1st Colonial Bancorp, Inc.

2018 ANNUAL REPORT

1st Colonial Bancorp, Inc.

April 4, 2019

Dear Fellow Shareholders,

The Directors and Officers of 1st Colonial Bancorp are pleased to report to you the results of our 2018 performance. With the flattening of the yield curve and the rise in short-term interest rates, we have seen an increase in competitive pricing pressure on the balance sheet. We have been able to mitigate this environment through balanced loan growth and selective product pricing. This measured approach resulted in an 8.5% increase in net interest income, which is a key component of our earnings.

As local banks are consolidating, our future includes expanding our lending and deposit products and services through investments in people and technology. To continue our success, we are focused on strengthening our core of seasoned professionals by recruiting individuals who can have a meaningful impact on our growth. We will continue to give back to the communities and organizations that trust us with their business through donations, scholarships and sponsorships.

We believe that with our shareholders continued cooperation in referring to us qualified business, and our reputation for efficient lending decisions, a successful 2019 will result. We are the "Nice People with Money."

Sincerely,

Linda M. Rohrer
Chairman of the Board

Gerard M. Banmiller
President and Chief Executive Officer

1ST COLONIAL BANCORP, INC. AND SUBSIDIARY

Consolidated Financial Statements

December 31, 2018 and 2017

(With Independent Auditors' Report Thereon)

KPMG LLP
1601 Market Street
Philadelphia, PA 19103-2499

Independent Auditors' Report

The Board of Directors
1st Colonial Bancorp, Inc.:

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of 1st Colonial Bancorp, Inc. and its subsidiary, which comprise the consolidated statements of financial condition as of December 31, 2018 and 2017, and the related consolidated statements of operations, comprehensive income, changes in shareholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of 1st Colonial Bancorp, Inc. and its subsidiary as of December 31, 2018 and 2017, and the results of their operations and their cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

KPMG LLP

Philadelphia, Pennsylvania
March 29, 2019

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1ST COLONIAL BANCORP, INC. AND SUBSIDIARY

Consolidated Statements of Financial Condition

	December 31, 2018	December 31, 2017
Assets	(Dollars in thousands, except share data)	
Cash and due from banks	$ 12,105	$ 28,368
Federal funds sold	9	27
Total cash and cash equivalents	12,114	28,395
Investments held to maturity (fair value of $59,126 at December 31, 2018 and $46,654 at December 31, 2017)	59,126	46,654
Securities available for sale ("AFS") (amortized cost of $56,351 at December 31, 2018 and $71,897 at December 31, 2017)	55,967	71,893
Bank stock, at cost	1,964	1,936
Mortgage loans held for sale	2,989	7,169
Loans	404,535	376,514
Less allowance for loan losses	(5,627)	(4,858)
Net loans	398,908	371,656
Premises and equipment, net	798	864
Accrued interest receivable	1,737	1,505
Deferred tax assets	1,023	692
Bank-owned life insurance	8,368	8,434
Other real estate owned ("OREO")	-	244
Other assets	944	689
Total assets	$ 543,938	$ 540,131
Liabilities and Shareholders' Equity		
Liabilities:		
Deposits	$ 490,096	$ 496,847
Other borrowings	8,157	3,166
Accrued interest payable	128	100
Other liabilities	1,861	1,608
Total liabilities	500,242	501,721
Shareholders' equity:		
Common stock, $0 par value. Authorized 10,000,000 shares; issued 4,527,316 and 4,477,007 shares as of December 31, 2018 and 2017, respectively, and outstanding of 4,389,440 and 4,339,131 shares at December 31, 2018 and 2017, respectively	-	-
Preferred stock. Authorized 1,000,000 shares, no shares issued	-	-
Additional paid-in capital	33,719	30,898
Retained earnings	11,101	8,361
Accumulated other comprehensive (loss) income	(276)	(1)
Treasury stock at cost, 137,876 shares	(848)	(848)
Total shareholders' equity	43,696	38,410
Total liabilities and shareholders' equity	$ 543,938	$ 540,131

See accompanying notes to consolidated financial statements.

1[ST] COLONIAL BANCORP, INC. AND SUBSIDIARY

Consolidated Statements of Operations
For the years ended December 31,

(Dollars in thousands, except share data)	2018	2017
Interest income:		
Loans	$ 20,044	$ 17,776
Federal funds sold and interest-bearing deposits	338	216
Investments:		
Taxable	1,409	1,152
Nontaxable	707	419
Total interest income	22,498	19,563
Interest expense:		
Deposits	4,033	2,541
Other borrowings	21	17
Total interest expense	4,054	2,558
Net interest income	18,444	17,005
Provision for loan losses	1,477	852
Net interest income after provision for loan losses	16,967	16,153
Other income:		
Gain on sales of mortgage loans held for sale	1,852	2,490
Gain on sale of guaranteed portion of SBA loans	183	397
Bank-owned life insurance income	577	237
Service charges on deposit accounts	129	127
Mortgage fee income	220	121
Gain on sale of securities	-	25
Loss on real estate owned	(39)	(66)
Other income and fees	442	445
Total other income	3,364	3,776
Other expenses:		
Compensation and employee benefits	7,632	7,317
Data processing expense	1,343	1,074
Professional services	843	1,002
Occupancy and equipment expenses	927	826
Advertising expense	421	563
FDIC and state assessments	411	460
Other operating expenses	1,849	1,854
Total other expenses	13,426	13,096
Income before income tax expense	6,905	6,833
Income tax expense	1,690	2,790
Net income	$ 5,215	$ 4,043
Earnings per share:		
Basic earnings per share	$ 1.19	$ 0.93
Diluted earnings per share	$ 1.14	$ 0.90
Weighted average number of shares outstanding:		
Basic earnings per share	4,384,544	4,325,822
Diluted earnings per share	4,573,095	4,512,487

See accompanying notes to consolidated financial statements.

Consolidated Statements of Comprehensive Income

	For the years ended December 31,					
	2018			2017		
(In thousands)	Before tax amount	Tax expense (benefit)	Net of tax amount	Before tax amount	Tax expense (benefit)	Net of tax amount
Net income	$ 6,905	$ 1,690	$ 5,215	$ 6,833	$ 2,790	$ 4,043
Other comprehensive income (loss):						
Net unrealized (losses) gains on AFS investment securities:						
Net unrealized holding losses arising during the period	(380)	(105)	(275)	(334)	(135)	(199)
Less reclassification adjustment for net gains on sales realized in net income	-	-	-	(25)	(11)	(14)
Total net unrealized (losses) gains on AFS investment securities	(380)	(105)	(275)	(309)	(124)	(185)
Other comprehensive income (loss)	(380)	(105)	(275)	(309)	(124)	(185)
Total comprehensive income	$ 6,525	$ 1,585	$ 4,940	$ 6,524	$ 2,666	$ 3,858

See accompanying notes to consolidated financial statements.

Consolidated Statements of Changes in Shareholders' Equity
For the years ended December 31, 2018 and 2017

(In thousands)	Common stock	Preferred stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income (loss)	Treasury stock	Total shareholders' equity
Balance at January 1, 2017	$ -	$ -	$ 28,281	$ 6,483	$ 184	$ (848)	$ 34,100
Stock dividend			2,165	(2,165)			-
Stock issued			256				256
Stock issuance expenses			(2)				(2)
Net unrealized gain on securities available for sale, net of tax					(185)		(185)
Stock-based compensation			198				198
Net income				4,043			4,043
Balance at December 31, 2017	-	-	30,898	8,361	(1)	(848)	38,410
Stock dividend			2,475	(2,475)			-
Stock issued			245				245
Stock issuance expenses			(5)				(5)
Net unrealized loss on securities available for sale, net of tax					(275)		(275)
Stock-based compensation			106				106
Net income				5,215			5,215
Balance at December 31, 2018	$ -	$ -	$ 33,719	$ 11,101	$ (276)	$ (848)	$ 43,696

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows
For the years ended December 31, 2018 and 2017

(In thousands)	2018	2017
Cash flows from operating activities:		
Net income	$ 5,215	$ 4,043
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation and amortization	226	207
Net amortization of premium on securities	315	458
Net accretion of deferred fees and costs on loans	(276)	(382)
Stock-based compensation expense	106	198
Gain on sale of investment securities	-	(25)
Gain on sales of mortgage loans held for sale	(1,852)	(2,490)
Gain on sales of guaranteed portion of SBA loans	(183)	(397)
Provision for loan losses	1,477	852
Cash disbursed for mortgage banking activities	(73,696)	(88,554)
Cash received for mortgage banking activities	79,728	91,139
Impairment charge on OREO	-	73
Losses (gains) on OREO	39	(7)
Net gains on sales of premises and equipment	-	(29)
Decrease (increase) in cash value of bank-owned life insurance, net	66	(237)
(Increase) decrease deferred income tax benefit	(226)	322
Changes in assets and liabilities:		
Increase in accrued interest receivable	(232)	(252)
Decrease in other assets	(255)	337
Increase in accrued interest payable	28	68
Increase (decrease) in other liabilities	253	(101)
Total adjustments	5,518	1,180
Net cash provided by operating activities	10,733	5,223
Cash flows from investing activities:		
Proceeds from maturities and calls of AFS investment securities	250	1,135
Proceeds from sales of AFS investment securities	-	377
Proceeds from principal repayment of AFS investment securities	14,981	18,783
Proceeds from maturities of securities held to maturity	47,529	38,010
Purchases of securities available for sale	-	(15,023)
Purchases of securities held to maturity	(60,001)	(47,730)
(Purchase) redemption of Federal Home Loan Bank stock	(28)	160
Proceeds from sale of real estate owned	488	166
Increase in loans receivable, net	(28,553)	(24,816)
Capital expenditures	(160)	(230)
Proceeds from the sale of premises and equipment	-	587
Purchase of life insurance policies	-	(1,500)
Net cash used in investing activities	(25,494)	(30,081)
Cash flows from financing activities:		
Net (decrease) increase in deposits	(6,751)	50,443
Net increase (decrease) in short-term borrowings	4,991	(2,409)
Proceeds from exercise of stock options	245	256
Stock issuance costs	(5)	(2)
Net cash (used in) provided by financing activities	(1,520)	48,288
Net (decrease) increase in cash and cash equivalents	(16,281)	23,430
Cash and cash equivalents at beginning of year	28,395	4,965
Cash and cash equivalents at end of year	$ 12,114	$ 28,395
Supplemental disclosures:		
Cash paid during the year for:		
Interest	$ 4,026	$ 2,490
Income taxes paid	2,271	2,630
Noncash items:		
Net change in unrealized (loss) gain on securities available for sale, net of taxes of $(105) and $(124) for 2018 and 2017, respectively	$ (275)	$ (185)
Transfer to real estate owned	283	345

See accompanying notes to the consolidated financial statements.

