset by increases in non-interest bearing demand and savings accounts.

Borrowings

Borrowings are mainly comprised of Federal Home Loan Bank (“FHLB”) borrowings and overnight funds purchased. These borrowings are primarily used to fund asset growth not supported by deposit generation. The balance of borrowings was \$65.2 million at September 30, 2015, consisting of \$44.8 million in overnight borrowings from the FHLB and \$20.4 million of long-term FHLB borrowings, compared to \$25.1 million at December 31, 2014, consisting of \$4.4 million of overnight borrowings from the FHLB and \$20.7 million of long-term FHLB borrowings. Two long-term FHLB fixed rate convertible advances were assumed by the Bank as a result of the Rumson merger. These two advances total \$10.0 million and bear interest at 4.11% and 4.63%, respectively. As a result of acquisition accounting, the two advances were fair valued and a premium of \$1.0 million was assigned. The premium is amortized over the remaining term of the borrowings. The two advances had a carrying amount of \$10.5 million at September 30, 2015.

The Bank also has a fixed rate convertible advance from the FHLB in the amount of \$10.0 million that bears interest at the rate of 4.08%. This advance may be called by the FHLB quarterly at the option of the FHLB if rates rise and the rate earned by the FHLB is no longer a “market” rate. This advance is fully secured by marketable securities.

Shareholders’ Equity and Dividends

Shareholders’ equity increased by \$7.3 million, or 8.4%, to \$94.4 million at September 30, 2015 from \$87.1 million at December 31, 2014. Tangible book value per common share increased by \$0.94 to \$10.74 at September 30, 2015 from \$9.80 at December 31, 2014. The ratio of average shareholders’ equity to total average assets was 9.13% at September 30, 2015 compared to 8.62% at December 31, 2014.

Shareholders’ equity increased \$7.3 million due to net income of \$7.0 million, \$183,000 from the exercise of stock options and the issuance of stock grants and \$483,000 in share based compensation for the nine months ended September 30, 2015. Partially offsetting these increases were treasury stock purchases in the amount of \$273,000 and a decline in accumulated other comprehensive income of \$108,000 during the period.

In lieu of cash dividends to common shareholders, the Company (and its predecessor, the Bank) had declared a common stock dividend every year (except 2013 and 2014) since 1992 and has paid such dividends every year since 1993 (except 2014 due to the acquisition of Rumson). On February 20, 2015, the Board of Directors of the Company declared a five percent common stock dividend to common shareholders of record as of the close of business on March 16, 2015, which was paid on April 6, 2015. Per share amounts for the prior periods have been adjusted to reflect the common stock dividend.

The Company’s common stock is quoted on the Nasdaq Global Market under the symbol “FCCY.”

In 2005, the Company’s board of directors authorized a common stock repurchase program that allows for the repurchase of a limited number of the Company’s shares at management’s discretion on the open market. The Company undertook this repurchase program in order to increase shareholder value. Disclosure of repurchases of Company shares made during the quarter ended September 30, 2015 is set forth under Part II, Item 2 of this report, “Unregistered Sales of Equity Securities and Use of Proceeds.”

Actual capital amounts and ratios for the Company and the Bank as of September 30, 2015 and December 31, 2014 were as follows:

(Dollars in thousands)	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provision	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of September 30, 2015						
Company						
Common equity Tier 1 (CET1)	\$82,108	9.56%	\$38,629	>4.5%	N/A	N/A
Total Capital to Risk Weighted Assets	107,241	12.49%	68,675	>8%	N/A	N/A
Tier 1 Capital to Risk Weighted Assets	100,108	11.66%	51,506	>6%	N/A	N/A
Tier 1 Leverage Capital	100,108	10.12%	39,553	>4%	N/A	N/A
Bank						
Common equity Tier 1 (CET1)	\$97,693	11.38%	\$38,629	>4.5%	\$55,798	≥6.5%
Total Capital to Risk Weighted Assets	104,825	12.21%	68,675	>8%	85,843	≥10%
Tier 1 Capital to Risk Weighted Assets	97,693	11.38%	51,506	>6%	68,675	≥8%
Tier 1 Leverage Capital	97,693	9.88%	39,553	>4%	49,441	>5%
As of December 31, 2014						
Company						
Total Capital to Risk Weighted Assets	\$98,309	12.28%	\$64,045	>8%	N/A	N/A
Tier 1 Capital to Risk Weighted Assets	91,384	11.41%	32,023	>4%	N/A	N/A
Tier 1 Leverage Capital	91,384	9.53%	38,348	>4%	N/A	N/A
Bank						
Total Capital to Risk Weighted Assets	\$96,048	12.00%	\$64,045	>8%	\$80,056	>10%
Tier 1 Capital to Risk Weighted Assets	89,123	11.13%	32,023	>4%	48,034	>6%
Tier 1 Leverage Capital	89,123	9.30%	38,348	>4%	47,935	>5%

