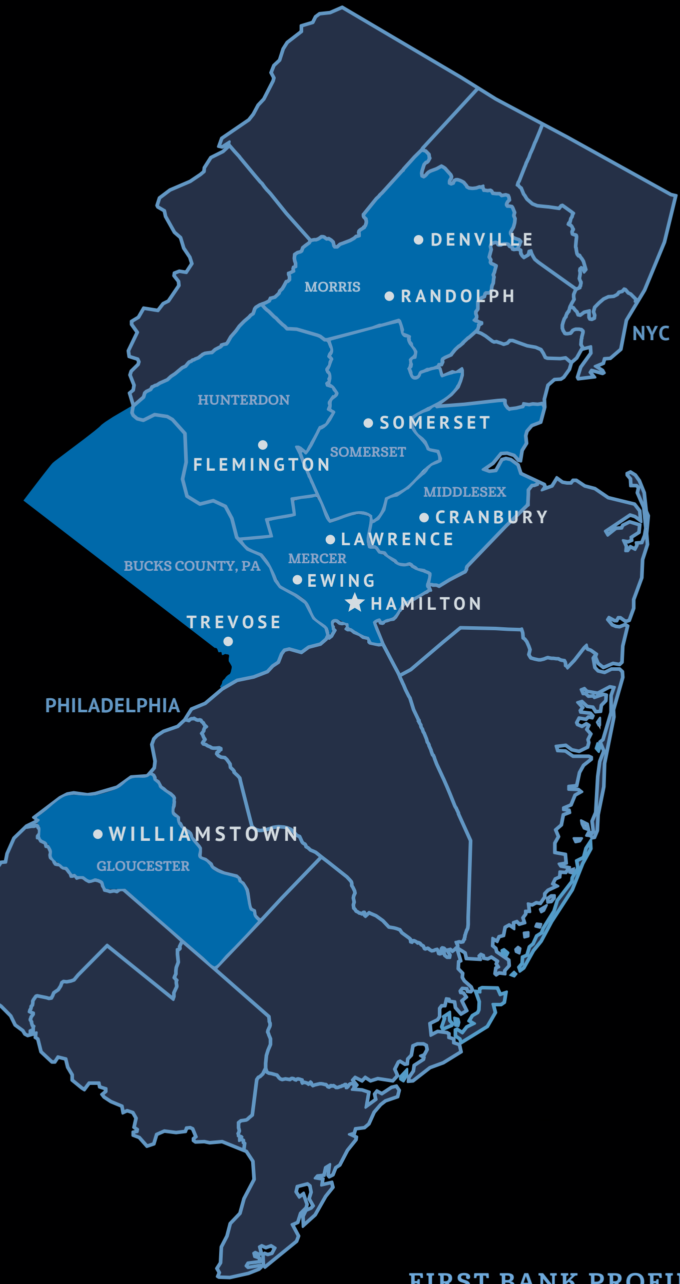
FIRST BANK

SECOND ACT

2016 ANNUAL REPORT

FIRSTBANK



MARKET OVERVIEW / DEMOGRAPHICS

First Bank is headquartered in Hamilton, New Jersey, and its primary service areas include Mercer, Burlington, Hunterdon, Middlesex and Somerset counties in central New Jersey. We also service Morris County in northern New Jersey, Gloucester, Atlantic and Camden counties in southern New Jersey and Bucks County in eastern Pennsylvania. This New York City to Philadelphia corridor area remains one of the more desirable banking markets in the country.

An economic analysis published by a large financial institution in 2016 described our central New Jersey market area as an affluent economy, with a strong, diverse array of employers and ties to New York City's well-paying financial industries. Payroll employment in the region has been growing faster than the rate for the U.S. and the state, while education, healthcare and technology employment have also been instrumental in driving economic expansion. The large presence of well-paying jobs in the region contributes to a median household income which is 34 percent higher than the U.S. average. With a highly educated local labor force, as well as business costs which are reasonable by Mid-Atlantic standards, this area has great long-term growth potential.

FIRST BANK PROFILE

New Jersey state-chartered bank (headquarters – Hamilton, NJ)

10 full-service branches in New Jersey and Pennsylvania

$1.1 billion in assets (at 12/31/16)

Traditional range of deposit and loan products

Market area – New York City to Philadelphia corridor

Bauer Financial 5-Star rated bank (top ranking)

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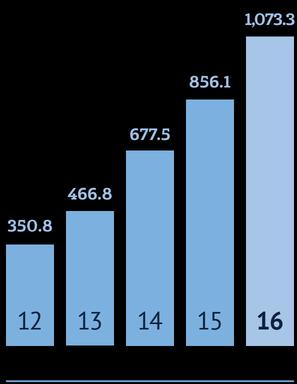
Total Assets

AT 12-31, $ IN MILLIONS

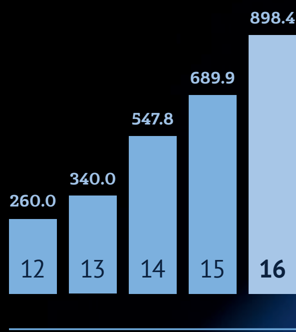
5-year CAGR = 32.3%



Total Loans

AT 12-31, $ IN MILLIONS

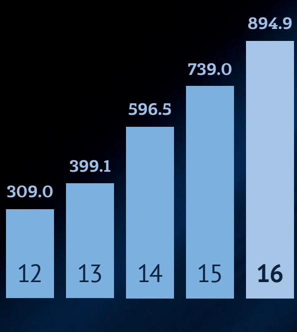
5-year CAGR = 34.1%



Total Deposits

AT 12-31, $ IN MILLIONS

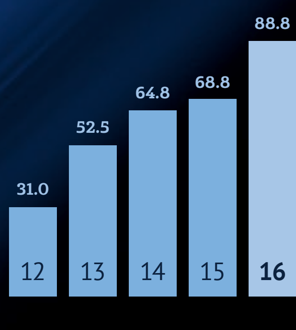
5-year CAGR = 30.7%



Total Stockholders' Equity

AT 12-31, $ IN MILLIONS

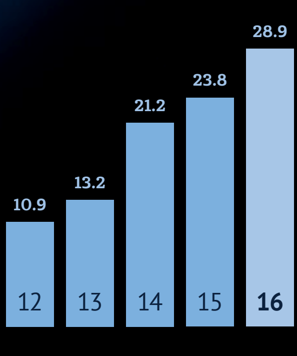
5-year CAGR = 29.9%



Net Interest Income

AT 12-31, $ IN MILLIONS

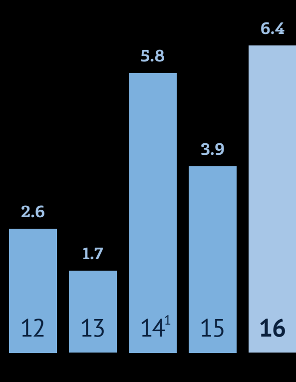
5-year CAGR = 27.4%



Net Income

AT 12-31, $ IN MILLIONS

5-year CAGR = 25.0%



[1] 2014 net income includes $2.6 million tax-free bargain purchase gain from acquisition of HCB.

INVESTMENT RATIONALE

Demonstrated ability to achieve highly desirable loan growth rates, driven primarily by consistently strong performance in traditional, in-market commercial banking since its inception, while maintaining superior asset quality metrics

Solid competitive footprint in the New York City to Philadelphia corridor

Effective management of non-interest expense with a focus on using operating leverage as an ongoing contributor to earnings growth

Leveraging supplemental funding sources to complement effective deposit gathering that has more than quadrupled deposits since the end of 2011

A strong capital position, and a proven ability to access the capital markets, enabling First Bank to continue to build shareholder value through strong organic growth, as well as appropriate acquisition opportunities

The Bank's management and board have a significant ownership investment of approximately 20%

Our 2016 results reflected strong loan and deposit growth, managed expense growth and highly favorable asset quality metrics.

TO OUR SHAREHOLDERS, STAKEHOLDERS, EMPLOYEES AND FRIENDS:

2016: ACHIEVING "ESCAPE VELOCITY"

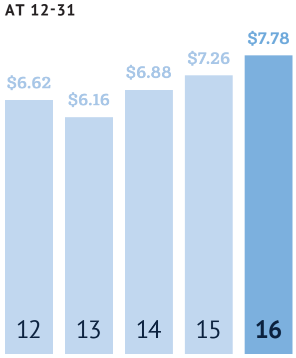
In an environment where we're constantly pushing ourselves to get better, faster, I appreciate this letter as an opportunity to step back. From that more-distant vantage point, I'm able to provide a clearer, more honest assessment of what happened, what worked, and what we could have done better.

In short, 2016 was a very good year. We made a ton of progress in a variety of areas, and it was gratifying to see the stock price move up accordingly. As a reminder, despite several years of excellent top line growth, we had a lot to prove heading into the year. After making significant investments in the franchise in 2015, I'm sure many were left wondering: would it pay off? We raised capital that carried a significant interest expense, we had newer branches that needed to grow, and we added staff in 2015. As a result of the added expenses associated with these investments, core profit growth did not match the levels from prior years. In 2016, we needed to put it all together: I. continued strong top-line growth, II. excellent bottom-line growth, and III. healthy shareholder returns. I'm proud to report that we delivered all three.

Let me briefly provide a few data points to support this assertion. Total assets grew $217 million (our highest annual increase ever, even including the year we finalized the acquisition of HCB). Total loans increased $209 million, another annual dollar-growth record. Total deposits grew $156 million. After several years of strong growth, even these numbers were better than expected. But, more importantly, the bottom-line growth figures were even better. Net income reached $6.4 million, an increase of $2.5 million or 65%. Our key profit ratios improved nicely as well: ROA (return on assets) increased to 0.66%, up from 0.51% in 2015 and ROE (return on equity) improved to 8.08%, up from 5.74% in 2015. Certainly, we have room for continued improvement with these ratios. But, we made substantial progress over the past twelve months.

Book Value per Common Share

AT 12-31



Importantly, in addition to strong growth and profit, the final piece to our puzzle fell in to place in 2016. We finally saw significant, sustained share price improvement. In fact, our stock price moved from just over $6.50 per share at the start of the year to just over $11.50 at the end of the year. That's an increase of $5.00 per share, or 77% for the year. Many banks enjoyed improved share price performance during the year, but I'm confident our increase was well within the top quartile. I know many of our early investors were waiting patiently for this type of breakout performance. As a shareholder with a major asset concentration in this bank, I too was looking forward to the time when we finally got noticed. I think we're all pleased with the price movement of the stock throughout the year.