Notes to Consolidated Financial Statements

Note 1. Nature of Operations

1st Colonial Bancorp, Inc. (the "Company", "We" or "Our") is a Pennsylvania corporation headquartered in Collingswood, New Jersey, and the parent company of 1st Colonial Community Bank (the "Bank"). The Bank opened for business on June 30, 2000 and provides a wide range of business and consumer financial services through its two New Jersey branch offices located in Collingswood and Westville.

The Company was organized as the holding company for the Bank, in connection with the reorganization approved by the Bank's shareholders at the annual meeting on June 12, 2002. As a bank holding company registered under the Bank Holding Company Act of 1956, the Company is subject to the supervision and regulation of the Board of Governors of the Federal Reserve System (the "FRB"). The Bank was a national bank until November 1, 2012 when it was granted a state charter by the New Jersey Department of Banking and Insurance. The Bank's deposits are insured by the Federal Deposit Insurance Corporation ("FDIC"). The Company's operations and those of the Bank are subject to supervision and regulation by FRB, the FDIC, and the New Jersey Department of Banking and Insurance. The principal activity of the Bank is to provide its local communities with general commercial and retail banking services. The Bank is managed as one business segment.

Note 2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying consolidated financial statements include the accounts of the parent company, 1st Colonial Bancorp, Inc. and its wholly owned subsidiary, 1st Colonial Community Bank. Prior period amounts have been reclassified, where necessary, to conform to current year classification.

Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of income and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents include cash and amounts due from banks and federal funds sold. Generally, federal funds sold are repurchased the following day.

Investments Held to Maturity

Debt securities that management has the positive intent and ability to hold until maturity are classified as held to maturity and are carried at their remaining unpaid principal balance, net of unamortized premiums or unaccreted discounts. Premiums are amortized and discounts are accreted using a method that produces results that approximate level yield over the estimated remaining term of the underlying security.

Securities Available for Sale

Securities not classified as held to maturity are classified as available-for-sale and are stated at fair value. Unrealized gains and losses are excluded from earnings and are reported as accumulated other comprehensive (loss) income, net of tax, as a separate component of shareholders' equity, until realized. Gains and losses are determined using the specific-identification method and are accounted for on a trade-date basis.

Bank Stock

The Bank carries its investments in Atlantic Community Bankers Bank ("ACBB") stock and Federal Home Loan Bank ("FHLB") stock at their amortized cost because they do not have a readily determinable fair value. These investments are included in bank stock in the consolidated statements of financial condition.

The Bank is required to maintain an investment in ACBB stock. The Bank had $40 thousand in ACBB stock at December 31, 2018 and 2017, respectively.

The Bank is required to acquire and hold shares of capital stock in the FHLB based upon a percentage of the Bank's FHLB borrowings, unused borrowing capacity, and the amount of residential first mortgage loans sold to the FHLB. The Bank had $1.9 million in FHLB stock at December 31, 2018 and 2017. The Bank carries its investment in FHLB stock at cost, or par value, and evaluates FHLB stock for impairment based on the ultimate recoverability of par value rather than by recognizing temporary declines in value. As part of the impairment assessment of FHLB stock, management considers, among other things, (i) the significance and length of time any declines in net assets of the FHLB compared to its capital stock, (ii) commitments by the FHLB to make payments required by law or regulations and the level of such payments in relation to its operating performance; (iii) the impact of legislative and regulatory changes on financial institutions and, accordingly, the customer base of the FHLB; and (iv) the liquidity position of the FHLB. The FHLB has access to the U.S. government-Sponsored Enterprise Credit Facility, a secured lending facility that serves as a liquidity backstop, substantially reducing the likelihood that the FHLB would need to sell securities to raise liquidity and, thereby, cause the realization of large economic losses. The FHLB is rated AAA and is likely to remain unchanged based on expectations that the FHLB has a very high degree of government support and was in compliance with all regulatory capital requirements as of December 31, 2018. Based on the above, we have determined there was no other-than-temporary impairment related to our FHLB stock investment as of December 31, 2018 and 2017.

Mortgage Loans Held for Sale

The Bank originates and sells residential mortgage loans servicing released to the secondary market. This activity enables the Bank to fulfill the credit needs of the community while reducing its overall exposure to interest rate and credit risk. These loans are reported at the lower of their cost or fair market value.

Loans

Loans are stated at the principal amount outstanding, net of deferred loan fees and costs. Interest income is accrued on the principal amount outstanding. Loan origination fees and related direct costs are deferred and amortized to interest income over the term of the respective loan as a yield adjustment.

Loans are reported as non-accrual if they are past due as to principal or interest payments for a period of 90 days or more. Exceptions may be made if a loan is deemed by management to be well collateralized and in the process of collection. Loans that are on a current payment status may also be classified as non-accrual if there is serious doubt as to the borrower's ability to continue interest or principal payments. When a loan is placed on non-accrual all unpaid interest is reversed from interest income. Interest payments received on impaired nonaccrual loans are normally applied against principal. Excess proceeds received over the principal amounts due on impaired non-accrual loans are recognized as income on a cash basis. We recognize income under the accrual basis when the principal payments on the loans become current and the collateral on the loan is sufficient to cover the outstanding obligation to the Company. If these factors do not exist, we do not recognize income. Generally, loans are restored to accrual status when the loan is brought current, has performed in accordance with the contractual terms for a reasonable period of time (generally six months) and the ultimate collectibility of the total contractual principal and interest is no longer in doubt. The past due status of all classes of loans receivable is determined based on contractual due dates for loan payments.

Impaired loans are measured based on the present value of expected future discounted cash flows, the market price of the loan, or the fair value of the underlying collateral if the loan is collateral dependent. The recognition of interest income on impaired loans is the same as for non-accrual loans discussed above.

A loan modification is deemed a troubled debt restructuring ("TDR") when two conditions are met: 1) the borrower is experiencing financial difficulty and 2) a concession is made by us that would not otherwise be considered for a borrower with similar credit risk characteristics. All loans classified as TDRs are considered to be impaired. TDRs are returned to an accrual status when the loan is brought current, has performed in accordance with the contractual restructured terms for a reasonable period of time (generally six months) and the ultimate collectibility of the total contractual restructured principal and interest is no longer in doubt. Our policy for TDRs is to recognize interest income on currently performing restructured loans under the accrual method.

Allowance for Loan Losses

Our loan portfolio is subject to varying degrees of credit risk. The allowance for loan losses ("allowance') reflects management's best estimate of losses, both known and inherent, in the existing loan portfolio. Management uses significant estimates to determine the allowance. Management's estimates consider such factors as changes in the nature and volume of the portfolio, overall portfolio quality, and review of specific problem loans, and current economic conditions that may affect the borrowers' ability to pay. The provision for loan losses charged to operating expenses represents the amount necessary to maintain an appropriate allowance. Loan losses are charged directly against the allowance when loans are determined to be uncollectible. Recoveries on previously charged-off loans are credited to the allowance when received.

Based on management's comprehensive analysis of the loan portfolio, management believes the current level of the allowance is adequate at December 31, 2018. However, its determination requires significant judgment, and estimates of probable losses inherent in the credit portfolio can vary significantly from the amounts observed. While management uses the best information available to make allowance evaluations, adjustments to the allowance may be necessary based on changes in economic and other conditions or changes in accounting guidance. In addition, the FDIC, as an integral part of its examination processes, periodically reviews our allowance for loan losses. The FDIC may require the recognition of adjustments to the allowance for loan losses based on their judgment of information available to them at the time of their examinations. To the extent that actual outcomes differ from management's estimates, additional provisions to the allowance for loan losses may be required that would adversely impact earnings in future periods.

Premises and Equipment

Premises and equipment are recorded at cost less accumulated depreciation and amortization. Depreciation is computed using the straight-line method over the expected useful lives of the assets. Amortization of leasehold improvements is computed using the straight-line method over the shorter of the useful lives or the remaining lease term. Software costs, furniture, and equipment have depreciable lives of 3 to 10 years. Building and improvements have estimated useful lives of 5 to 35 years. The costs of maintenance and repairs are expensed as they are incurred, and renewals and betterments are capitalized.

Other Real Estate Owned

Other real estate owned ("OREO") is comprised of properties acquired through foreclosure proceedings or acceptance of a deed in lieu of foreclosure. Real estate owned is recorded at the lower of the carrying value of the loan or the fair value of the property, net of estimated selling costs. Costs relating to the development or improvement of properties are capitalized, while expenses related to the operation and maintenance of properties are expensed as incurred. Gains or losses upon dispositions are reflected in earnings as realized. The Bank had no OREO at December 31, 2018 compared to $244 thousand at December 31, 2017.