In July 2013, the Federal Reserve Board and the FDIC approved revisions to their capital adequacy guidelines and prompt corrective action rules that implement the revised standards of Basel III and address relevant provisions of the Dodd-Frank Act. The Federal Reserve Board's final rules and the FDIC's interim final rules apply to all depository institutions, top-tier bank holding companies with total consolidated assets of \$500 million or more and top-tier savings and loan holding companies ("banking organizations"). Under Basel III Capital Rules, the initial minimum capital ratios effective as of January 1, 2015 are as follows: common equity Tier 1 (CET1) ratio of 4.5% of risk-weighted assets, Tier 1 capital ratio of 6% of risk weighted assets, total capital to risk-weighted assets of 8% and Tier 1 leverage ratio of 4%.

The rules also limit a banking organization's ability to pay dividends, engage in share repurchases or pay discretionary bonuses if the banking organization does not hold a "capital conservation buffer" consisting of 2.5% of common equity Tier 1 capital to risk-weighted assets in addition to the amount necessary to meet its minimum risk-based capital requirements. The capital conservation buffer requirements will be phased in beginning January 1, 2016 at 0.625% of common equity Tier 1 capital to risk-weighted assets and would increase by 0.625% until fully implemented in January 2019 at 2.50% of common equity Tier 1 capital to risk-weighted assets.

At September 30, 2015, the capital ratios of the Company exceeded the minimum Basel III capital requirements. It is management's goal to monitor and maintain adequate capital levels to continue to support asset growth and the expansion of the Bank and to continue its status as a well-capitalized institution.

Liquidity

At September 30, 2015, the amount of liquid assets and the Bank's access to off-balance sheet liquidity remained at a level management deemed adequate to ensure that contractual liabilities, depositors' withdrawal requirements, and other operational and customer credit needs could be satisfied.

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

The Bank has established a borrowing relationship with the FHLB which further supports and enhances liquidity. During 2010, the FHLB replaced its Overnight Line of Credit and One-Month Overnight Repricing Line of Credit facilities available to member banks with a fully secured line of up to 50 percent of a bank's quarter-end total assets. Under the terms of this facility, the Bank's total credit exposure to the FHLB cannot exceed 50 percent, or \$490.2 million, of its total assets at September 30, 2015. In addition, the aggregate outstanding principal amount of the Bank's advances, letters of credit, the dollar amount of the FHLB's minimum collateral requirement for off-balance sheet financial contracts and advance commitments cannot exceed 30 percent of the Bank's total assets, unless the Bank obtains approval from the FHLB's Board of Directors or its Executive Committee. These limits are further restricted by a member's ability to provide eligible collateral to support its obligations to the FHLB as well as the ability to meet the FHLB's stock requirement. At September 30, 2015, the Bank pledged collateral to the FHLB to support additional borrowings of \$60.4 million. The Bank also maintains an unsecured federal funds line of \$25.0 million with a correspondent bank.

The Consolidated Statements of Cash Flows present the changes in cash from operating, investing and financing activities. At September 30, 2015, the balance of cash and cash equivalents was \$14.9 million.

Net cash provided by operating activities totaled \$12.5 million for the nine months ended September 30, 2015 compared to net cash provided by operating activities of \$10.8 million for the nine months ended September 30, 2014. A source of funds is net income from operations adjusted for activity related to loans originated for sale and sold, the provision for loan losses, depreciation and amortization expenses, and net amortization of premiums and discounts on securities. Net cash provided by operating activities for the nine months ended September 30, 2015 was greater than net cash provided by operating activities for the nine months ended September 30, 2014 due primarily to higher net proceeds from the origination and sales of loans in 2015 compared to 2014.

Net cash used in investing activities totaled \$28.3 million for the nine months ended September 30, 2015 compared to net cash used in investing activities of \$55.6 million for the nine months ended September 30, 2014. The primary use of cash for the first nine months of 2015 was the net increase of loans of \$56.5 million compared to a net increase in loans of \$108.8 million for the first nine months of 2014. Net cash received from the acquisition of Rumson of \$21.4 million reduced the net cash used for the first nine months of 2014.