For the past couple of years we have been working toward the well-publicized $1.0 billion asset threshold. There is a lot of industry data that shows how both earnings performance and stock price performance tend to improve once you achieve the magical $1.0 billion level. Well, as many of you already know, we eclipsed $1.0 billion as of September 30, 2016. It is important to note that nothing specific actually happens once you reach $1.0 billion in assets. No new revenue streams magically appear; you don't automatically get added to any stock market indices; you can't suddenly charge more for loans or pay less on deposits. Therefore, I was concerned we might not see any difference once we hit $1.0 billion. Thankfully, I was wrong. The invisible hand worked its magic. To be fair, the growth and profit improvement in 2016 was not magic. It was the result of continued hard work and diligent expense control.

Exceptional growth usually requires additional capital, so I'd be remiss if I didn't mention the common stock offering we conducted at the end of June, 2016. Over the summer we finalized an investment of $13.7 million from a group of four, highly-regarded institutional investors. The investment provided funds for continued growth, and helped raise our profile in the investment community.

The other exciting news from 2016 relates to our newly-minted dividend. In the fourth quarter of 2016, the Board of Directors approved a quarterly cash dividend of $0.02 per share. The appropriate balance between retaining capital for growth and providing cash back to shareholders can be difficult to assess. We think we've struck the right balance. With a dividend of $0.02 per share, the bulk of profits are being retained in the business to fund our substantial growth initiatives.

As a result of our success in 2016, we finally achieved "escape velocity." By that I mean we're moving on to the next stage in our development. We're leaving our old space, moving toward new horizons. As we look out toward that future, we see the changing political, tax, and regulatory landscape, and our improved share price, generating strong prospects heading into 2017.

2016 was a transformative year, during which we surpassed the $1 billion threshold for total assets, realized strong double-digit growth in loans and booked record profits for the year.

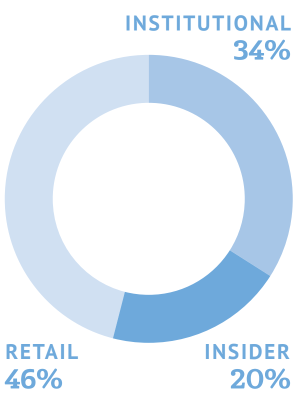
BEFORE WE DISCUSS OUR PROSPECTS FOR 2017 AND BEYOND, I'D LIKE TO PROVIDE A LITTLE MORE DETAIL ON OUR RESULTS FOR 2016.

Our success in 2016 was driven by several factors: I. continued strong, high-quality loan growth, II. disciplined deposit growth, III. a steady net interest margin, and IV. diligent expense control.

A successful capital raise in 2016 strengthened our balance sheet and elevated institutional investor interest and ownership in First Bank.

LOAN GROWTH As mentioned above, the total loan portfolio grew $209 million in 2016. As a reminder, we basically offer loan products into three, distinct customer segments: I. consumers, II. businesses, and III. commercial real estate owners and developers. Over the past couple of years our business mix has started to shift away from lending to businesses toward more real estate development lending. Part of that shift is understandable as commercial real estate development has picked up significantly in our core markets and it remains an important segment where we have expertise and we want to service our customer base. In 2016 commercial real estate loans grew to become 56% of our total loans outstanding, up from 47% a couple of years ago. Loans to businesses declined to 35% of total loans, down from 41%. Going forward, we will be working toward a goal of 10% consumer loans, 45% loans to businesses, and 45% commercial real estate loans. In fact, this shifting business mix will be one of our most important strategic goals in 2017 and beyond.

FRBA Stock Ownership
AT 12-31-16



DEPOSIT GROWTH Our total deposits increased from $739 million at the end of 2015 to $895 million at the end of 2016, an increase of $156 million or 21%. Our non-interest bearing deposits increased to $119 million at the end of 2016, up from $100 million at the end of 2015. This equates to 13.2% of total deposits at the end of 2016, basically in line with where we finished 2015. This is a ratio we watch closely and we'll be working hard to increase non-interest bearing deposits going forward. We took strategic steps to improve our deposit mix and lower our cost of funds in 2016. That required an occasional need to tap non-core funding sources during periods of the year with peak loan demand. While the impact was not dramatic, we did have some success lowering our funding costs with this strategy. For example, our overall cost of funds came down from 1.10% in the fourth quarter of 2015 to 1.03% in the fourth quarter of 2016. We still have a lot more work to do in this area of low-cost, core-deposit generation. To that end, we are in the planning stages of some initiatives to help drive core, non-CD deposit growth going forward, with a particular emphasis on commercial deposit growth.

NET INTEREST MARGIN Our tax equivalent net interest margin in the fourth quarter of 2016 was 3.12%, up slightly from 3.05% in the fourth quarter of 2015. As you may recall, we lived in the world of "lower for longer" during most of 2016. That meant loan yields continued to be pressured while deposit rates did not have much room to move lower. As such, we felt a flat (to slightly increasing) margin was a reasonably positive outcome. We'd certainly love to get that margin up closer to the 3.50% to 4.00% levels banks used to enjoy. Perhaps the projected rising rate environment in 2017 will give us that opportunity? My personal views on margins are less optimistic. Over time, I certainly think we can do better. Rising rates and a steeper yield curve (if they materialize) should help. But, I'm guessing rates won't move too much higher, and the potential for increased deposit competition could dilute the margin benefit of higher asset yields. Plus, balance sheets don't change overnight. It will take a while for some of these benefits to materialize. We've built a bank to make money in a low rate, low-margin environment. We're not planning to change our approach. If our margin improves more than we are planning, then we'll realize even stronger results.

EXPENSE CONTROL Perhaps I'm most proud of the following statistic: 2016 net interest income growth of 21% compared to non-interest expense growth of 3%. We certainly hoped we would see significant operating leverage in 2016, but this spread exceeded our most optimistic projections. We may not be able to continue with that level of performance, but expense growth should not go significantly higher than current levels. With our growth engine humming, expense control will drive continued profit improvement. That trend should continue, even if at a slightly slower pace.

SO, HOW DID THOSE DEVELOPMENTS IMPACT PROFITABILITY IN 2016?

NET INCOME As a result of the items mentioned above, net income exceeded our expectations for 2016. For the year, as mentioned above, we earned $6.4 million, an increase of $2.5 million or 65% compared to 2015. Importantly, this was largely a "core earnings" number. There was very little in the way of unusual, one-time income or expense items during the year. As a result of the strong profits, earnings per share for the year reached $0.61, an increase of $0.20 per share, despite the additional shares issued in June 2016.

PRE-PROVISION, NET REVENUE (PPNR) This is a metric we follow to see how we're progressing when you extract some of the non-operating components of profitability. The metric is calculated by taking our net interest income (before the provision for loan losses), adding non-interest income excluding non-recurring items (gains or losses on sales or securities, bargain purchase gains, and gains on recovery of acquired loans), and subtracting non-interest expense excluding non-recurring items (merger-related expenses). We look at this on a quarterly basis to get a sense of our core operating earnings trends. This is a non-GAAP measure. You will find each of the components listed above broken out in our audited financial statements.

PPNR of $11.6 million in 2016 was up $4.1 million (55%) compared to $7.5 million in 2015. Not surprising, in a year with relatively few unusual items, core profit growth matched GAAP net income growth.

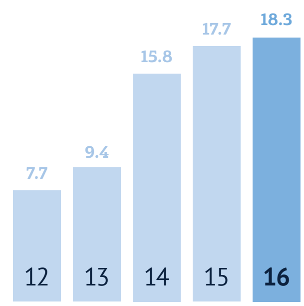
2017: COMMENCING "ACT 2" — BRINGING OUR BANK TO THE NEXT LEVEL

After a really strong year in 2016, where do we go from here? Thankfully, there is plenty more to do, and plenty more upside in the First Bank franchise. I heard a quote from a fellow banker the other day that has stuck with me. He said "the first billion is the hardest billion." I hope he's right, and I'm excited to push forward and find out. Here is my view on our prospects for 2017 and beyond.

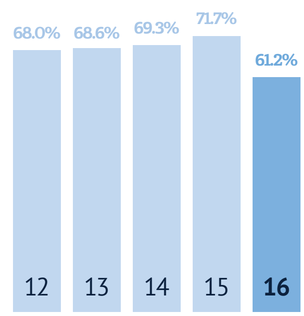
PROFIT IMPROVEMENT SHOULD CONTINUE The operating leverage story at First Bank is not over. Our net income, Earnings per Share (EPS), Return on Assets (ROA), and Return on Equity (ROE) should all continue to improve, and that's without any help from a rising net interest margin, easing regulations, and lower corporate taxes. If any or all of those "upside scenarios" materialize, we should see some really exciting results.

CONTINUED GROWTH IN CENTRAL NJ, NORTHERN NJ, AND EASTERN PA
Each market and each team produced strong results in 2016. Based upon the quality of our teams in each market, the changing competitive landscape from community bank consolidation, and the strength of our pipelines, I remain optimistic that each market can be a growth engine for us.

Non-interest Expense
AT 12-31, $ IN MILLIONS



Efficiency Ratio[1]
AT 12-31



[1] Non-GAAP financial measure that we believe provides management and investors with information that is useful in understanding our financial performance and condition.

We finished the year with strong capital levels, and remain positioned for growth in 2017.

2016 PERFORMANCE HIGHLIGHTS

Net income for 2016 of $6.4 million, an increase of $2.5 million, or 64.8%

Total assets surpass $1 billion threshold, $1.1 billion at 12/31/16

Total net revenue (net interest income + non-interest income) increased by 19.9% to $30.5 million

Total loans were up $208.5 million, or 30.2%, to $898.4 million at 12/31/16

Total deposits at year-end of $894.9 million, up 21.1% compared to 2015

Continued strong asset quality metrics with annualized net loan charge-offs to average loans of just 0.10%

Raised $13.7 million in new capital through private placement of common stock

THE RE-EMERGENCE OF M&A As disciplined acquirers, up to this point our acquisition options have been limited. Now that our higher stock price provides a stronger "currency," and with the potential for more sellers to emerge after the recent run-up in buyer stock prices, I expect that M&A could re-emerge as a growth vehicle. M&A can also be a driving force for additional operational efficiencies and better operating leverage.

ENHANCED CORE, COMMERCIAL DEPOSIT GENERATION New initiatives should help produce meaningful commercial deposit growth. If successful, the impact on our cost of funds and underlying franchise value could be significant.

REBALANCED BUSINESS MIX Our efforts to drive additional business lending should help create additional franchise value, help with commercial deposit gathering efforts, and reduce commercial real estate (CRE) lending concentrations.

WHAT COULD PREVENT US FROM ACHIEVING OUR GOALS IN 2017?

While the current signals seem to portend bright prospects, there are potential challenges that we are prepared to handle, should they emerge.

POLITICAL INSTABILITY While the pro-business approach championed by the current administration should be good news for banks, unrest at home or abroad has the potential to derail the economic recovery. We are not ignoring the very realistic risk of negative outcomes stemming from unpopular policies.