Bank-Owned Life Insurance

We have bank-owned life insurance ("BOLI") policies on certain officers and key employees. These policies are reflected on the consolidated statements of financial condition at their cash surrender value, or the amount that can be realized. Income from these policies and changes in the cash surrender value are recorded in non-interest income. BOLI was valued at $8.4 million at December 31, 2018 and 2017. During the fourth quarter of 2018, we accrued $336 thousand in insurance income related to a former employee covered by a BOLI policy. The total income recognized on the BOLI polices was $577 thousand and $237 thousand in 2018 and 2017, respectively. The Bank has an agreement to split the benefits with the employees if the employee is still working or is on disability at time of death. The maximum amount that will be paid to all employees is $1.0 million.

Earnings Per Share

Basic earnings per share is calculated as net income divided by the weighted average number of shares outstanding during the period. Dilutive earnings per share include dilutive common stock equivalents as computed under the treasury stock method using average common stock prices.

Income Taxes

The Company and the Bank file a consolidated federal income tax return. Income taxes are allocated to the Company and the Bank based on the contribution of their income or use of their loss in the consolidated return. Separate state income tax returns are filed by the Company and the Bank. As of December 31, 2018, tax years 2015 through 2017 are subject to federal examination by the IRS and years 2014 through 2017 are subject to state examination by various state taxing authorities. Tax regulations are subject to interpretation of the related tax laws and regulations and require significant judgment to apply.

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, as well as operating loss carry forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance is established against deferred tax assets when, in the judgment of management, it is more likely than not that such deferred tax assets will not become available.

We account for income taxes in accordance with FASB ASC Topic 740-10, “Accounting for Uncertainty in Income Taxes”, (“ASC 740”) which includes guidance related to accounting for uncertainty in income taxes, which sets out a consistent framework to determine the appropriate level of tax reserves to maintain for uncertain tax positions. We had no unrecognized tax benefits or accrued interest and penalties as of December 31, 2018 and 2017. We classify interest and penalties as an element of tax expense.

Stock Options

As of December 31, 2018, the Company had four stock-based compensation plans, which are described more fully in “Note 18 - Stock Option Plans” to the Consolidated Financial Statements. The Company accounts for all share-based payments to be recognized as compensation expense in the consolidated financial statements based on their fair values at the grant date. That expense will be recognized on a straight-line basis over the period during which services are provided in exchange for the award, known as the requisite service period (usually, the vesting period).

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2014-09 – *Revenue from Contracts with Customers* (“ASU 2014-09”). The new standard requires an entity to recognize revenue depicting the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for these goods or services. For private entities, the amendments in ASU 2014-09 are effective for annual reporting periods beginning after December 15, 2017. The majority of our revenue is comprised of net interest income on financial assets and liabilities, which is explicitly excluded from the scope of ASU 2014-09. We adopted ASU 2014-09 in the first quarter of 2018 and it did not have a material impact to the consolidated financial statements.

In February 2016, the FASB issued Accounting Standards Update No. 2016-02, “Leases” (“ASU 2016-02”). From the lessee's perspective, the new standard establishes a right-of-use (ROU) model that requires a lessee to record a ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Our leases are operating leases and are predominantly related to real estate. The new standard is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. We adopted ASU 2016-02 on January 1, 2019, using the required modified retrospective transition approach and do not expect it to have a material effect on our financial statements.

In March 2016, FASB issued Accounting Standards Update No. 2016-09, “Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting” (“ASU 2016-09”). The areas for simplification in ASU 2016-09 involve several aspects of the accounting for employee share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. Some of the areas for simplification apply only to non-public entities. We adopted ASU 2016-09 in 2018 and it did not have a material effect on our financial statements.

In June 2016, FASB issued Accounting Standards Update No. 2016-13, “Financial Instruments-Credit Losses (Topic 326) Measurement of Credit Losses on Financial Instruments” (“ASU 2016-13”). The amendments in ASU 2016-13 replace the incurred loss impairment methodology in current GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. The amendments affect loans, debt securities, trade receivables, net investments in leases, off-balance-sheet credit exposures, reinsurance receivables, and any other financial assets not excluded from the scope that have the contractual right to receive cash.

The amendments in ASU 2016-13 require a financial asset (or a group of financial assets) measured at amortized cost basis to be presented at the net amount expected to be collected. The allowance for credit losses is a valuation account that is deducted from the amortized cost basis of the financial asset(s) to present the net carrying value at the amount expected to be collected on the financial asset. The income statement reflects the measurement of credit losses for newly recognized financial assets, as well as the expected increases or decreases of expected credit losses that have taken place during the period. The measurement of expected credit losses is based on relevant information about past events, including historical experience, current conditions, and reasonable and supportable forecasts that affect the collectibility of the reported amount. An entity must use judgment in determining the relevant information and estimation methods that are appropriate in its circumstances.

Credit losses relating to available-for-sale debt securities should be recorded through an allowance for credit losses. Available-for-sale accounting recognizes that value may be realized either through collection of contractual cash flows or through sale of the security. Therefore, the amendments limit the amount of the allowance for credit losses to the amount by which fair value is below amortized cost because the classification as available for sale is premised on an investment strategy that recognizes that the investment could be sold at fair value, if cash collection would result in the realization of an amount less than fair value. The amendments in ASU 2016-13 require that credit losses be presented as an allowance rather than a writedown.

The amendments in ASU 2016-13 will become effective for the Company for financial statements issued for fiscal years beginning after December 15, 2020, and interim periods within those fiscal years. An entity will apply the amendments in ASU 2016-13 through a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective (that is, modified-retrospective approach).

We are reviewing our systems and data collection to determine the necessary changes to our current process. We are completing due diligence on vendors to assist in developing a methodology that is in compliance with this ASU. We are currently evaluating the impact of the amendments in ASU 2016-13 on our consolidated financial statements. We believe that expected credit losses under ASU 2016-13 will generally result in earlier loss recognition on our loan portfolio.

In August 2016, FASB issued Accounting Standards Update No. 2016-15, "Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments" ("ASU 2016-15"). Stakeholders indicated that there is diversity in practice in how certain cash receipts and cash payments are presented and classified in the statement of cash flows under Topic 230, Statement of Cash Flows, and other Topics. The following eight specific cash flow issues are addressed in ASU 2016-15: Debt prepayment or debt extinguishment costs; settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing; contingent consideration payments made after a business combination; proceeds from the settlement of insurance claims; proceeds from the settlement of corporate-owned life insurance policies ("COLI"s) (including bank-owned life insurance policies ("BOLI"s)); distributions received from equity method investees; beneficial interests in securitization transactions; and separately identifiable cash flows and application of the predominance principle. For all non-public business entities, the amendments in this ASU 2016-15 are effective for financial statements issued for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years beginning after December 15, 2019. The amendments in ASU 2016-15 should be applied using a retrospective transition method to each period presented. If it is impracticable to apply the amendments retrospectively for some of the issues, the amendments for those issues would be applied prospectively as of the earliest date practicable. Early adoption is permitted, including adoption in an interim period. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. An entity that elects early adoption must adopt all of the amendments in the same period. We adopted ASU 2016-15 during the first quarter of 2019 and it had no effect on our results of operations because it only impacted the presentation of certain information on the statement of cash flows.

In March 2017, FASB issued Accounting Standards Update No. 2017-08, "Receivables-Nonrefundable Fees and Other Costs (Subtopic 310-20)" ("ASU 2017-08"). Stakeholders raised concerns that current GAAP excludes certain callable debt securities from consideration of early repayment of principal even if the holder is certain that the call will be exercised. As a result, upon the exercise of a call on a callable debt security held at a premium, the unamortized premium is recorded as a loss in earnings. Stakeholders noted that generally, in the United States, callable debt securities are quoted, priced, and traded assuming a model that incorporates consideration of calls (also referred to as "yield-to-worst" pricing). The amendments in ASU 2017-08 shorten the amortization period for certain callable debt securities held at a premium. Specifically, the amendments require the premium to be amortized to the earliest call date. The amendments do not require an accounting change for securities held at a discount; the discount continues to be amortized to maturity. The amendments in this Update more closely align the amortization period of premiums and discounts to expectations incorporated in market pricing on the underlying securities. For public business entities, the amendments in this Update are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. For all other entities, the amendments are effective for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020. An entity should apply the amendments in ASU 2017-08 on a modified retrospective basis through a cumulative-effect adjustment directly to retained earnings as of the beginning of the period of adoption. We do not anticipate ASU 2017-08 to have a material effect on our financial statements.

In August 2018, FASB issued Accounting Standards Update No. 2018-13, "Fair Value Measurement (Topic 820)" ("ASU 2018-13"). ASU 2018-13 removes, modifies and adds certain disclosures to improve the usefulness of the information. This Update is effective in annual and interim periods in fiscal years beginning after December 15, 2019. Early adoption is permitted. Adoption is required on both a prospective and retrospective basis depending on the amendment. We do not expect the adoption of ASU 2018-13 to have a material impact on our Consolidated Financial Statements and related disclosures.

Note 3. Common Stock Dividends

On January 31, 2018, the Company declared a 5% stock dividend to all shareholders of record as of April 2, 2018 payable on April 16, 2018. On January 30, 2017, the Company declared a 5% stock dividend to all shareholders of record as of April 3, 2017 payable on April 17, 2017.