Net cash provided by financing activities was \$16.1 million for the nine months ended September 30, 2015 compared to \$4.0 million of net cash used by financing activities for the nine months ended September 30, 2014. The primary source of funds for the 2015 period was the increase in borrowed funds of \$40.1 million, which was partially offset by the decrease in deposits of \$23.9 million. The primary use of funds in the 2014 period was the decrease in deposits of \$4.5 million.

The securities portfolios are also a source of liquidity, providing cash flows from maturities and periodic repayments of principal. For the nine months ended September 30, 2015 and September 30, 2014, prepayments and maturities of investment securities totaled \$42.2 million and \$40.1 million, respectively. Another source of liquidity is the loan portfolio, which provides a flow of payments and maturities.

Interest Rate Sensitivity Analysis

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

Under the interest rate risk policy established by the Board of Directors, the Company established quantitative guidelines with respect to interest rate risk and how interest rate shocks are projected to affect net interest income and economic value of equity. Summarized below is the projected effect of a parallel shift of an increase of 200 and 300 basis points, respectively, in market interest rates on net interest income and economic value of equity.

Based upon the current interest rate environment, as of September 30, 2015, sensitivity to interest rate risk was as follows:

(Dollars in thousands)	Next 12 Months		Economic Value of Equity	
	Net Interest Income			
Interest Rate Change in Basis Points	\$ Change	% Change	\$ Change	% Change
+300	\$4,057	10.7%	\$3,108	2.50%
+200	2,469	6.5%	2,406	1.93%

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Not required.

Item 4. Controls and Procedures.

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

The Company's principal executive officer and principal financial officer, with the assistance of other members of the Company's management, have evaluated the effectiveness of the Company's disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this quarterly report. Based upon such evaluation, the Company's principal executive officer and principal financial officer have concluded that 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 September 30, 2015 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

On July 21, 2005, the Company's Board of Directors authorized a stock repurchase program under which the Company may repurchase up to 5% of its common shares outstanding at that date in open market or privately negotiated transactions. The Company undertook this repurchase program in order to increase shareholder value. The following table provides common stock repurchases made by or on behalf of the Company during the nine months ended September 30, 2015.

Issuer Purchases of Equity Securities ⁽¹⁾

Period		Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased As Part of Publicly Announced Plan or Program	Maximum Number of Shares That May Yet be Purchased Under the Plan or Program
Beginning	Ending				
July 1, 2015	July 31, 2015	1,390	\$11.56	1,390	125,690
August 1, 2015	August 31, 2015	1,540	\$11.59	1,540	124,150
September 1, 2015	September 30, 2015	17,914	\$11.56	17,914	106,236
Total		20,844	\$11.57	20,844	106,236

The Company's common stock repurchase program covers a maximum of 237,115 shares of common stock of the (1) Company, representing 5% of the outstanding common stock of the Company on July 21, 2005, as adjusted for subsequent common stock dividends.

Item 6. Exhibits.

- 10.1 * 1st Constitution Bancorp 2015 Directors Stock Plan (incorporated by reference to Appendix A to the Company's proxy statement on Schedule 14A for its annual meeting of shareholders held on May 21, 2015 (SEC File No. 000-32891) filed with the SEC on April 14, 2015)
- 31.1 * Certification of Robert F. Mangano, principal executive officer of the Company, pursuant to Securities Exchange Act Rule 13a-14(a)
- 31.2 * Certification of Stephen J. Gilhooly, principal financial officer of the Company, pursuant to Securities Exchange Act Rule 13a-14(a)
- 32 * Certifications pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of The Sarbanes-Oxley Act of 2002, signed by Robert F. Mangano, principal executive officer of the Company, and Stephen J. Gilhooly, principal financial officer of the Company
- 101.INS * XBRL Instance Document
- 101.SCH * XBRL Taxonomy Extension Schema Document
- 101.CAL * XBRL Taxonomy Extension Calculation Linkbase Document
- 101.DEF * XBRL Taxonomy Extension Definition Linkbase Document
- 101.LAB * XBRL Taxonomy Extension Label Linkbase Document
- 101.PRE * XBRL Taxonomy Extension Presentation Linkbase Document

* Filed herewith.

SIGNATURES

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

1ST CONSTITUTION BANCORP

Date: November 16, 2015

By: /s/ ROBERT F. MANGANO
Robert F. Mangano
President and Chief Executive Officer
(Principal Executive Officer)

Date: November 16, 2015

By: /s/ STEPHEN J. GILHOOLY
Stephen J. Gilhooly
Senior Vice President, Treasurer and Chief
Financial Officer
(Principal Financial Officer)

1ST CONSTITUTION BANCORP

FORM 10-Q

Index to Exhibits

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