ECONOMIC DOWNTURN OR CRE SLOWDOWN This is basically the credit deterioration scenario. We are maintaining strict and prudent underwriting standards to make sure we're not overly exposed if the economy turns toward recession or if commercial real estate markets reverse their current active development and occupancy trends.

OVERZEALOUS LOAN OR DEPOSIT COMPETITION While loan competition has been strong for the past several years, fortunately the competition has been more focused on lower rates rather than looser credit standards. I'm sure the aggressive loan pricing will continue, but I'm hopeful credit standards will remain at reasonable levels. We will slow growth before we'll follow an overly aggressive lending market. The damage from the last recession is still fresh in our minds. Banks with great credit quality will be the ones that emerge successfully from the next recession. Deposit competition is another concern as many bankers hope the industry will move slowly to raise deposit rates when interest rates start to rise. If banks cannot hold the line on deposit pricing, a significant portion of the potential benefits from higher rates may never materialize.

REGULATORY PRESSURE As a bank experiencing strong growth, regulatory pushback is always a concern. In general, strong growth is a concern for regulators. Thus far, feedback from the regulators has been very good. Nevertheless, we need to remain diligent to make sure we're constantly out in front of key risk management initiatives. The regulator focus on CRE lending is a particular area of concern, given the importance of CRE lending to our overall business plan. Should the regulators require a shift to reduce CRE loans, growth could slow.

AN INABILITY TO RAISE CAPITAL Our strategic plan calls for growth. Growth would need to slow if we cannot find access to reasonably-priced capital. At the moment, we remain confident that capital can be raised to help fund our continued expansion efforts.

Despite these very real risks, a balanced view of key trends leads me to believe that we have significant upside potential heading into 2017.

PERFORMING WITH THE LIGHTS ON

At the end of last year, we felt we were "ready to get noticed." Thankfully, that has happened. Now, our job will be to perform at a high level with more people watching, and the lights turned up bright. Trading at higher multiples of book value and earnings creates added pressure. We think we're ready for the challenge.

I'm confident we can perform because our playbook hasn't changed. We're not looking to try and become something new and different. We built a base so that we'd be in a position to grow without having to take on new forms of risk. We do not need to change our market area. There is plenty of business in our New York City to Philadelphia corridor. We don't need to add new lines of business. We don't need to acquire to grow. Additional investments will be needed as we grow, but it can be incremental. We can remain true to who we are and still reach new and higher size and performance levels.

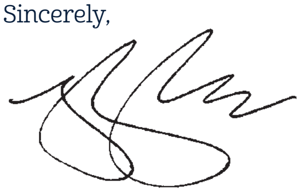
Plus, our elevated status in the market will help with our recruiting efforts. As we push to continue to upgrade our operations, it will be easier to attract and retain top-quality talent. For some, the move to community banking is a bit of a leap of faith. Now, the leap doesn't seem quite so far. This new reality will only help us and make us more likely to achieve our goals moving forward.

So, to summarize where we are at this moment, I feel good about what we've accomplished. It's been a lot of hard work, and there is still plenty of room for improvement. But, as we enter "Act 2" we have put ourselves in a great position to take advantage of the multitude of opportunities that stand before us. Time will tell if we can fully grasp this opportunity, but I like our chances.

In closing, I'd like to recognize the tremendous support and assistance we received from our board member and original shareholder, Dr. Maria Jinks. Dr. Jinks will continue to serve out her term, but she is not standing for re-election at the annual meeting. The demands placed upon the time of a bank director are enormous, so it's never a total shock when someone chooses to step down. Nevertheless, we would never have reached our current position without her energy, guidance and support and her presence will be missed.

Lastly, a special thanks to our customers, employees, and shareholders. Without all three working together the Bank cannot be successful. We appreciate your support and dedication and we hope to have more good news to report as we move forward.

Sincerely,



Patrick L. Ryan
President and CEO

Welcome Home.

Now that our higher stock price provides a stronger "currency," we expect that M&A could re-emerge as a growth vehicle.

We entered 2017 in a very good place with a strong competitive posture, growing brand awareness and improved operating efficiency.

We continue to make investments in our business to support our growth initiatives.

THE NEW YORK CITY TO PHILADELPHIA CORRIDOR REMAINS ONE OF THE MORE DESIRABLE BANKING MARKETS IN THE COUNTRY.

CURTAIN UP ON AN ATTRACTIVE MARKET Headquartered in Hamilton, New Jersey, First Bank has established an attractive and growing banking franchise in targeted markets within the corridor between New York City and Philadelphia. We currently operate nine full-service branch locations throughout the state of New Jersey, as well as a location in neighboring Bucks County in eastern Pennsylvania.

After a recapitalization of the Bank in 2008, we moved quickly to open three New Jersey branch locations in 2009, including in the Mercer County towns of Lawrence and Ewing, and in Williamstown in Gloucester County. Our largest retail presence is in Mercer County, where in 2011 we added a third location in the building that houses our corporate headquarters. Mercer County is an attractive location for several reasons. In addition to being centrally located within our targeted market area it offers solid demographics, with an estimated population of just over 370,000 and median household income of $72,800, which is 35% higher than the U.S. median income.

In July 2013, we announced the acquisition of Heritage Community Bank based in Morris County, NJ. The merger closed on March 7, 2014. With the acquisition we added locations in Randolph and Denville, along with $132.3 million in assets, $123.4 million in deposits, and $98.2 million in loans at the transaction close. With an estimated population of just under 500,000, and a median household income of $100,000, or nearly twice the national average, it's easy to see why we considered this an excellent market in which to invest. In 2013 we also opened a new branch location in Somerset, which utilized a smaller economical footprint, reasonable rental rate, and required a minimal capital investment. Similar to Morris County, Somerset County has a median household income in excess of $100,000, as well as a significant population of just under 325,000 residents. Our Somerset location also serves to provide a continuous market presence between our Mercer and Morris locations.

Stretching east from Mercer County to the Atlantic Ocean is Middlesex County, which has an estimated population of 840,000 and a median household income of just under $80,000. We entered this market in late 2014 with the opening of a branch in Cranbury.

Also during 2014, we expanded into eastern Pennsylvania by retaining a team of lenders to service the Bucks County market. Bucks County is a suburban area north and east of Philadelphia that also possesses attractive demographics with a population of 625,000 and a median household income of approximately $77,000. To further develop and service that market, in the first quarter of 2015 we opened our first Pennsylvania branch in Trevose, which also functions as the regional headquarters for our anticipated expansion in the Pennsylvania market.

Early in 2016 we opened our tenth branch with a new location in Flemington, New Jersey. This expansion into Hunterdon County, another affluent area with a median annual household income of more than $105,000 and a population in excess of 125,000, links our Bucks County market to our north and eastern New Jersey locations.

First Bank is headquartered in Hamilton, New Jersey.

We demonstrated the ability to achieve highly desirable loan growth rates, while maintaining superior asset quality metrics.

OUR LOAN PORTFOLIO GREW BY MORE THAN $200 MILLION, OR 30 PERCENT, IN 2016 INCREASING TO $898 MILLION AT YEAR-END.

RAVE REVIEWS FOR STRONG PORTFOLIO GROWTH "Community banking" accurately describes First Bank's primary business. We are proud to be a true community bank, providing a wide range of commercial and retail related banking services to attractive markets throughout New Jersey and in eastern Pennsylvania. Our primary focus is to grow our loan portfolio, primarily commercial loans, and to fund these loans using deposits generated through our branches.

We attract customers by offering a competitive range of lending products, including commercial and industrial loans, commercial real estate loans, residential real estate loans and consumer and other loans. Although we have a wide range of customers, our typical customers tend to be real estate developers, high net-worth individuals, and professional firms such as accountants, attorneys and physicians.

Our commercial and industrial loans are targeted primarily at small- to mid-sized businesses for financing inventory or equipment or to provide short-term working capital. Our typical small-business customers have less than $10 million in annual revenue and borrowing needs which are under $2 million. Our medium size customers have annual revenue under $100 million and are typically seeking to borrow between $2 million and $20 million.

First Bank offers a wide variety of real estate loans to businesses and investors for the acquisition and refinancing of commercial real estate. Commercial real estate loans represent the largest component of our portfolio and are composed of owner-occupied, investor, construction and development, and multi-family loans.

We believe that we have been able to differentiate our institution from competitors by providing current and potential customers with quicker decisions on loan requests, demonstrating greater flexibility in meeting credit needs and by offering access to our highest level of management. By complementing these factors with the direct and personal approach of our lenders, we believe that we have a compelling value proposition for potential borrowers.

Combining this business approach with a dynamic and affluent market that boasts a diverse local economy, it's easy to understand how First Bank was able to realize the strong growth it experienced in 2016. Our loan portfolio grew by more than $200 million, or 30 percent, in 2016, increasing from $690 million at the end of 2015 to $898 million at December 31, 2016. This strong growth came primarily from our commercial real estate segments, including investor real-estate loans and owner-occupied real estate loans. The loan pipeline at 2016 year-end remained strong and we expect to see this activity reflected in our results in 2017.

A 2016 INVESTMENT OF $13.7 MILLION FROM A GROUP OF FOUR, HIGHLY-REGARDED INSTITUTIONAL INVESTORS PROVIDED FUNDS FOR CONTINUED GROWTH.

AN ELEVATED PERFORMANCE ATTRACTS A LARGER AUDIENCE 2016 was a transformative year for First Bank as we surpassed the $1 billion threshold for total assets, realized strong double-digit growth in loans and deposits, and generated record profits for the year.

Our non-interest expense was well managed for the year growing only 3.4 percent, and our asset quality metrics were stable and remained favorable despite the significant growth realized in our loan portfolio. Our ability to manage operating expense growth while significantly growing earning assets resulted in net income of $6.4 million for 2016, a very strong 65 percent improvement over last year.

In June 2016, we conducted a very successful capital raise through the private placement of 1.9 million shares of common stock which raised $13.7 million in additional equity. This additional capital was used primarily to fund the Bank's organic growth initiatives, as well as for general corporate purposes. As our 2016 results clearly illustrate, our team was very successful at putting this additional funding to work in the second half of the year.

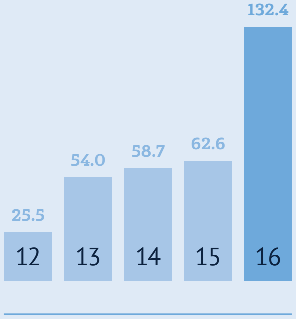
Along with providing additional capital to support growth, our capital raise elevated institutional investor interest in and ownership of First Bank. At the end of 2016 institutional investors held 3.9 million shares, or 34.4 percent of shares outstanding, up from 1.9 million shares and 19.7 percent at the end of 2015.

On November 16, 2016 the Bank announced that the Board of Directors had declared an initial quarterly cash dividend of $0.02 per share payable to common shareholders during the first quarter of 2017. Our Board believes that this dividend provides shareholders an added tangible benefit, and that it is appropriate given our current financial performance, momentum and near-term prospects.