Note 4. Cash and Due from Banks

The Bank is required to maintain certain daily average reserve balances in accordance with FRB requirements. At December 31, 2018 and 2017, the FRB reserve requirement was $412 thousand and $721 thousand, respectively. In addition, the Bank was required to maintain $50 thousand in cash reserves at its correspondent banks at December 31, 2018 and 2017.

Note 5. Investment Securities

A comparison of amortized cost and approximate fair value of investment securities held to maturity and securities available for sale at December 31, 2018 and 2017 is as follows:

As of December 31, 2018

(In thousands)	Amortized Cost	Gross unrealized gains	Gross unrealized losses	Fair value
Investments held to maturity:				
Municipal securities	$ 59,126	$ -	$ -	$ 59,126
Total	$ 59,126	$ -	$ -	$ 59,126
Securities available for sale:				
U.S. government securities	$ 9,996	$ -	$ (127)	$ 9,869
Mortgage-backed securities	46,104	258	(517)	45,845
Municipal bonds	251	2	-	253
Total	$ 56,351	$ 260	$ (644)	$ 55,967

As of December 31, 2017

(In thousands)	Amortized Cost	Gross unrealized gains	Gross unrealized losses	Fair value
Investments held to maturity:				
Municipal securities	$ 46,654	$ -	$ -	$ 46,654
Total	$ 46,654	$ -	$ -	$ 46,654
Securities available for sale:				
U.S. government securities	$ 9,995	$ -	$ (86)	$ 9,909
Mortgage-backed securities	61,398	399	(326)	61,471
Municipal bonds	504	9	-	513
Total	$ 71,897	$ 408	$ (412)	$ 71,893

The scheduled maturities of investment securities held to maturity and securities available for sale at December 31, 2018 are as follows:

	HTM Investments		AFS Investmemts	
(In thousands)	Amortized Cost	Fair value	Amortized Cost	Fair value
Due in one year or less	$ 58,877	$ 58,877	$ 2,251	$ 2,238
Due after one year up to five years	151	151	7,859	7,793
Due after five years up to ten years	98	98	30,012	29,578
Due after ten years	-	-	16,229	16,358

Proceeds from sales and maturities of securities available for sale totaled $250 thousand and $1.5 million during 2018 and 2017, respectively. Gains realized from the sale of securities were $0 and $25 thousand in 2018 and 2017, respectively.

As of December 31, 2018 and 2017, investment securities with a market value of $74.7 million and $117.3 million, respectively, were pledged as collateral for uninsured municipal deposits, uninsured deposits underlying retail repurchase agreements, and the FHLB for potential borrowings.

Gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in continuous unrealized loss positions at December 31, 2018 and 2017 are as follows:

As of December 31, 2018

	Less than 12 months			12 months or longer			Total		
(In thousands)	Fair value	Gross unrealized losses	Number of positions	Fair value	Gross unrealized losses	Number of positions	Fair value	Gross unrealized losses	Number of positions
Investments held to maturity:									
Municipal securities	$ -	$ -	-	$ -	$ -	-	$ -	$ -	-
Total	$ -	$ -	-	$ -	$ -	-	$ -	$ -	-
Securities available for sale:									
U.S. government securities	$ -	$ -	-	$ 9,869	$ (127)	3	$ 9,869	$ (127)	3
Mortgage-backed securities	2,489	(15)	5	28,734	(502)	18	31,223	(517)	23
Total	$ 2,489	$ (15)	5	$ 38,603	$ (629)	21	$ 41,092	$ (644)	26

As of December 31, 2017

	Less than 12 months			12 months or longer			Total		
(In thousands)	Fair value	Gross unrealized losses	Number of positions	Fair value	Gross unrealized losses	Number of positions	Fair value	Gross unrealized losses	Number of positions
Investments held to maturity:									
Municipal securities	$ -	$ -	-	$ -	$ -	-	$ -	$ -	-
Total	$ -	$ -	-	$ -	$ -	-	$ -	$ -	-
Securities available for sale:									
U.S. government securities	$ 6,956	$ (39)	2	$ 2,953	$ (47)	1	$ 9,909	$ (86)	3
Mortgage-backed securities	32,650	(206)	16	3,783	(120)	3	36,433	(326)	19
Total	$ 39,606	$ (245)	18	$ 6,736	$ (167)	4	$ 46,342	$ (412)	22

For all of the above investment securities, the unrealized losses are generally due to changes in interest rates and, as such, are considered to be temporary by the Company. The temporary impairment of fixed rate investments is likely to continue in a rising interest rate environment. The contractual terms of these investments do not permit the issuer to settle the securities at a price less than the amortized cost of the investment. Because we have the ability and intent to hold these investments until a market price recovery or maturity, these investments are not considered other than temporarily impaired.

All temporarily impaired investments are bank-qualified investments. There has been no significant change in the credit quality of issuers since the securities were purchased.

Note 6. Loans Receivable

Loans receivable consist of the following at December 31, 2018 and 2017:

(In thousands)	December 31, 2018	December 31, 2017
Commercial real estate	$ 168,934	$ 150,521
Construction	36,723	38,114
Commercial	30,235	34,103
Residential real estate	164,238	149,767
Consumer	4,405	4,009
	404,535	376,514
Less allowance for loan losses	(5,627)	(4,858)
	$ 398,908	$ 371,656

The Bank is subject to a loans-to-one-borrower limitation of 15% of capital funds. At December 31, 2018, the loans-to-one-borrower limitation was $7.4 million compared to $6.5 million at December 31, 2017. At December 31, 2018 and 2017, there are no loans outstanding or committed to any one borrower that individually or in the aggregate exceed those limits.

The Bank lends primarily to customers in its local market area. Most loans are mortgage loans. Mortgage loans include loans secured by commercial and residential real estate and construction loans. Accordingly, lending activities could be affected by changes in the general economy, the regional economy, or real estate values. At December 31, 2018 and 2017, mortgage loans totaled $369.9 million and $338.4 million, respectively. Mortgage loans represent 91.4% and 89.9% of total gross loans at December 31, 2018 and 2017, respectively.

As part of the process of allocating the allowance for loan losses ("allowance') to different segments of the loan portfolio, Management considers certain credit quality indicators. For the commercial real estate, construction, and commercial loan segments, periodic reviews of the individual loans are performed by both in-house staff as well as external loan reviewers.

The results of these reviews are reflected in the risk grade assigned to each loan. These internally assigned grades are as follows:

Pass – Loans considered to be satisfactory with no indications of deterioration.

Special Mention – Loans classified as special mention have a potential weakness that deserves management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the bank's credit position at some future date.

Substandard – Loans classified as substandard are inadequately protected by the current net worth and payment capacity of the obligor or of the collateral pledged, if any. Substandard loans have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the bank will sustain some loss if the deficiencies are not corrected.

Doubtful – Loans classified as doubtful have all weaknesses inherent in those classified as substandard, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable, and improbable.

Non-accrual (substandard non-accrual, doubtful): includes credits that demonstrate serious problems to the point that it is probable that interest and principal will not be collected according to the contractual terms of the loan agreement.

In addition, the remaining segments of the loan portfolio, which include residential real estate and consumer loans are allocated portions of the allowance based on their performance status.

The following tables present risk ratings for each loan portfolio classification at December 31, 2018 and December 31, 2017.

December 31, 2018

(In thousands)	Pass	Special Mention	Substandard	Doubtful	Nonaccrual	Total
Commercial real estate	$ 158,065	$ 7,322	$ 2,717	$ -	$ 830	$ 168,934
Construction	35,429	877	-	-	417	36,723
Commercial	25,927	1,532	2,353	-	423	30,235
Residential real estate	162,038	794	330	-	1,076	164,238
Consumer	4,146	-	259	-	-	4,405
Total loans, net of unearned income	$ 385,605	$ 10,525	$ 5,659	$ -	$ 2,746	$ 404,535

December 31, 2017

(In thousands)	Pass	Special Mention	Substandard	Doubtful	Nonaccrual	Total
Commercial real estate	$ 143,269	$ 4,982	$ 1,228	$ -	$ 1,042	$ 150,521
Construction	36,495	1,184	-	-	435	38,114
Commercial	32,727	964	412	-	-	34,103
Residential real estate	146,301	2,491	378	-	597	149,767
Consumer	4,009	-	-	-	-	4,009
Total loans, net of unearned income	$ 362,801	$ 9,621	$ 2,018	$ -	$ 2,074	$ 376,514

The following tables present an aging analysis of past due payments for each loan portfolio classification at December 31, 2018 and December 31, 2017.

December 31, 2018 (In thousands)	30-59 Days Past Due	60-89 Days Past Due	90+ Days Past Due	Non-accrual	Current	Total
Commercial real estate	$ 465	$ -	$ -	$ 830	$ 167,639	$ 168,934
Construction	-	-	-	417	36,306	36,723
Commercial	43	-	-	423	29,769	30,235
Residential real estate	199	-	-	1,076	162,963	164,238
Consumer	-	-	-	-	4,405	4,405
Total loans, net of unearned income	$ 707	$ -	$ -	$ 2,746	$ 401,082	$ 404,535

December 31, 2017 (In thousands)	30-59 Days Past Due	60-89 Days Past Due	90+ Days Past Due	Non-accrual	Current	Total
Commercial real estate	$ -	$ -	$ -	$ 1,042	$ 149,479	$ 150,521
Construction	-	-	-	435	37,679	38,114
Commercial	-	-	-	-	34,103	34,103
Residential real estate	237	-	-	597	148,933	149,767
Consumer	-	-	-	-	4,009	4,009
Total loans, net of unearned income	$ 237	$ -	$ -	$ 2,074	$ 374,203	$ 376,514

The Bank had 24 non-accrual loans at December 31, 2018 in the amount of $2.7 million compared to 19 non-accrual loans in the amount of $2.1 million at December 31, 2017. All of the non-accrual loans were impaired. If interest had accrued on these loans, such income would have been approximately $174 thousand and $162 thousand for the years ended December 31, 2018 and 2017, respectively. The specific reserves associated with the non-accrual loans were $954 thousand and $427 thousand at December 31, 2018 and 2017, respectively.

Troubled Debt Restructuring

The following table details our TDRs that are on an accrual status and non-accrual status at December 31, 2018 and December 31, 2017.

	As of December 31, 2018			
(In thousands)	Number of loans	Accrual Status	Non-Accrual Status	Total TDRs
Commercial real estate	4	$ 1,004	$ 200	$ 1,204
Construction	1	-	417	417
Residential real estate	6	656	-	656
Consumer	1	259	-	259
Total	12	$ 1,919	$ 617	$ 2,536

	As of December 31, 2017			
(In thousands)	Number of loans	Accrual Status	Non-Accrual Status	Total TDRs
Commercial real estate	3	$ 1,221	$ -	$ 1,221
Commercial	1	19	-	19
Residential real estate	5	431	58	489
Total	9	$ 1,671	$ 58	$ 1,729

During the year ended December 31, 2018, one commercial real estate loan with a principal balance of $200 thousand, which had been previously modified to troubled debt restructuring, defaulted. The loan has a related allowance of $200 thousand.

The following table presents the new TDRs that occurred during the year ended December 31, 2018.

	Modifications by type for the year ended December 31, 2018							
(In thousands)	Number of loans	Rate	Term	Payment	Combination of types	Total	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Commercial real estate	1	$ -	$ -	$ 235	$ -	$ 235	$ 235	$ 235
Construction	1	-	-	-	417	417	435	435
Residential real estate	2	-	-	285	102	387	387	387
Consumer	1	-	259	-	-	259	266	266
Total	5	$ -	$ 259	$ 520	$ 519	$ 1,298	$ 1,323	$ 1,323

Allowance for Loan Losses

The following table details the rollforward of the allowance and the loan portfolio disaggregated by loan portfolio classification for the twelve-months ended December 31, 2018 and 2017:

December 31, 2018 (In thousands)	Commercial real estate	Construction and land development	Commercial and industrial	Residential real estate	Consumer	Total
Beginning balance	$ 2,129	$ 686	$ 677	$ 1,310	$ 56	$ 4,858
Charge-offs	(176)	-	(438)	(179)	(33)	(826)
Recoveries	75	-	14	12	17	118
Provision (credit)	313	(14)	674	483	21	1,477
Ending balance	$ 2,341	$ 672	$ 927	$ 1,626	$ 61	$ 5,627
Ending balance: related to loans individually evaluated for impairment	$ 527	$ 326	$ 175	$ 302	$ 8	$ 1,338
Ending balance: related to loans collectively evaluated for impairment	$ 1,814	$ 346	$ 752	$ 1,324	$ 53	$ 4,289
Loan Balances						
Ending balance	$ 168,934	$ 36,723	$ 30,235	$ 164,238	$ 4,405	$ 404,535
Ending balance: individually evaluated for impairment	$ 1,833	$ 417	$ 423	$ 1,733	$ 259	$ 4,665
Ending balance: collectively evaluated for impairment	$ 167,101	$ 36,306	$ 29,812	$ 162,505	$ 4,146	$ 399,870

December 31, 2017 (In thousands)	Commercial real estate	Construction and land development	Commercial and industrial	Residential real estate	Consumer	Total
Beginning balance	$ 1,867	$ 728	$ 681	$ 1,394	$ 69	$ 4,739
Charge-offs	-	(163)	(605)	(171)	(27)	(966)
Recoveries	63	1	162	-	7	233
Provision (credit)	199	120	439	87	7	852
Ending balance	$ 2,129	$ 686	$ 677	$ 1,310	$ 56	$ 4,858
Ending balance: related to loans individually evaluated for impairment	$ 661	$ 346	$ 19	$ 42	$ -	$ 1,068
Ending balance: related to loans collectively evaluated for impairment	$ 1,468	$ 340	$ 658	$ 1,268	$ 56	$ 3,790
Loan Balances						
Ending balance	$ 150,521	$ 38,114	$ 34,103	$ 149,767	$ 4,009	$ 376,514
Ending balance: individually evaluated for impairment	$ 2,263	$ 435	$ 19	$ 1,028	$ -	$ 3,745
Ending balance: collectively evaluated for impairment	$ 148,258	$ 37,679	$ 34,084	$ 148,739	$ 4,009	$ 372,769

The following tables details the impaired loans by loan classification at December 31, 2018 and December 31, 2017.

	As of and for the year ended December 31, 2018					
(In thousands)	Unpaid principal balance	Recorded investment	Related allowance	Average recorded investment	Interest income recognized	Interest income recognized cash basis
With no related allowance recorded:						
Commercial real estate	$ 749	$ 530	$ -	$ 716	$ -	$ -
Commercial	74	74	-	78	-	-
Residential real estate	940	932	-	891	12	-
Consumer	-	-	-	41	-	-
Total:	$ 1,763	$ 1,536	$ -	$ 1,726	$ 12	$ -
With an allowance recorded:						
Commercial real estate	$ 1,306	$ 1,303	$ 527	$ 1,283	$ 52	$ -
Construction	435	417	326	427	-	-
Commercial	350	349	175	157	-	-
Residential real estate	886	801	302	548	13	-
Consumer	259	259	8	61	7	-
Total:	$ 3,236	$ 3,129	$ 1,338	$ 2,476	$ 72	$ -

	As of and for the year ended December 31, 2017					
(In thousands)	Unpaid principal balance	Recorded investment	Related allowance	Average recorded investment	Interest income recognized	Interest income recognized cash basis
With no related allowance recorded:						
Commercial real estate	$ 590	$ 435	$ -	$ 1,358	$ -	$ -
Construction	-	-	-	336	-	-
Commercial	-	-	-	165	-	-
Residential real estate	395	373	-	412	-	-
Total:	$ 985	$ 808	$ -	$ 2,271	$ -	$ -
With an allowance recorded:						
Commercial real estate	$ 1,834	$ 1,828	$ 661	$ 852	$ 44	$ -
Construction	435	435	346	127	-	-
Commercial	19	19	19	89	1	-
Residential real estate	673	655	42	530	15	-
Total:	$ 2,961	$ 2,937	$ 1,068	$ 1,598	$ 60	$ -

Note 7. Premises and Equipment, Net

Premises and equipment at December 31, 2018 and 2017 are summarized as follows (dollars in thousands):

		As of December 31,	
(In thousands)	Estimated Useful Lives	2018	2017
Land		$ 122	$ 122
Buildings and leasehold improvements	5 - 35 years	929	1,547
Furniture, fixtures and equipment	3 - 10 years	1,279	2,333
Premises and equipment, gross		2,330	4,002
Less accumulated depreciation and amortization		(1,532)	(3,138)
Premises and equipment, net		$ 798	$ 864

Depreciation and amortization expense was $226 thousand and $207 thousand for the years ended December 31, 2018 and 2017, respectively, and is recorded in occupancy and equipment expenses. During 2018, we retired $1.8 million in fully depreciated and out of service furniture and equipment.

We lease our Collingswood branch location and operations center. We own the building for our Westville, New Jersey branch. In 2017, we sold the building for our former Cinnaminson branch which was closed in 2015. We recorded a gain of $29 thousand, as a result of this sale.

Note 8. Deposits

Deposits consist of the following major classifications at December 31, 2018 and 2017:

	As of December 31,			
	2018		2017	
(Dollars in thousand)	Balance	Weighted Average Rate	Balance	Weighted Average Rate
Non-interest checking	$ 54,298	-	$ 64,742	-
Interest checking	215,838	0.51%	218,586	0.27%
Money market deposits	15,928	0.48%	18,401	0.49%
Savings deposits	49,208	0.44%	59,174	0.45%
Certificates of deposit ($250 and over)	54,055	2.17%	33,476	1.71%
Certificates of deposit (less than $250)	69,035	1.99%	69,954	1.65%
Brokered deposits	31,734	2.37%	32,514	1.60%
Total deposits	$ 490,096		$ 496,847	

The Bank has a concentration of deposits from local municipalities. Municipal deposits, which are mostly interest-checking accounts, were $199.0 million or 40.6% of total deposits at December 31, 2018, and $198.6 million or 40.0% of total deposits at December 31, 2017. Municipal deposit accounts in excess of $250,000 are collateralized by investment securities with a carrying value of $71.1 million at December 31, 2018 and $97.0 million secured by a FHLB Municipal Line of Credit.

Interest expense on deposits consisted of the following for the years ended December 31, 2018 and 2017:

	2018	2017
Interest checking	$ 1,135	$ 595
Money market deposits	75	99
Savings deposits	247	291
Certificates of deposit	2,576	1,556
Total interest expense on deposits	$ 4,033	$ 2,541

The following is a schedule of certificates of deposit, which includes the brokered deposits, by maturities as of December 31, 2018:

(In thousands)	As of December 31, 2018
2019	$ 99,781
2020	42,355
2021	10,053
2022	2,413
2023	222
Total certificates of deposits	$ 154,824

Note 9. Borrowing Availability

Federal Home Loan Bank

As of December 31, 2018, we had $12.2 million in borrowing capacity at the FHLB. The FHLB line of credit is secured with residential and commercial mortgage loans with an aggregate market value of $15.2 million and securities with an aggregate market value of $61 thousand. At December 31, 2017 the FHLB borrowing capacity was $8.5 million and was secured with residential and commercial mortgage loans with an aggregate market value of $10.7 million and securities with an aggregate market value of $147 thousand. At December 31, 2018 and 2017, the Bank had no outstanding borrowings against its lines of credit. The average balance of FHLB advances was $39 thousand and $24 thousand for 2018 and 2017, respectively.