We finished 2016 with strong capital levels — in excess of well-capitalized for regulatory purposes — which resulted from our mid-year capital raise and a strong increase in retained earnings for the twelve month period. Our stable asset quality metrics at year-end compare favorably to peer and industry averages and are reflective of our disciplined risk management and underwriting standards. In short, we finished 2016 and began 2017 in a very good place. Our focus is now on extending the very positive performance we achieved last year well into the future. The First Bank team is excited by the progress that we've made and energized to keep this performance going.

Market Capitalization

AT 12-31, $ IN MILLIONS



Selected Financial Highlights

AT OR FOR THE YEAR ENDED DECEMBER 31,	2016	2015	2014[1]	2013	2012
Selected Balance Sheet Data			(In thousands, except per share data)		
Total assets	$ 1,073,294	$ 856,106	$ 677,458	$ 466,792	$ 350,782
Total loans	898,429	689,887	547,759	339,975	260,039
Allowance for loan losses	9,826	7,940	6,104	4,675	4,084
Total deposits	894,934	739,021	596,482	399,113	309,048
Total borrowings	64,510	24,000	14,000	14,000	10,219
Total subordinated debentures	21,641	21,533	-	-	-
Total stockholders' equity	88,806	68,763	64,759	52,507	31,025
Average total assets	963,448	764,400	597,811	396,974	311,809
Average stockholders' equity	79,317	67,708	61,530	34,107	26,348
Selected Income Statement Data					
Interest and dividend income	$ 38,327	$ 30,764	$ 25,350	$ 16,620	$ 14,210
Interest expense	9,424	6,941	4,137	3,414	3,278
Net interest income	28,903	23,823	21,213	13,206	10,932
Provision for loan losses	2,697	2,669	2,438	1,543	1,366
Net interest income after provision for loan losses	26,206	21,154	18,775	11,663	9,566
Non-interest income	1,630	1,643	5,099	512	394
Non-interest expense	18,332	17,725	15,820	9,388	7,702
Income before income taxes	9,504	5,072	8,054	2,787	2,258
Income tax expense (benefit)	3,098	1,185	2,218	1,079	(330)
Net income	$ 6,406	$ 3,887	$ 5,836	$ 1,708	$ 2,588
Common Share Data					
Diluted earnings per share	$ 0.61	$ 0.41	$ 0.63	$ 0.33	$ 0.63
Diluted weighted average common shares outstanding	10,580,040	9,492,289	9,309,134	5,172,233	4,083,012
Book value per common share	$ 7.78	$ 7.26	$ 6.88	$ 6.16	$ 6.62
Common shares outstanding	11,410,274	9,470,157	9,408,491	8,520,299	4,686,965
Selected Performance Ratios					
Return on average assets	0.66%	0.51%	0.98%	0.43%	0.83%
Return on average equity	8.08%	5.74%	9.48%	5.01%	9.82%
Net interest margin, tax equivalent[2]	3.11%	3.27%	3.75%	3.47%	3.68%
Selected Asset Quality Ratios					
Nonperforming loans to total loans[3]	0.66%	0.57%	1.30%	0.98%	1.28%
Nonperforming assets to total assets[4]	0.68%	0.64%	1.39%	1.09%	1.69%
Allowance for loan losses to total loans	1.09%	1.15%	1.11%	1.38%	1.57%
Allowance for loan losses to nonperforming loans	164.67%	203.43%	85.83%	140.14%	122.90%
Net loan charge offs to average loans	0.10%	0.14%	0.22%	0.32%	0.25%
Capital Ratios					
Stockholders' equity to assets	8.27%	8.03%	9.56%	11.25%	8.84%
Tier 1 leverage capital	8.56%	8.22%	9.72%	11.89%	8.89%
Common equity tier 1 capital[5]	8.78%	8.58%	-	-	-
Tier 1 risk-based capital	8.78%	8.58%	10.96%	14.11%	10.53%
Total risk-based capital	11.91%	12.29%	12.00%	15.35%	11.78%

1 Includes effects of the acquisition of Heritage Community Bank.
2 The tax equivalent adjustment is calculated using a federal income tax rate of 34 percent.
3 Nonperforming loans consist of nonaccrual loans and loans past due 90 days or more and still accruing.
4 Nonperforming assets consist of nonperforming loans, other real estate owned and other repossessed assets.
5 New regulatory capital measure calculated under Basel III rules which became effective January 1, 2015.

BOARD OF DIRECTORS

Patrick M. Ryan Chairman

Owner of North Buffalo Advisors, LLC; former President and Chief Executive Officer of Yardville National Bank

DIRECTOR SINCE 2011

BOARD COMMITTEES

Asset/Liability, Compliance, Information Technology

Patrick L. Ryan

President and Chief Executive Officer of First Bank; former Executive Vice President and Chief Operating Officer of First Bank

DIRECTOR SINCE 2008

BOARD COMMITTEES

Asset/Liability, Compliance, Information Technology

Anthony J. Cimino

Chairman of the Board of Spiezle Architectural Group; Senior Executive Vice President of the Kaufman Zita Group

DIRECTOR SINCE 2016

BOARD COMMITTEES

Asset/Liability, Compensation and Personnel, Audit and Risk Management

Gary S. Hofing

Principal of The Eagle Group of Princeton, Inc; former Vice President of Hofing Management, LLC

DIRECTOR SINCE 2016

BOARD COMMITTEES

Asset/Liability, Information Technology

Glenn M. Josephs

Partner, Friedman, LLP, formerly Partner, Bagell, Josephs, Levine and Company, LLC

DIRECTOR SINCE 2008

BOARD COMMITTEES

Audit and Risk Management (Chair), Nominating and Governance, Compliance

Raymond F. Nisivoccia

Partner, Nisivoccia, LLP

DIRECTOR SINCE 2014

BOARD COMMITTEES

Audit and Risk Management, Nominating and Governance, Information Technology

Leslie E. Goodman Vice Chairman

Principal of The Eagle Group of Princeton, Inc.; Director of Wawa, Inc.

DIRECTOR SINCE 2008

BOARD COMMITTEES

Compensation and Personnel (Chair), Asset/Liability (Chair)

Elbert G. Basolis, Jr.

President and owner of Garrison Enterprises Inc.

DIRECTOR SINCE 2008

BOARD COMMITTEES

Nominating and Governance, Compensation and Personnel, Information Technology (Chair)

Peter D. Halstead

Retired career commercial banker and corporate financial consultant

DIRECTOR SINCE 2008

BOARD COMMITTEES

Audit and Risk Management, Asset/Liability, Compliance

Deborah Hanson Imperatore

Principal, Executive Vice President and Fund Manager of The Hampshire Companies

DIRECTOR SINCE 2016

BOARD COMMITTEES

Asset/Liability, Nominating and Governance, Audit and Risk Management, Compliance, Information Technology

Samuel D. Marrazzo

President and founder of Marrazzo's Thriftway

DIRECTOR SINCE 2011

BOARD COMMITTEES

Nominating and Governance, Compliance

John E. Strydesky

Certified Public Accountant; owner of Strydesky & Company, CPAs/Business Consultants

DIRECTOR SINCE 2010

BOARD COMMITTEES

Audit and Risk Management, Compensation and Personnel, Asset/Liability, Compliance (Chair)

Dr. Maria K. Jinks

The First Bank Board of Directors thanks Dr. Maria K. Jinks for her seven years of service as a First Bank director. Dr. Jinks has decided not to stand for re-election to the board in 2017. Dr. Jinks was an active contributor to the board during her tenure, chairing the Nominating and Governance Committee, and serving on both the Audit and Risk Management and Compensation and Personnel Committees.

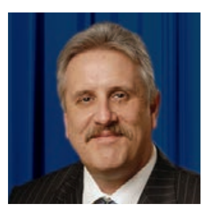
EXECUTIVE MANAGEMENT TEAM

Patrick L. Ryan
President and Chief Executive Officer

Pat Ryan has served as President and Chief Executive Officer of First Bank since 2013. In 2008, Mr. Ryan worked with the investor group that recapitalized the Bank, joined the Bank's Board of Directors and was appointed Chief Operating Officer. Prior to this time he was First Senior Vice President, Emerging Markets Manager for Yardville National Bank. Mr. Ryan joined Yardville National Bank in 2005 as head of Strategic Planning and Corporate Development, responsible for strategy, mergers and acquisitions, branch expansion, investor relations, research and analysis. He left Yardville National Bank in 2007 when it was acquired by PNC Corporation.

Peter J. Cahill
Executive Vice President
and Chief Lending Officer

Peter Cahill has served as Executive Vice President and Chief Lending Officer of First Bank since December 2013. Mr. Cahill joined the Bank in 2008 and was appointed Chief Lending Officer. Prior to joining First Bank he served as Senior Vice President/Sales Manager for PNC Financial Services Group, from October 2007 to October 2008. In addition, Mr. Cahill held senior level positions with Midlantic National Bank, Fleet Boston and Yardville National Bank. Mr. Cahill has more than 30 years of banking experience.



Stephen F. Carman
Executive Vice President
and Chief Financial Officer

Steve Carman has served as Executive Vice President and Chief Financial Officer of First Bank since December 2013. Mr. Carman joined the bank in 2008 and was appointed Chief Financial Officer. Mr. Carman served as Executive Vice President and Chief Financial Officer of Yardville National Bank from 1992 until 2007. Mr. Carman spent his entire 30-year banking career prior to joining First Bank at Yardville National Bank. He left Yardville in 2007 when it was acquired by PNC Corporation.