Repurchase Agreements

Historically, the Bank has sold securities under agreements to repurchase as a funding source. At December 31, 2018 and 2017, the Bank had $3.2 million of securities sold under agreements to repurchase. As of December 31, 2018, these repurchase agreements had fixed rates of 0.50% with maturity dates not exceeding two years. The underlying securities for the repurchase agreements had an aggregate market value of $3.5 million and $3.2 million as of December 31, 2018 and 2017, respectively, and were predominantly U.S. government-sponsored mortgage-backed securities.

Other Lines of Credit

At December 31, 2018 and 2017, the Bank had an unsecured line of credit with Atlantic Community Bankers Bank (“ACBB”) in the aggregate amount of $8.0 million. At December 31, 2018 the outstanding balance was $5.0 million. There was no outstanding balance at December 31, 2017. The average balance of the ACBB line was $95 thousand and $0 for 2018 and 2017, respectively.

At December 31, 2018 and 2017, 1st Colonial Bancorp, Inc. had a secured line of credit with ACBB in the aggregate amount of $5,000,000. The ACBB line is secured with 100% of the voting stock of 1st Colonial Community Bank. At December 31, 2018 and 2017, there were no outstanding balances against this line. There were no amounts outstanding in 2018 and 2017 under this line.

Note 10. Earnings Per Share

The following is a reconciliation of the numerators and denominators of the basic and diluted earnings per share calculation for the years ended December 31, 2018 and 2017:

(In thousands, except for per share data)	Net Income	Average shares	Per share Amount
2018:			
Basic earnings per share	$ 5,215	4,384,544	$ 1.19
Effect of dilutive stock equivalents	-	188,551	0.05
Diluted earnings per share	$ 5,215	4,573,095	$ 1.14
2017:			
Basic earnings per share	$ 4,043	4,325,822	$ 0.93
Effect of dilutive stock equivalents	-	186,665	0.03
Diluted earnings per share	$ 4,043	4,512,487	$ 0.90

Earnings per share is calculated on the basis of weighted average number of shares outstanding. Options to purchase 395,506 and 445,000 shares of common stock were outstanding at December 31, 2018 and 2017, respectively. Options, to the extent dilutive, were included in the denominator in the computation of earnings per diluted share. Options to purchase 75,600 were antidilutive for 2017, and, therefore, excluded from the calculation of earnings per diluted common share. There were no antidilutive options at December 31, 2018.

Note 11. Fair Value of Financial Instruments

Under FASB ASC Topic 820 "Fair Value Measurements and Disclosures" ("ASC Topic 820"), fair values are based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When available, management uses quoted market prices to determine fair value. If quoted prices are not available, fair value is based upon valuation techniques such as matrix pricing or other models that use, where possible, current market-based or independently sourced market parameters, such as interest rates. If observable market-based inputs are not available, we use unobservable inputs to determine appropriate valuation adjustments using discounted cash flow methodologies.

Management uses its best judgment in estimating the fair value of our financial instruments; however, there are inherent weaknesses in any estimation technique. Therefore, for substantially all financial instruments, the fair value estimates herein are not necessarily indicative of the amounts we could have realized in a sales transaction on the dates indicated. The estimated fair value amounts have been measured as of their respective period end and have not been re-evaluated or updated for purposes of these financial statements subsequent to those respective dates. As such, the estimated fair values of these financial instruments subsequent to the respective reporting dates may be different than the amounts reported at each period-end.

ASC Topic 820 provides guidance for estimating fair value when the volume and level of activity for an asset or liability has significantly declined and for identifying circumstances when a transaction is not orderly. ASC Topic 820 establishes a fair value hierarchy that prioritizes the inputs to valuation methods used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under ASC Topic 820 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 2 includes debt securities with quoted prices that are traded less frequently then exchange-traded instruments. Valuation techniques include matrix pricing which is a mathematical technique used widely in the industry to value debt securities without relying exclusively on quoted market prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted prices.

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).

A financial instrument's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. We did not have transfers of financial instruments within the fair value hierarchy during the years ended December 31, 2018 and 2017.

<u>Items Measured on a Recurring Basis</u>

Our available for sale investment securities are recorded at fair value on a recurring basis.

Fair value for Level 1 securities are determined by obtaining quoted market prices on nationally recognized securities exchanges. We do not have any level 1 securities.

Level 2 securities include obligations of U.S. government-sponsored agencies and debt securities with quoted prices, which are traded less frequently than exchange-traded instruments, whose value is determined using matrix pricing with inputs that are observable in the market or can be derived principally from or corroborated by observable market data. The prices were obtained from third party vendors. This category generally includes our mortgage-backed securities and CMOs issued by U.S. government and government-sponsored agencies, and municipal bonds.

Items Measured on a Nonrecurring Basis

Non-accrual loans and TDRs are evaluated for impairment on an individual basis under FASB ASC Topic 310 “Receivables”. The impairment analysis includes current collateral values, known relevant factors that may affect loan collectability, and risks inherent in different kinds of lending. When the collateral value or discounted cash flows less costs to sell is less than the carrying value of the loan a specific reserve (valuation allowance) is established. OREO is carried at the lower of cost or fair value. Fair value is based upon independent market prices, appraised values of the collateral or management’s estimation of the value of the real estate. These assets are included as Level 3 fair values, based upon the lowest level of input that is significant to the fair value measurements.

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

	Fair Value Measurements Using:			
At December 31, 2018	Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs	Significant Unobservable Inputs	
(In thousands)	Level 1	Level 2	Level 3	Total
Assets measured at fair value on a recurring basis				
Investment securities:				
U.S. government agencies	$ -	$ 9,869	$ -	$ 9,869
Mortgage-backed securities-residential	-	45,845	-	45,845
Municipal bonds	-	253	-	253
Total assets measured at fair value on a recurring basis	$ -	$ 55,967	$ -	$ 55,967
Assets measured at fair value on a non-recurring basis				
Impaired loans	$ -	$ -	$ 4,665	$ 4,665
Total assets measured at fair value on a non-recurring basis	$ -	$ -	$ 4,665	$ 4,665

At December 31, 2017 (In thousands)	Fair Value Measurements Using: Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3	Total
Assets measured at fair value on a recurring basis				
Investment securities:				
U.S. government agencies	$ -	$ 9,909	$ -	$ 9,909
Mortgage-backed securities-residential	-	61,471	-	61,471
Municipal bonds	-	513	-	513
Total assets measured at fair value on a recurring basis	$ -	$ 71,893	$ -	$ 71,893
Assets measured at fair value on a non-recurring basis				
Impaired loans	$ -	$ -	$ 3,745	$ 3,745
Other real estate owned	-	-	244	244
Total assets measured at fair value on a non-recurring basis	$ -	$ -	$ 3,989	$ 3,989

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

Cash and Cash Equivalents

The carrying amounts reported in the consolidated statements of financial condition for cash and cash equivalents are reasonable approximations of their fair values.

HTM Investment Securities

The items are generally short term in nature, and accordingly, the carrying amounts reported in the consolidated statements of financial condition are reasonable approximations of their fair values.

Accrued Interest Receivable and Accrued Interest Payable

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

AFS Investment Securities

Fair values for investment securities are based on quoted market prices, if available (level 1). If quoted market prices are not available, then fair values are based on quoted market prices of comparable instruments (level 2).

Bank Stock

The fair value of bank stock is estimated at its carrying value and redemption price of $100 per share.

Mortgage Loans Held for Sale

Mortgage loans held for sale are generally sold within of few months of origination. Therefore, the fair value of mortgage loans held for sale are equal to their carrying amounts.

Loans

For variable rate loans that reprice frequently and with no significant change in credit risk, fair value is based on carrying value. The fair value for other loans receivable was estimated using a discounted cash flow analysis, which uses interest rates currently being offered for loans with similar terms to borrowers of similar credit quality. Consideration was given to prepayment speeds, economic conditions, risk characteristics, and other factors considered appropriate.

Deposits

The fair values of deposits subject to immediate withdrawal, such as interest and noninterest checking, statement savings, and money market demand deposit accounts, are equal to their carrying amounts in the accompanying consolidated statements of financial condition. Fair values for certificates of deposit are estimated by discounting future cash flows using interest rates currently offered on certificates of deposit with similar remaining maturities.

Repurchase Agreements

Repurchase agreements are included in other borrowings on the consolidated statements of financial condition. The fair value of repurchase agreements is established using a discounted cash flow calculation that applies interest rates currently being offered on repurchase agreements with similar terms.

Short-Term Borrowings

Short-term borrowings are included in other borrowings on the consolidated statements of financial condition. The carrying amount of short-term borrowings approximates their fair value.

Off-Balance-Sheet Instruments

Off-balance-sheet instruments are primarily comprised of loan commitments and unfunded lines of credit that are generally priced at market rate at the time of funding. Therefore, these instruments have nominal value prior to funding and are not shown in the table.

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

	Fair Value Measurements At December 31, 2018				
(In thousands)	Carrying value	Estimated fair value	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
Financial Assets:					
Cash and cash equivalents	$ 12,114	$ 12,114	$ 12,114	$ -	$ -
Investments held to maturity	59,126	59,126	-	59,126	-
Investments available for sale	55,967	55,967	-	55,967	-
Bank stock, at cost	1,964	1,964	-	-	1,964
Mortgage loans held for sale	2,989	2,989	-	2,989	-
Loans receivable, net	398,908	390,187	-	-	390,187
Accrued interest receivable	1,737	1,737	-	-	1,737
Financial liabilities:					
Demand deposits	270,136	270,136	-	270,136	-
Money market deposits	15,928	15,928	-	15,928	-
Savings deposits	49,208	49,208	-	49,208	-
Certificates of deposit	154,824	156,016	-	156,016	-
Other borrowings	8,157	8,052	4,983	3,069	-
Accrued interest payable	128	128	-	128	-

(In thousands)	Carrying value	Estimated fair value	Fair Value Measurements At December 31, 2017 — Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
Financial Assets:					
Cash and cash equivalents	$ 28,395	$ 28,395	$ 28,395	$ -	$ -
Investments held to maturity	46,654	46,654	-	46,654	-
Investments available for sale	71,893	71,893	-	71,893	-
Bank stock, at cost	1,936	1,936	-	-	1,936
Mortgage loans held for sale	7,169	7,169	-	7,169	-
Loans receivable, net	371,656	368,758	-	-	368,758
Accrued interest receivable	1,505	1,505	-	-	1,505
Financial liabilities:					
Demand deposits	283,328	283,328	-	284,223	-
Money market deposits	18,401	18,401	-	18,401	-
Savings deposits	59,174	59,174	-	59,174	-
Certificates of deposit	135,944	137,333	-	137,333	-
Other borrowings	3,166	3,076	-	3,076	-
Accrued interest payable	100	100	-	100	-

Note 12. Income Taxes

The components of income tax expense (benefit) are stated below:

(In thousands)	For the years ended December 31, 2018	2017
Income tax (benefit) expense		
Federal		
Current	$ 1,128	$ 1,881
Deferred	(148)	340
	980	2,221
State		
Current	788	587
Deferred	(78)	(18)
	710	569
Total income tax expense	$ 1,690	$ 2,790

The following is a reconciliation between expected tax expense at the statutory rate of 21% for 2018 and 34% for 2017 and actual tax expense:

(In thousands)	For the years ended December 31, 2018	2017
Computed tax expense at statutory rate	$ 1,450	$ 2,323
Adjustments resulting from:		
State tax, net of federal benefit	545	376
Tax-exempt interest income	(167)	(217)
Bank owned life insurance	(121)	(81)
Stock-based compensation	(31)	19
Adjustment related to net DTAs for enacted changes in law and rates	-	317
Other	14	53
Income tax expense	$ 1,690	$ 2,790

The $1.1 million decrease in tax expense year-over-year was related to H.R.1 (originally known as the "Tax Cuts and Jobs Act") which was enacted on December 22, 2017. H.R. 1 lowered the maximum federal corporate tax rate to 21% from 35%. During the fourth quarter of 2017, we recorded an additional $317 thousand in income taxes as a result of a re-measurement of our deferred tax asset in accordance with H.R.1.

Significant deferred tax assets and liabilities of the Bank at December 31, 2018 and 2017 are as follows:

(In thousands)	As of December 31, 2018	2017
Deferred tax assets:		
Allowance for loan losses	$ 1,175	$ 859
Deferred rent	35	37
Unrealized losses on AFS debt securities	106	1
Share-based compensation cost	146	110
Non-accrual interest	13	6
Other	12	10
Deferred tax assets	1,487	1,023
Deferred tax liabilities:		
Depreciation	(135)	(31)
Prepaid expenses	(7)	(5)
Deferred loan costs	(322)	(295)
Total deferred tax liabilities	(464)	(331)
Net deferred tax asset, included in other assets	$ 1,023	$ 692

The realizability of deferred tax assets is dependent upon various factors, including the generation of future taxable income, the existence of taxes paid and recoverable, the reversal of deferred tax liabilities, and tax planning strategies. In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which the net operating loss carryforwards are available and the temporary differences representing net future deductibles reverse. Based upon these and other factors management has determined that it is more likely than not that the Company will realize the benefits of the deferred tax assets that exist at December 31, 2018.

As of December 31, 2018 and 2017, the Company had no material unrecognized tax benefits or accrued interest and penalties. The Company's policy is to account for interest as a component of interest expense and penalties as a component of other expense.

As of December 31, 2018, the years 2015 – 2017 are open for federal examination and years 2014-2017 are open for state examinations.

Note 13. Properties

The Bank operates from its main office in Collingswood, New Jersey, and a branch office in Westville, New Jersey. In addition, the Bank maintains an operation and administration center in Cherry Hill, New Jersey.

The Westville branch location is owned by the Company. The main office and operations center are leased. The main office lease expires on November 30, 2022, with an option to renew for two additional five-year terms.

Future minimum payments under non-cancelable lease agreements are summarized as follows:

(In thousands)	As of December 31, 2018
2019	$ 266
2020	275
2021	284
2022	275
2023	-
Thereafter	-
Total lease commitments	$ 1,100

Total rent expense was $245 thousand and $192 thousand for the years ended December 31, 2018 and 2017.

Note 14. Commitments and Contingencies

Financial Instruments with Off-Balance-Sheet Risk

The Bank is a party to financial instruments with off-balance-sheet risk in the normal course of business. These financial instruments include commitments to extend credit to meet the financing needs of its customers. Such commitments have been made in the normal course of business and at current prevailing market terms. The commitments, once funded, are principally to originate commercial loans and other loans secured by real estate. The Bank uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments.

Commitments issued to potential borrowers of the Bank at December 31, 2018 and 2017 were as follows:

	As of December 31,	
(In thousands)	2018	2017
Fixed rate commitments	$ 499	$ 2,549
Variable/adjustable rate commitments	60,371	58,370
Total commitments	$ 60,870	$ 60,919

Legal Proceedings

From time to time, the Bank is a party to legal proceedings within the normal course of business wherein it enforces its security interest in loans made, and other matters of a similar nature. At December 31, 2018, the Company was neither engaged in any existing nor aware of any pending legal proceedings.

Note 15. Related-Party Transactions

The Bank routinely enters into transactions with its directors and executive officers. Such transactions are made in the ordinary course of business on substantially the same terms and conditions, including interest rates and collateral, as those prevailing at the same time for comparable transactions with other customers, and do not, in the opinion of management, involve more than normal credit risk or present other unfavorable features. The aggregate amount of loans to such related parties was $1.5 million and $911 thousand at December 31, 2018 and 2017, respectively. During 2018 and 2017, new loans and credit line advances to such related parties amounted to $362 thousand and $40 thousand, respectively, and repayments amounted to $79 thousand and $97 thousand, respectively. The aggregate amount of deposits from related parties was $42.8 million and $47.6 million at December 31, 2018 and 2017, respectively.

The Bank engaged in certain property inspection and construction services with an entity that is affiliated with a director of the Bank. Such aggregate services amounted to fees of $27 thousand and $30 thousand for the years ended December 31, 2018 and 2017, respectively. The Bank has engaged a law firm that is affiliated with a director of the Bank for certain debt collection services. Total fees for such services amounted to $0 and $2 thousand for the years ended December 31, 2018 and 2017, respectively. In management's opinion, the terms of the services provided were substantially equivalent to that which would have been obtained from unaffiliated parties.

Note 16. Dividend Policy

Company

The Company has not paid a cash dividend since its inception in June 2000. Any payment of cash dividends to its shareholders would be dependent on the payment of a cash dividend from the Bank to the Company. The payment of cash dividends by the Bank to the Company is limited under federal banking law. The Company's future dividend policy is subject to the discretion of its board of directors and will depend upon a number of factors, including future earnings, financial conditions, cash needs, and general business conditions. Holders of common stock will be entitled to receive dividends as and when declared by the board of directors out of funds legally available for that purpose.

Bank

The amount of dividends that may be paid by the Bank depends upon the Bank's earnings and capital position, and is limited by New Jersey and federal law, regulations, and policies. As a state chartered bank subject to New Jersey and FDIC regulations, the Bank cannot pay any dividend if the dividend would reduce the required surplus of the Bank as defined in New Jersey statutes. As a matter of policy, the FDIC expects state banks to follow the national bank dividend limits, which allow a bank to pay dividends up to the amount of net profits of the current year plus the retained net profits from the last two years. Amounts in excess of that would require prior approval of the FDIC. In addition, the FDIC and the state of New Jersey have authority to further limit any dividends to be paid by the Bank in a specific case. No specific dividend restrictions have been imposed on the Bank at this time.

Note 17. Employee Benefits

The Bank instituted a qualified defined contribution plan ('the 401(K) Plan") for all current employees in August 2005. All eligible employees are 100% vested in any required safe harbor contributions. The Bank made safe harbor contributions in the amount of $179 thousand and $177 thousand during 2018 and 2017, respectively.

Note 18. Stock Option Plans

We have two current stock option programs the 2013 Outside Director Plan and the 2013 Employee Stock Option Plan. The 2013 Outside Director Plan provides up to 211,732 options for nonemployee directors. The exercise price of options granted under this program is required to be equal to at least the fair market value of common stock as of the grant date. All options granted under this plan vest in five equal annual installments or upon retirement. These options expire 10 years from the grant date. At December 31, 2018, 158,392 options were outstanding under this plan.

The 2013 Employee Stock Option Plan provides up to 211,191 options for key employees. The exercise price of options granted under this program will be equal to at least the fair market value of common stock as of the grant date. All options granted under this plan vest in five equal annual installments, upon retirement or a change in control of the Company. These options expire 10 years from the grant date. At December 31, 2018, 143,396 options were outstanding under this plan.