FIRST BANK OFFICERS

PRESIDENT & CEO

Patrick L. Ryan

EXECUTIVE VICE PRESIDENTS

Peter J. Cahill
Chief Lending Officer

Stephen F. Carman
Treasurer / Chief Financial Officer

FIRST SENIOR VICE PRESIDENTS

Andrew L. Hibshman
Chief Accounting Officer

David D. Lidster
Chief Technology Officer

Gene C. McCarthy
Market Executive and Commercial Lending Team Leader

Susan M. Paglione
Retail Administration and Business Development Officer

Marian Sorrentino
Bank Secrecy Act and Security Officer

SENIOR VICE PRESIDENTS

Kimberly Cerasi
Human Resources

Scott W. Civil
Commercial Lending Team Leader

Michael B. Cook
Commercial Lending-Relationship Manager

Marianne E. DeSimone
Market Executive

David J. DiStefano
Market Executive

Elizabeth Gorman
Credit Officer

John P. Samborski
Commercial Lending-Relationship Manager

Donald Theobald, Jr.
Controller

VICE PRESIDENTS

Belinda L. Blazic
Manager-Loan Administration

Joseph F. Browarski
Commercial Lending-Relationship Manager

Elizabeth F. Camishion
Systems Application Administrator

Brent C. Cronnell
Regional Manager

Kimberly Dargay
Branch Manager

Anthony DeLuca
Commercial Lending-Relationship Manager

Michael J. Fischer
Commercial Lending-Relationship Manager

Luisa Franco
Compliance and CRA Officer

Margaret A. Frey
Commercial Lending-Relationship Manager

Nancy C. German
Deposit Operations Officer

Robert Gossenberger
Branch Manager
Business Development Officer

Christopher M. Kelly
Commercial Lending-Relationship Manager

Maria E. Mayshura
Internal Audit Manager

Daniel C. McAdams
Regional Manager

Tina Middleton
Commercial Lending-Relationship Manager

Carol Monaghan
Branch Manager

Gregorio Perri, Jr.
Consumer Lending Manager

John C. Pettit
Branch Manager
Business Development Officer

Donna M. Picciallo
Commercial Lending-Relationship Manager

Frank P. Puleio
Business Development Officer

Katherine M. Rowley
Branch Manager

Sandra K. Ryan
Business Development Officer

Jared E. Utz
Commercial Lending-Relationship Manager

Gregory Weckel
Information Technology Manager

ASSISTANT VICE PRESIDENTS

Alexandra Acevedo
Branch Manager

Brian W. Ballentine
Branch Operations Manager

James Bernhard
Assistant Security Officer and BSA Investigator

Sharon E. Bokma
Assistant Branch Manager

Michael P. Cahill
Commercial Lending-Relationship Manager

Keith M. Jolliffe
Credit Department Manager

Brian C. Kelly
Commercial Lending-Relationship Manager

Jason M. Koenigsberg
Branch Manager

Stacy L. Schwartz
Deposit Operations Supervisor

Sharon A. Unger
Assistant Branch Manager
IRA Specialist

ASSISTANT TREASURERS

Donna Bencivengo
Executive Assistant and Corporate Secretary

Jo Ann W. Cackowski
Commercial Real Estate Loan Administrator

Joan S. Costa
Commercial Loan Administrator

Deborah Josephson
Loan Accounting Manager

Traci L. Sundberg
BSA Specialist

Carrie M. Walchko
Assistant Branch Manager

Jennifer Wallace-Dressner
Senior Finance and Operations Assistant

Caryn Wilson
Retail Administrative Assistant and Retail Training Administrator

ADMINISTRATIVE OFFICES

2465 Kuser Road
Hamilton, NJ 08690
609.643.4211

OFFICE LOCATIONS

CRANBURY
2664 US Route 130
Cranbury, NJ 08512
609.642.1064

DENVILLE
530 E. Main St. (Rte 53)
Denville, NJ 07834
973.625.1407

EWING
1340 Parkway Avenue
Ewing, NJ 08628
609.643.0470

FLEMINGTON
334 Highway 31 North
Flemington, NJ 08822
908.751.0318

HAMILTON
2465 Kuser Road
Hamilton, NJ 08690
609.528.4400

LAWRENCE
590 Lawrence Square Blvd. South
Lawrence, NJ 08648
609.587.3111

RANDOLPH
1206 Sussex Turnpike
Randolph, NJ 07869
973.895.5800

SOMERSET
225 DeMott Lane
Somerset, NJ 08873
732.649.1999

TREVOSE
4956-66 Old Street Road
Trevose, PA 19053
267.984.4537

WILLIAMSTOWN
1020 North Black Horse Pike
Williamstown, NJ 08094
856.728.3400

CORPORATE + SHAREHOLDER INFORMATION

CORPORATE HEADQUARTERS

FIRST BANK
2465 Kuser Road
Hamilton, NJ 08690
609.643.4211
firstbanknj.com

ANNUAL SHAREHOLDER MEETING INFORMATION

The Annual Shareholders' Meeting will be held at 10:00 a.m. on April 25, 2017 at:
The Stone Terrace
2275 Kuser Road
Hamilton, NJ 08690

INVESTOR RELATIONS

Shareholders seeking information about us may obtain press releases and FDIC filings by visiting firstbanknj.com. Additional inquiries can be directed to:

Chief Financial Officer
2465 Kuser Road
Hamilton, New Jersey 08690
or by calling 609.643.0136

SHAREHOLDER ACCOUNT INQUIRIES

Shareholders who wish to change the name, address or ownership of their stock or replace lost certificates or require additional services should contact our Stock Registrar and Transfer Agent.

STOCK REGISTRAR AND TRANSFER AGENT

Computershare
P.O. Box 30170
College Station, TX 77842-3170
800.368.5948

Overnight Mailing Address:
Computershare
211 Quality Circle, Suite 210
College Station, TX 77845
www-us.computershare.com/investor

STOCK LISTING

First Bank's common stock is traded on the NASDAQ Global Market under the symbol FRBA.

ANALYST COVERAGE

The following analysts published research on First Bank:

Joe Gladue
Merion Capital Group
484.588.2887
jgladue@merioncapitalgroup.com

Bryce Rowe
Robert W. Baird & Company
804.447.8019
browe@rwbaird.com

Robert Haderer
Sandler O'Neill + Partners
212.466.7923
rhaderer@sandleroneill.com

SAFE-HARBOR STATEMENT

The First Bank Annual Report contains certain forward-looking statements, either expressed or implied, which are provided to assist the reader in understanding anticipated future financial performance. These statements involve certain risks, uncertainties, estimates and assumptions made by management, which are subject to factors beyond First Bank's control and could impede its ability to achieve these goals. These factors include those listed in our Annual Report on Form 10-K under the caption "Item 1A-Risk Factors", and general economic conditions, trends in interest rates, the ability of our borrowers to repay their loans, changes in laws and regulations, and results of regulatory exams, among other factors.

Federal Deposit Insurance Corporation
Washington, D.C. 20439

FORM 10-K

(Mark One)

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

For the fiscal year ended **December 31, 2016**

or

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

For the transition period from ____________ to ____________

FDIC Certificate No: 58481

FIRST BANK

(Exact name of registrant as specified in its charter)

(609) 643-4211
(Registrant's telephone number, including area code)

New Jersey	**20-8164471**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
2465 Kuser Road, Hamilton, New Jersey	**08690**
(Address of principal executive offices)	(Zip Code)

Securities registered under Section 12(b) of the Exchange Act:

Common Stock, par value $5.00 per share	**NASDAQ Global Market**
(Title of each class)	(Name of each exchange on which registered)

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes ☐ No ☒

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

Check if there is no disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer or a smaller reporting company. See definitions of "large accelerated filer", "accelerated filer" and "small reporting company" in Rule 12b-2 of the Exchange Act. Large accelerated filer ☐ Accelerated filer ☐ Non-accelerated filer ☐ (Do not check if a smaller reporting company) Smaller reporting company ☒

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

The aggregate market value of the voting common stock held by non-affiliates computed by reference to the price at which the common equity was last sold as of June 30, 2016, the last business day of the registrant's most recently completed second fiscal quarter, was $66.1 million.

There were 11,444,759 shares of common stock outstanding at March 14, 2017.

DOCUMENTS INCORPORATED BY REFERENCE

Certain portions of the registrant's definitive Proxy Statement for the 2017 Annual Meeting of Shareholders to be held April 25, 2017 are incorporated by reference in Part III of this Annual Report on Form 10-K. The 2017 Proxy Statement will be filed within 120 days of December 31, 2016.

	Form 10-K Item Incorporated by Reference
Item 10.	Directors and Executive Officers of the Registrant
Item 11.	Executive Compensation
Item 12.	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters
Item 13.	Certain Relationships and Related Transactions
Item 14.	Principal Accountant Fees and Services

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Forward-Looking Statements

The Private Securities Litigation Reform Act of 1995 provides a "safe harbor" for forward-looking statements. Certain information included in this Annual Report on Form 10-K and other materials we file with the Federal Deposit Insurance Corporation, as well as information included in oral statements or other written statements made or to be made by us, contain statements that are forward-looking. These may include statements that relate to, among other things, profitability, liquidity, allowance for loan losses adequacy, plans for growth, acquisitions, market risk, regulatory compliance, and financial and other goals. These statements may be identified by such forward-looking terminology as "should", "expect", "look", "believe", "view", opportunity", "allow", "continues", "reflects", "typically", "usually", "anticipate", "may", "will", or similar statements or variations of such terms. Although we believe that the expectations reflected in such forward-looking statements are based on reasonable assumptions, we can give no assurance that our expectations will be achieved.

Forward-looking statements are subject to risks, uncertainties and other factors that could cause actual results to differ materially from expected results. Factors that could cause actual results to differ materially from our current expectations include, among other things: adverse changes in our loan quality; the level of our loan origination volume; our ability to attract core deposits; interest rate changes and other economic conditions; competition in product offerings and product pricing; future changes in regulations and regulatory requirements; our ability to execute our business plan and manage our growth; other risks which may be disclosed in our future filings under the Securities Exchange Act of 1934, as amended; and other factors, including those discussed in additional detail in Part I in the section, Item 1A. Risk Factors.

Readers are cautioned not to place undue reliance on any forward-looking statements. We assume no obligation to update or supplement forward-looking statements, except as required by applicable law or regulation.

Throughout this Annual Report on Form 10-K, references to "we", "us", "our", "Bank" and "Company" refer to First Bank and its wholly-owned subsidiaries unless otherwise indicated.

PART I

Item 1. Business.

General

We are a New Jersey chartered commercial bank which commenced operations in April 2007. We are regulated by the New Jersey Department of Banking and Insurance ("DOBI") and the Federal Deposit Insurance Corporation ("FDIC"). We are headquartered in Hamilton, Mercer County, in central New Jersey. We currently operate ten full-service branches located in Cranbury, Denville, Ewing, Flemington, Hamilton, Lawrence, Randolph, Somerset and Williamstown, New Jersey, and Trevose, Pennsylvania. Our primary service areas include Mercer, Burlington, Hunterdon, Middlesex and Somerset Counties in central New Jersey, Morris County in northern New Jersey, Gloucester, Atlantic and Camden Counties in southern New Jersey and Bucks County in eastern Pennsylvania. We target business from individuals, businesses, and governmental entities located in our primary service areas, as well as throughout New Jersey, with a particular focus on the corridor between New York City and Philadelphia.

We believe our market area remains one of the more desirable banking markets in the country, and that our entry into Hunterdon County in 2016 and eastern Pennsylvania in 2015 will only enhance the desirability of our markets. By providing a superior customer experience, including access to our decision makers, and by expanding our brand into local communities located in our target markets, we can continue to grow our business, increase profitability and create value for our shareholders.

We focus on traditional deposit and loan products and expect that businesses and individuals living and working in our markets will be the source of most of our customer deposits and lending business. The majority of our deposits come from individuals living within close proximity to our branches. Most of our lending customers come from throughout the New York City to Philadelphia corridor area.

On March 28, 2017, the Bank entered into an Agreement and Plan of Merger with Bucks County Bank ("BCB") pursuant to which BCB will merge with and into First Bank. The merger agreement provides that shareholders of BCB will receive 0.98 shares of First Bank common stock for each share of BCB common stock that they own at the effective date of the merger. First Bank expects to issue an aggregate of approximately 2.4 million shares of its common stock in the merger and will cash out BCB options that remain outstanding at the effective time of the merger. The closing of the merger is subject to receipt of approvals from regulators, approval of the merger by First Bank and BCB's shareholders and other customary conditions. BCB is a Pennsylvania state-chartered commercial bank headquartered in Doylestown, Bucks

County, Pennsylvania. As of December 31, 2016, BCB had total assets, total loans, total deposits and total stockholders' equity of $197.8 million, $178.6 million, $145.3 million and $21.8 million, respectively. Pending the approval of regulators and First Bank and BCB's shareholders, the Bank expects the merger transaction to close in the third quarter of 2017.

Business Strategy

We provide personalized banking services to satisfy the needs of our individual and business customers, as we strive to position our business for long-term growth and profitability. We believe that our relationship-oriented approach is key to our growth. We believe that the recent consolidation of local community banks by larger financial institutions has resulted in competitors that are not intimately familiar with the needs of individuals and businesses in our service areas and a general curtailment of services and increased fees. Our business strategy is to continue to pursue business from those customers who, as a result of these trends, are underserved or undervalued by larger financial institutions.

In addition to planned organic growth, we continue to consider opportunities to grow our business through acquisitions of whole banks, business lines or branches that complement our growth strategy and market expansion objectives. Our acquisition of Heritage Community Bank ("HCB") in 2014 and our planned acquisition of BCB are examples of acquisitions consistent with our strategy.

Lending Activities

We offer a traditional set of lending products to meet the needs of our customers located within our market areas, including commercial and industrial loans, commercial real estate loans (including owner-occupied, investor, construction and development, and multi-family loans), residential real estate loans and consumer and other loans.

Commercial Real Estate Loans. We offer a variety of real estate loans to businesses and real estate investors for the acquisition and refinancing of commercial real estate. Commercial real estate loans represent the largest component of our loan portfolio and are composed of owner-occupied, investor, construction and development, and multi-family loans.

- ***Owner-occupied ("CREO").*** CREO loans are made for the acquisition of new property or the refinancing of existing property. These loans typically relate to commercial businesses and are secured by the underlying real estate used in the business or real property of the principals.
- ***Investor ("CREI").*** CREI loans include investor-owned and tenanted investment properties. We provide a variety of CREI loans secured by different types of properties including retail, industrial, office and mixed use.
- ***Construction and Development Loans.*** Construction and development loans are generally made to builders and developers who wish to build new residential or commercial structures. Construction and development loans include land loans to acquire vacant land for future development.
- ***Multi-Family Loans.*** Multi-family loans generally consist of loans secured by apartment buildings.

Commercial and Industrial Loans. We offer commercial and industrial loans to small to mid-sized businesses for general business purposes. Commercial and industrial loans are made on a line of credit and term basis to finance inventory, equipment or short-term working capital. These loans are generally secured by business assets with the personal guarantees of the principal owners. The terms of these loans are generally 1-5 years.

Residential Real Estate Loans. Residential real estate loans are comprised of residential mortgages, first and second lien home equity loans and revolving lines of credit. Residential mortgages and first lien home equity loans are comprised of loans made with first liens on owner-occupied 1-4 family residences. These loans tend to have longer terms of 15-30 years and are typically originated on a fixed rate basis. We also offer home equity loans as second lien loans and revolving lines of credit. Second lien home equity loans are usually originated on a fixed rate basis with terms of 5, 10 or 15 years. Revolving lines of credit allow customers to borrow and pay back over the life of the loan (5, 10 or 15 years) with full repayment due at maturity and tend to be floating rate products.

Consumer and Other Loans. We offer a variety of non-residential real estate loans to individuals for personal and household purposes, such as to finance the purchase of an automobile, and other loans.

In managing the growth of the loan portfolio, we have focused on: (i) the application of prudent underwriting criteria; (ii) active involvement by senior management and the Board of Directors in the loan approval process; (iii) active monitoring of loans to ensure that repayments are made in a timely manner and to identify potential problem loans; and (iv) the review of various aspects of our loan portfolio by independent consultants. We work throughout the lending process to manage and mitigate risks within our portfolio.

For further information on the composition of our loan portfolio, see Note 3 of the Notes to Consolidated Financial Statements located elsewhere in this Annual Report on Form 10-K.

Investment Activities

We have legal authority to invest in various types of liquid assets, including U.S. Treasury obligations, securities of various federal agencies, state and municipal governments, mortgage-backed securities and certificates of deposit of federally-insured institutions. Within certain regulatory limits, we also may invest a portion of our assets in corporate debt securities, mutual funds, certain restricted bank stock and other investments. Our investment objectives are to provide and maintain liquidity, maintain acceptable levels of interest rate and credit risk, provide an alternate source of low risk investments when demand for loans is weak and generate a favorable return.

Deposit Activities and Other Sources of Funds

Deposits, borrowings and loan repayments are the major sources of our funds for lending and investment purposes. Scheduled loan repayments are a relatively stable source of funds, while deposit inflows and outflows and loan prepayments are significantly influenced by interest rates and general economic conditions.

Deposits. Deposits are generated in our markets through the offering of a broad selection of deposit instruments, including non-interest bearing demand deposits (such as checking accounts), interest bearing demand accounts, money market accounts, savings accounts and certificates of deposit. In addition to accounts for individuals, we also offer commercial checking accounts and cash management services designed for the businesses operating in our market areas. We may also utilize brokered deposits. From time to time we promote various products in an effort to increase deposits.

With deposits representing our principal funding source, our focus continues to be further expanding our geographic footprint, strengthening our brand image through marketing initiatives and providing products and services that attract lower cost core deposits. Bringing our relationship-driven brand of banking to new markets and neighborhoods is an important factor in attracting a lower cost diversified deposit base to fund loans at appropriate spreads.

Deposit account terms vary according to the minimum balance required, the time the funds must remain on deposit and the interest rate, among other factors. In determining the terms of our deposit accounts, we consider the rates offered by our competition, our liquidity needs, profitability, and customer preferences and needs. Our deposit pricing strategy has generally been to offer competitive rates and to be near the top of the local market to ensure we can continue to generate deposits to fund loan growth.

Borrowings and Subordinated Debentures. Although deposits are our primary source of funds, we may utilize various types of borrowings when they are a less costly source of funds and can be invested at a positive interest rate spread, when we desire additional capacity to fund loan demand or when they meet our asset and liability management goals.

Our borrowings historically have consisted of advances from the Federal Home Loan Bank of New York ("FHLB"). The FHLB functions as a government-sponsored enterprise providing credit for member financial institutions. As a member, we are required to own FHLB capital stock and may apply for advances on the security of such stock and certain of our commercial real estate loans and other assets (principally securities which are obligations of, or guaranteed by, the United States), provided certain standards related to creditworthiness have been met. Advances are made under several different programs, each having its own interest rate and range of maturities. Depending on the program, limitations on the amount of advances are based either on a fixed percentage of an institution's net worth or on the FHLB's assessment of the institution's creditworthiness.

Atlantic Community Bankers Bank ("ACBB") provides credit and noncredit correspondent banking services to financial institutions in the Mid-Atlantic region. In order to be able to use ACBB's products and services, we are required to own the capital stock of ACBB's holding company and have access to an unsecured line of credit.

On April 30, 2015, we completed a $22.0 million private placement of fixed-to-floating rate subordinated debentures. The subordinated debt has been structured to qualify as Tier 2 capital for regulatory capital purposes. We have used the additional capital for general corporate purposes including organic growth initiatives.

Common Stock Offering

On June 30, 2016, the Bank sold 1,890,000 shares of the Bank's common stock in a private placement at a price of $7.25 per share to certain institutional investors. As a result, the Bank realized $13.4 million in proceeds, net of offering expenses of $294,000.

Competition

The banking business is highly competitive. We face substantial competition and potential future competition both in attracting deposits and in originating loans. We compete with numerous commercial banks, savings banks and savings and loan associations, many of which have assets, capital and lending limits larger than those that we have. Our larger competitors have greater financial resources to finance wide-ranging advertising campaigns. Other competitors also include money market mutual funds, mortgage bankers, insurance companies, stock brokerage firms, regulated small loan companies, credit unions and issuers of commercial paper and other securities.

We compete for business by providing high quality, personal service to customers, customer access to our decision makers and competitive interest rates and fees. We seek to hire and retain quality employees who desire greater responsibility than may be available working for a larger employer. Additionally, the local real estate and other business activities of our Board of Directors help us develop business relationships by increasing our profile in the communities and markets we serve.

We expect competition to remain intense in the future as a result of legislative, regulatory and technological changes and consolidation in the financial services industry. Technological advances, for example, have lowered barriers to entry, allowed banks to expand their geographic reach by providing services over the Internet and made it possible for non-depository institutions to offer products and services that traditionally have been provided by banks. Federal law permits affiliation among banks, securities firms and insurance companies, which promotes a competitive environment in the financial services industry.

Employees

At December 31, 2016, we employed 100 full-time employees and 10 part-time employees. None of these employees are covered by a collective bargaining agreement, and we believe that our employee relations are good.

Corporate Information

Our corporate office is located at 2465 Kuser Road, Hamilton, New Jersey 08690, and our telephone number is (609) 643-4211. Our website is www.firstbanknj.com. Our website and the information contained on, or that can be accessed through, the website will not be deemed to be incorporated by reference in, and are not considered part of, this document.

Our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K and amendments thereto are available on our website without charge as soon as reasonably practicable after filing or furnishing them to the FDIC. Also available on the website are the Company's corporate code of ethics that applies to all of our employees, including principal officers and directors, and charters for the Nominating and Governance Committee, the Audit and Risk Management Committee and the Compensation and Personnel Committee.

SUPERVISION AND REGULATION

Overview

The Bank operates within a comprehensive system of banking laws and regulations that are primarily intended to protect bank customers, depositors, the Deposit Insurance Fund, and the banking system overall. These laws and regulations govern the permissible operations and management, activities, reserves, loans and investments of the Bank, and are not designed to provide protections to shareholders.

The Bank is a commercial bank chartered under the laws of the State of New Jersey and is subject to the New Jersey Banking Act of 1948 (the "Banking Act"). As such, it is subject to regulation, supervision and examination by the New Jersey Department of Banking and Insurance, and also by the FDIC. Each of these agencies regulates aspects of activities conducted by the Bank.