Compensation expense for stock options is recognized over the requisite service period. During 2018 and 2017, we recognized $106 thousand and $198 thousand, respectively, in compensation expense for stock options. At December 31, 2018, approximately $225 thousand remained to be recognized in compensation expense over a weighted-average period of three years.

We had two other stock option programs, the 2003 Outside Director Plan and the 2003 Employee Stock Option Plan. The ability to grant new options under these plans has expired.

Under the 2003 Outside Director Plan, as amended, 93,720 options remain outstanding at December 31, 2018 for nonemployee directors. The exercise price of options granted under this program is required to be equal to at least the fair market value of common stock as of the grant date. All options granted under this plan are fully vested. These options expire 10 years from the grant date. Under the 2003 Employee Stock Option Plan, as amended, no options remain outstanding at December 31, 2018 for key employees.

The fair value of each stock option award is estimated on the date of the grant using the Black-Scholes option-pricing model. The risk-free interest rate for the expected term of the stock option awarded is based on the U.S. Treasury yield curve in effect at the time of the grant. The volatility of the Company's stock is based on a combination of historical volatility and peer data over a span of time equal to the expected life of stock option awards, which is the period of time the Company estimates that stock options granted will remain outstanding. The Company used the simplified method to estimate the expected life of stock options granted in 2017. There were no stock options granted in 2018. The simplified method averages an award's weighted average vesting period and its contractual term. The following assumptions were used to estimate the fair value of the options granted during 2017:

	2017
Weighted average risk-free interest rate	2.06%
Weighted average volatility	28.00%
Expected dividend yield	-
Weighted average expected life	6.50

A summary status of the Company's stock option plans as of December 31, 2018 and 2017, and the changes during the years then ended, is as follows:

	2018				2017	
	Options	Weighted Average Exercise Price	Weighted Average Remaining Term (yrs)	(1) Aggregate Intrinsic Value	Options	Weighted Average Exercise Price
Options outstanding at beginning of year	445,002	$ 6.62	6.1		423,882	$ 5.62
Granted	-	-			75,600	10.90
Exercised	(47,913)	5.04			(53,312)	4.74
Forfeited or expired	(1,581)	4.36			(1,168)	5.61
Options outstanding at the end of the year	395,508	$ 6.82	7.3	$ 2,378	445,002	$ 6.62
Options exercisable at the end of the year	306,166	$ 5.65	4.9	$ 2,035	308,276	$ 5.31
Weighted-average fair value of options granted during the year		$ -				$ 3.76

(1) The aggregate intrinsic value of a stock option in the table above (shown in thousands) represents the total pre-tax intrinsic value (the amount by which the current market value of the underlying stock exceeds the exercise price of

the option) that would have been received by the option holders had they exercised their options on December 31, 2018. The intrinsic value varies based on the changes in the market value in the Company's stock.

The Company issues new shares upon the exercise of stock options.

The following table provides detail for non-vested stock options under the 2013 Outside Director and Employee Stock Option Plans as of December 31, 2018:

	Options	Weighted Average Exercise Price
Non-vested options December 31, 2017	136,726	$ 7.96
Granted	-	-
Forfeited	-	-
Vested	(47,384)	7.02
Non-vested options December 31, 2018	89,342	$ 8.47

Note 19. Regulatory Matters

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory – and possibly additional discretionary – actions by regulators that, if undertaken, could have a direct material effect on the Bank's consolidated financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

In July 2013, the federal bank regulatory agencies adopted the final reforms on capital and liquidity generally referred to as "Basel III", which were published by the Basel Committee on Banking Supervision and the Financial Stability Board. Under Basel III, in order to avoid limitations on capital distributions (including dividend payments and certain discretionary bonus payments to executive officers), a banking organization must hold a capital conservation buffer comprised of Common Equity Tier 1 above its minimum risk-based capital requirements in an amount greater than 2.5% of total risk-weighted assets. The new minimum capital requirements became effective on January 1, 2015. The capital conservation buffer requirements phase in over a three-year period beginning January 1, 2016. The capital conservation buffer for 2018 was 1.875% and for 2017 was 1.250%. As of December 31, 2018, the Bank met all capital adequacy requirements to which it is subject and met the criteria for a well-capitalized institution.

The Bank's actual capital amounts and ratios at December 31, 2018 and 2017 are presented in the following:

	Actual		For capital adequacy purposes		For capital adequacy purposes with capital conservation buffer*		To be well capitalized under prompt corrective action provision	
(Dollars in thousands)	Amount	Ratio	Amount	Ratio*	Amount	Ratio*	Amount	Ratio
Total capital (to risk-weighted assets)								
At December 31, 2018	$ 48,042	13.416%	$ 28,647	8.00%	$ 35,361	9.875%	$ 35,808	10.00%
At December 31, 2017	$ 42,510	12.360%	$ 27,507	8.00%	$ 31,805	9.250%	$ 34,384	10.00%
Tier 1 capital (to risk-weighted assets)								
At December 31, 2018	$ 43,552	12.163%	$ 14,323	6.00%	$ 28,199	7.875%	$ 28,647	8.00%
At December 31, 2017	$ 38,205	11.110%	$ 18,975	6.00%	$ 24,928	7.250%	$ 27,507	8.00%
Tier 1 capital (to average assets, leverage)								
At December 31, 2018	$ 43,552	7.977%	$ 21,838	4.00%	$ 21,838	4.000%	$ 27,297	5.00%
At December 31, 2017	$ 38,205	7.070%	$ 21,616	4.00%	$ 21,616	4.000%	$ 27,020	5.00%
Common equity Tier 1 (to risk-weighted assets)								
At December 31, 2018	$ 43,552	12.163%	$ 16,114	4.50%	$ 22,828	6.375%	$ 23,275	6.50%
At December 31, 2017	$ 38,205	11.110%	$ 15,473	4.50%	$ 19,771	5.750%	$ 22,349	6.50%

Note 20. Parent Company Financial Information

A summary of the statements of financial condition at December 31, 2018 and 2017 is as follows:

(In thousands)	December 31, 2018	December 31, 2017
Assets		
Cash in subsidiary	$ 260	$ 56
Investment in subsidiary	43,276	38,204
Deferred tax asset	147	110
Other assets	85	42
Total assets	$ 43,768	$ 38,412
Liabilities and Shareholders' Equity		
Other liabilities	$ 72	$ 2
Shareholders' equity	43,696	38,410
Total liabilities and shareholders' equity	$ 43,768	$ 38,412

A summary of the statements of operations for the years ended December 31, 2018 and 2017 is as follows:

(In thousands)	2018	2017
Equity income from subsidiary	$ 5,348	$ 4,297
Interest income	-	1
Total income	5,348	4,298
Other expenses:		
Other operating expenses	213	232
Total other expenses	213	232
Income before income tax expense (benefit)	5,135	4,066
Income tax expense (benefit)	(80)	23
Net income	$ 5,215	$ 4,043

A summary of the statements of cash flows for the years ended December 31, 2018 and 2017 is as follows:

(In thousands)	2018	2017
Cash flows from operating activities:		
Net income	$ 5,215	$ 4,043
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Equity in income from subsidiary	(5,348)	(4,297)
Stock-based compensation expense	106	198
Decrease (increase) deferred income tax benefit	(36)	33
Increase in other assets	(43)	(9)
(Decrease) increase in other liabilities	70	(2)
Total adjustments	(5,251)	(4,077)
Net cash used in operating activities	(36)	(34)
Cash flows from investing activities:		
Investment in subsidiary	-	(350)
Net cash used in investing activities	-	(350)
Cash flows from financing activities:		
Cost of processing stock dividend	(5)	(2)
Proceeds from sale of stock	245	256
Net cash provided by financing activities	240	254
Net (decrease) increase in cash and cash equivalents	204	(130)
Cash and cash equivalents at beginning of year	56	186
Cash and cash equivalents at end of year	$ 260	$ 56
Cash paid during the year for:		
Interest	$ 4,026	$ 2,490
Income taxes paid	2,271	2,630
Supplemental disclosures:		
Net change in unrealized losses on securities available for sale, net of taxes of $(105) and $(124) for 2018 and 2017, respectively	$ (275)	$ (185)

Note 21. Subsequent Events

Subsequent events are events or transactions that occur after the balance sheet date but before financial statements are issued. Recognized subsequent events are events or transactions that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing financial statements. Non-recognized subsequent events are events that provide evidence about conditions that did not exist at the date of the statement of financial condition but arose after that date and warrant disclosure. Management has reviewed events occurring through the date the financial statements were issued and no subsequent events occurred requiring accrual or disclosure except as noted below:

On January 30, 2019, the Company declared a 5% stock dividend to all shareholders of record as of April 1, 2019 payable on April 15, 2019.

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Stock Listing

1st Colonial's Common Stock is traded under the Symbol "FCOB"

Board of Directors

Linda M. Rohrer, Chairman
Curt Byerley
John J. Donnelly, IV
Harvey Johnson, Esquire
Gerard M. Banmiller
Thomas A. Clark, III, Esquire
Eduardo F. Enriquez, M.D.
Harrison Melstein
Mary R. Burke, Ed.D.
Letitia G. Colombi
Michael C. Haydinger
Stanley H. Molotsky

Advisory Board

Linda M. Rohrer, Chairman
Elaine M. Damm
Lawrence A. Levine, D.P.M
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Executive Officers

Gerard M. Banmiller, President and Chief Executive Officer
Frank J. Monaghan, Executive Vice President and Chief Operating Officer
Jerry J. Silvi, Executive Vice President and Senior Credit Administrator
Irene H. Clark, Executive Vice President, Deposit Operations
Mary Kay Shea, Senior Vice President and Chief Financial Officer

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