The following descriptions summarize some of the more recent changes to the key laws and regulations to which the Bank is subject. These descriptions are not intended to be complete and are qualified in their entirety by reference to the full text of the statutes and regulations. Future changes in these laws and regulations, or in the interpretation and application thereof by their administering agencies, cannot be predicted, but could have a material effect on the business and results of the Bank.

Regulatory Developments

The Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"), enacted in July 2010, significantly changed the bank regulatory landscape and has impacted and will continue to impact the lending, deposit, investment, trading and operating activities of insured depository institutions and their holding companies. The Dodd-Frank Act requires various federal agencies to adopt a broad range of new rules and regulations. The Dodd-Frank Act, among other things:

- increased the FDIC minimum reserve ratio for the Deposit Insurance Fund from 1.15% to 1.35% and changed the basis for determining FDIC premiums from deposits to assets;

- permanently increased the deposit insurance coverage to $250,000 and allowed depository institutions to pay interest on checking accounts;
- created a new Consumer Financial Protection Bureau ("CFPB") that has rulemaking authority for a wide range of consumer financial protection laws that apply to all banks and has broad authority to enforce these laws;
- provided for new disclosure and other requirements relating to executive compensation and corporate governance;
- changed standards for federal preemption of state laws related to federally-chartered institutions and their subsidiaries;
- provided mortgage reform provisions regarding a customer's ability to repay, restricting variable rate lending by requiring the ability to repay to be determined for variable rate loans by using the maximum rate that will apply during the first 5 years of a variable rate loan term, and making more loans subject to provisions for higher cost loans, new disclosures, and certain other revisions; and
- created a financial stability oversight council that will recommend to the Federal Reserve increasingly strict rules for capital, leverage, liquidity, risk management and other requirements as companies grow in size and complexity.

The requirements of the Dodd-Frank Act and other regulatory reforms continue to be implemented. It is difficult to predict at this time what specific impact certain provisions and yet-to-be-finalized rules and regulations will have on us, including any regulations promulgated by the CFPB. Financial reform legislation and rules could have adverse implications on the financial industry, the competitive environment, and our ability to conduct business. Management will have to apply resources to ensure compliance with all applicable provisions of regulatory reforms, including the Dodd-Frank Act and any implementing rules, which may increase our costs of operations and adversely impact our earnings.

Consumer Protection

We are subject to a number of federal and state laws designed to protect borrowers and promote lending to various sectors of the economy and population. These laws include the Equal Credit Opportunity Act, the Fair Credit Reporting Act, the Truth in Lending Act, the Home Mortgage Disclosure Act, the Real Estate Settlement Procedures Act, various state law counterparts, and the Consumer Financial Protection Act of 2010, which constitutes part of the Dodd-Frank Act and established the CFPB.

In 2013, the CFPB issued a final rule implementing the ability-to-repay and qualified mortgage ("QM") provisions of the Truth in Lending Act, as amended by the Dodd-Frank Act (the "QM Rule"). The ability-to-repay provision requires creditors to make reasonable, good faith determinations that borrowers are able to repay their mortgages before extending the credit based on a number of factors and consideration of financial information about the borrower from reasonably reliable third-party documents. Under the Dodd-Frank Act and the QM Rule, loans meeting the definition of "qualified mortgage" are entitled to a presumption that the lender satisfied the ability-to-repay requirements. The presumption is a conclusive presumption/safe harbor for prime loans meeting the QM requirements, and a rebuttable presumption for higher-priced/subprime loans meeting the QM requirements. The definition of a "qualified mortgage" incorporates the statutory requirements, such as not allowing negative amortization or terms longer than 30 years. The QM Rule also adds an explicit maximum 43% debt-to-income ratio for borrowers if the loan is to meet the QM definition, though some mortgages that meet GSE, FHA and VA underwriting guidelines may, for a period not to exceed 7 years, meet the QM definition without being subject to the 43% debt-to-income limits. The QM Rule became effective for us on January 10, 2015 and did not have a significant impact on our lending operations.

Insured Deposits

Our deposits are insured by the Deposit Insurance Fund ("DIF"), which is administered by the FDIC. The Dodd-Frank Act permanently increased deposit insurance coverage to $250,000 for most depository institutions, including us.

The FDIC's risk-based premium system provides for quarterly assessments. The FDIC imposes a risk-based deposit premium assessment system that determines assessment rates based on an assessment rate calculator, which is based on a number of elements to measure the risk each bank poses to the DIF. The assessment rate is applied to total average assets less tangible equity, as defined under the Dodd-Frank Act. The assessment rate schedule can change from time to time at the discretion of the FDIC, subject to certain limits.

In addition to deposit insurance assessments, the FDIC is required to continue to collect from institutions payments for the servicing of obligations of the Financing Corporation ("FICO") that were issued in connection with the resolution of savings and loan associations, so long as such obligations remain outstanding.

The FDIC may terminate the deposit insurance of any insured depository institution, including us, if it determines after a hearing that the institution has engaged or is engaging in unsafe or unsound practices, is in an unsafe or unsound condition to continue operations, or has violated any applicable law, regulation, order or any condition imposed by an agreement with the FDIC. It also may suspend deposit insurance temporarily during the hearing process for the permanent termination of insurance, if the institution has no tangible capital. If deposit insurance is terminated, the accounts at the institution at the time of the termination, less subsequent withdrawals, shall continue to be insured for a period of 6 months to 2 years, as determined by the FDIC. Management is aware of no existing circumstances that would result in termination of our deposit insurance.

Capital Adequacy Guidelines

In December 2010 and January 2011, the Basel Committee on Banking Supervision published the final texts of reforms on capital and liquidity generally referred to as "Basel III." In July 2013, the Federal Reserve Bank, the FDIC and the Comptroller of the Currency adopted final rules (the "New Rules"), which implement certain provisions of Basel III and the Dodd-Frank Act. The New Rules replaced the existing general risk-based capital rules of the federal banking agencies with a single, integrated regulatory capital framework. The New Rules require higher capital cushions and more stringent criteria for what qualifies as regulatory capital. The New Rules were effective for the Company on January 1, 2015.

Under the New Rules, the Company is required to maintain the following minimum capital ratios, expressed as a percentage of risk-weighted assets:

- Common Equity Tier 1 capital ratio ("CET1") of 4.5%;
- Tier 1 capital ratio (CET1 capital plus "Additional Tier 1 capital") of 6.0%; and
- Total capital ratio (Tier 1 capital plus Tier 2 capital) of 8.0%.

In addition, the Company will be subject to a Tier 1 leverage ratio of 4.0% (calculated as Tier 1 capital divided by average consolidated assets).

The New Rules also require a "capital conservation buffer." When fully phased in on January 1, 2019, the Company will be required to maintain a 2.5% capital conservation buffer, which is composed entirely of CET1, on top of the minimum risk-weighted asset ratios described above, resulting in the following minimum capital ratios:

- CET1 of 7%;
- Tier 1 capital ratio of 8.5%; and
- Total capital ratio of 10.5%.

The purpose of the capital conservation buffer is to absorb losses during periods of economic stress. Banking institutions with a CET1, Tier 1 capital ratio and total capital ratio above the minimum set forth above but below the capital conservation buffer will face constraints on their ability to pay dividends, repurchase equity and pay discretionary bonuses to executive officers, based on the amount of the shortfall. The implementation of the capital conservation buffer began on January 1, 2016 at a level of 0.625%, and it increases by 0.625% every January 1 until it reaches 2.5% on January 1, 2019.

The New Rules provide for several deductions from and adjustments to CET1, which are being phased in between January 1, 2015 and January 1, 2018. For example, mortgage servicing rights, deferred tax assets dependent upon future taxable income and significant investments in common equity issued by nonconsolidated financial entities must be deducted from CET1 to the extent that any one of those categories exceeds 10% of CET1 or all such categories in the aggregate exceed 15% of CET1.

Under the New Rules, banking organizations such as the Company may make a one-time permanent election regarding the treatment of accumulated other comprehensive income items in determining regulatory capital ratios. Effective as of January 1, 2015, the Company elected to exclude accumulated other comprehensive income items for purposes of determining regulatory capital.

While the New Rules generally require the phase-out of non-qualifying capital instruments such as trust preferred securities and cumulative perpetual preferred stock, holding companies with less than $15 billion in total consolidated assets as of December 31, 2009 may permanently include non-qualifying instruments that were issued and included in Tier 1 or Tier 2 capital prior to May 19, 2010 in additional Tier 1 or Tier 2 capital until they redeem such instruments or until the instruments mature.

The New Rules prescribe a standardized approach for calculating risk-weighted assets. Depending on the nature of the assets, the risk categories generally range from 0% for U.S. Government and agency securities, to 600% for certain equity exposures, and result in higher risk weights for a variety of asset categories. In addition, the New Rules provide more advantageous risk weights for derivatives and repurchase-style transactions cleared through a qualifying central counterparty and increase the scope of eligible guarantors and eligible collateral for purposes of credit risk mitigation.

Consistent with the Dodd-Frank Act, the New Rules adopt alternatives to credit ratings for calculating the risk-weighting for certain assets.

Pursuant to the Federal Deposit Insurance Corporation Improvement Act of 1991 ("FDICIA"), each federal banking agency has promulgated regulations specifying the levels at which an insured depository institution such as the Bank would be considered "well capitalized," "adequately capitalized," "undercapitalized," "significantly undercapitalized," or "critically undercapitalized," and to take certain mandatory and discretionary supervisory actions based on the capital level of the institution. To qualify to engage in financial activities under the Gramm-Leach-Bliley Act, all depository institutions must be "well capitalized."

The New Rules also revised the regulations implementing these provisions of FDICIA to change the capital levels applicable to each designation. Under the New Rules, an institution will be classified as "well capitalized" if it (i) has a total risk-based capital ratio of at least 10.0%, (ii) has a Tier 1 risk-based capital ratio of at least 8.0%, (iii) has a Tier 1 leverage ratio of at least 5.0%, (iv) has a CET1 capital ratio of at least 6.5%, and (v) meets certain other requirements. An institution will be classified as "adequately capitalized" if it (i) has a total risk-based capital ratio of at least 8.0%, (ii) has a Tier 1 risk-based capital ratio of at least 6.0%, (iii) has a Tier 1 leverage ratio of at least 4.0%, has a CET1 capital ratio of at least 4.5%, and (v) does not meet the definition of "well capitalized." An institution will be classified as "undercapitalized" if it (i) has a total risk-based capital ratio of less than 8.0%, (ii) has a Tier 1 risk-based capital ratio of less than 6.0%, (iii) has a Tier 1 leverage ratio of less than 4.0%, or (iv) has a CET1 capital ratio of less than 4.5%. An institution will be classified as "significantly undercapitalized" if it (i) has a total risk-based capital ratio of less than 6.0%, (ii) has a Tier 1 risk-based capital ratio of less than 4.0%, (iii) has a Tier 1 leverage ratio of less than 3.0%, or (iv) has a CET1 capital ratio of less than 3.0%. An institution will be classified as "critically undercapitalized" if it has a tangible equity to total assets ratio that is equal to or less than 2.0%. An insured depository institution may be deemed to be in a lower capitalization category if it receives an unsatisfactory examination rating.

Liquidity

We are required to maintain a sufficient amount of liquid assets to ensure our safe and sound operation.

Dividends

Under New Jersey law, we may declare and pay dividends only if after payment of the dividend our capital stock will be unimpaired and either the Bank will have a surplus of not less than 50% of its capital stock or the payment of the dividend will not reduce its surplus. In addition, we cannot pay dividends in such amounts as would reduce our capital below regulatory imposed minimums, including, pursuant to FDIC regulations, if the payment of the dividend would cause us to become undercapitalized or in the event the Bank is already undercapitalized.

Community Reinvestment Act

The Community Reinvestment Act of 1977, as amended (the "CRA"), requires that banks meet the credit needs of all of their assessment area (as established for these purposes in accordance with applicable regulations based principally on the location of branch offices), including those of low income areas and borrowers. The CRA does not establish specific lending requirements or programs for financial institutions nor does it limit an institution's discretion to develop the types of products and services that it believes are best suited to its particular community, consistent with the CRA. The CRA requires the FDIC to assess an institution's record of meeting the credit needs of its community and to take such record into account in the evaluation of certain applications by such institution. The CRA requires public disclosure of an institution's CRA rating and requires that a written evaluation of an institution's performance utilizing a four-tiered descriptive rating system be undertaken. An institution's CRA rating is considered in determining whether to grant charters, branches and other deposit facilities, relocations, mergers, consolidations and acquisitions. Performance less than satisfactory may be the basis for denying an application. The Bank received a "Satisfactory" rating on its last CRA Performance Evaluation.

USA PATRIOT Act

Under the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (the "USA PATRIOT Act"), all financial institutions are required to take certain measures to identify their customers, prevent money laundering, monitor customer transactions and report suspicious activity to U.S. law enforcement agencies. Financial institutions also are required to respond to requests for information from federal banking agencies and law enforcement agencies. Information sharing among financial institutions for the above purposes is encouraged by an exemption granted to complying financial institutions from the privacy provisions of the Gramm-Leach-Bliley Act and other privacy laws. Financial institutions that hold correspondent accounts for foreign banks or provide private banking services to foreign individuals are required to take measures to avoid dealing with certain foreign individuals or entities, including foreign banks with profiles that raise money laundering concerns, and are prohibited from dealing with foreign "shell banks" and persons from jurisdictions of particular concern. The primary federal banking agencies and the U.S. Treasury Department have adopted regulations to implement several of these provisions. Financial institutions also are required to establish internal anti-money laundering programs. The effectiveness of institutions in combating money laundering activities is a factor to be considered in applications submitted to regulators under several federal laws, including the Bank Merger Act. We have in place a Bank Secrecy Act and USA PATRIOT Act compliance program and engage in very few transactions of any kind with foreign financial institutions or foreign persons. We do not believe that the USA PATRIOT Act has a material effect on our business or operations; however, the effect of the compliance burden imposed by the USA PATRIOT Act on our operations cannot be predicted with certainty.

Office of Foreign Assets Control Regulation

The U.S. has imposed economic sanctions that affect transactions with designated foreign countries, nationals and others. These are typically known as the "OFAC" rules based on their administration by the U.S. Treasury Department's Office of Foreign Assets Control ("OFAC"). The OFAC-administered sanctions targeting countries take many different forms. Generally, the sanctions contain one or more of the following elements: (i) restrictions on trade with or investment in a sanctioned country, including prohibitions against direct or indirect imports from and exports to a sanctioned country and prohibitions on "U.S. persons" engaging in financial transactions relating to making investments in, or providing investment-related advice or assistance to, a sanctioned country; and (ii) a blocking of assets in which the government or specially designated nationals of the sanctioned country have an interest, by prohibiting transfers of property subject to U.S. jurisdiction (including property in the possession or control of U.S. persons). Blocked assets (e.g., property and bank deposits) cannot be paid out, withdrawn, set off or transferred in any manner without a license from OFAC. Failure to comply with these sanctions could have serious legal and reputational consequences.

Other Legislative Initiatives

From time to time, various legislative and regulatory initiatives are introduced in Congress and state legislatures, as well as by regulatory agencies. Such initiatives may include proposals to expand or contract the powers of banks and savings and loan holding companies and/or insured depository institutions or proposals to substantially change the financial institution regulatory system. Such legislation could change banking statutes and our operating environment in substantial and unpredictable ways. If enacted, such legislation could increase or decrease the cost of doing business, limit or expand permissible activities or affect the competitive balance among banks, savings associations, credit unions, and other financial institutions. We cannot predict whether any such legislation will be enacted, and, if enacted, the effect that it or any implementing regulations would have on our financial condition or results of operations. A change in statutes, regulations or regulatory policies applicable to us could have a material effect on our business.

Item 1A. Risk Factors.

An investment in our common stock involves a high degree of risk. There are risks, many beyond our control, that could cause our financial condition or results of operations to differ materially from management's expectations. Some of the risks that may affect us are described below. Before deciding to invest in our common stock, you should carefully consider the risks described below together with all the information contained herein, including our financial statements and the notes thereto. Any risk described below, by itself or together with one or more other factors, may adversely affect our business, results of operations, financial condition, prospects and the market price and liquidity of our common stock, perhaps materially. The risks presented below are not the only risks that we face. Additional risks that we do not presently know or that we currently deem immaterial may also have an adverse effect on our business, results of operations, financial condition, prospects and the market price and liquidity of our common stock. In such a case, you may lose all or part of your investment. Further, to the extent that any of the information contained in this document constitutes forward-looking statements, the risk factors below also are cautionary statements identifying important factors that could cause actual results to differ materially from those expressed in any forward-looking statements made by us or on our behalf. See "Forward-Looking Statements" on Page 1 of this document.

Risks Related to Our Business:

Competition from other financial institutions in originating loans and attracting deposits may adversely affect our profitability.

We face substantial competition in originating loans. This competition comes principally from other banks, savings institutions, mortgage banking companies, credit unions and other lenders. Many of our competitors enjoy advantages, including greater financial resources and higher lending limits, a wider geographic presence, more accessible branch office locations, the ability to offer a wider array of services or more favorable pricing alternatives, as well as lower origination and operating costs. This competition could reduce our net income by decreasing the number and size of loans that we originate and the interest rates we may charge on these loans.

In attracting deposits, we face substantial competition from other insured depository institutions such as banks, savings institutions and credit unions, as well as institutions offering uninsured investment alternatives, including money market funds. Many of our competitors enjoy advantages, including greater financial resources, more aggressive marketing campaigns, better brand recognition and more branch locations. These competitors may offer higher interest rates than we do, which could decrease the deposits that we attract or require us to increase our rates to retain existing deposits or attract new deposits. Increased deposit competition could adversely affect our ability to generate the funds necessary for lending operations and may increase our cost of funds.

We also compete with non-bank providers of financial services, such as brokerage firms, consumer finance companies, insurance companies and governmental organizations which may offer more favorable terms. Some of our non-bank competitors are not subject to the same extensive regulations that govern our operations. As a result, such non-bank competitors may have advantages over us in providing certain products and services. This competition may reduce or limit our margins on banking services, reduce our market share and adversely affect our results of operations and financial condition.

Our growth has substantially increased our expenses and impacted our results of operations.

Although we believe that our growth strategy will support our long term profitability and franchise value, the expense associated with our growth, including compensation expense for the employees needed to support this growth and leasehold and other expenses associated with our locations, has and may continue to negatively affect our results. In addition, in order for our existing branches to contribute to our long term profitability, we will need to be successful in attracting and maintaining cost-efficient deposits at these locations. In order to successfully manage our growth, we need to effectively execute policies, procedures and controls to maintain our credit quality and oversee our operations. We can provide no assurance that we will be successful in this strategy.

Our growth-oriented business strategy could be adversely affected if we are not able to attract and retain skilled employees.

We may not be able to successfully manage our business as a result of the strain on our management and operations that may result from growth. Our ability to manage growth will depend upon our ability to continue to attract, hire and retain skilled employees. Our success will also depend on the ability of our officers and key employees to continue to implement and improve our operational and other systems, to manage multiple, concurrent customer relationships and to hire, train and manage our employees.

We will likely need to raise additional capital to execute our growth-oriented business strategy.

In order to continue our growth, we will be required to maintain our regulatory capital ratios at levels higher than the minimum ratios set by our regulators. The implementation of certain new regulatory requirements, such as the Basel III accord and the Dodd-Frank Act, has established higher tangible capital requirements for financial institutions. These developments will likely require us to raise additional capital in the future. We can offer no assurance that we will be able to raise capital in the future, or that the terms of any such capital will be beneficial to our existing shareholders. In the event we are unable to raise capital in the future, we may not be able to continue our growth strategy.

Our ability to pay dividends is subject to regulatory limitations which may affect our ability to pay dividends to shareholders.

We declared our first cash dividend on November 15, 2016. As noted above, dividends may be restricted by law or regulation. Therefore, investors should not purchase shares of common stock with a view for a current return on their investment in the form of additional cash dividends.

Our loan portfolio has a significant concentration in commercial loans.

Our loan portfolio is made up largely of commercial real estate loans and commercial and industrial loans. These types of loans generally expose a lender to a higher degree of credit risk of nonpayment and loss than other loans because of several factors, including dependence on the successful operation of a business or a project for repayment, the collateral securing these loans may not be sold as easily as for other loans, and loan terms may include a balloon payment rather than full amortization over the loan term. In addition, commercial real estate and commercial and industrial loans typically involve larger loan balances to single borrowers or groups of related borrowers. Underwriting and portfolio management activities cannot completely eliminate all risks related to these loans. Any significant failure to pay on time by our customers or a significant default by our customers could materially and adversely affect us.

At December 31, 2016, we had $708.2 million of commercial real estate loans, which represented 78.8% of our total loan portfolio. Our commercial real estate loans include loans secured by owner-occupied and non-owner-occupied tenanted properties for commercial uses, construction and development loans and multi-family loans. In addition, we make both secured and unsecured commercial and industrial loans. At December 31, 2016, we had $112.6 million of commercial and industrial loans, which represented 12.5% of our total loan portfolio. Unsecured loans generally involve a higher degree of risk of loss than do secured loans because, without collateral, repayment is wholly dependent upon the success of the borrowers' businesses. Secured commercial and industrial loans are generally collateralized by accounts receivable, inventory, equipment or other assets owned by the borrower and typically include a personal guarantee of the business owner. Compared to real estate, such collateral is more difficult to monitor, its value is harder to ascertain, it may depreciate more rapidly and it may not be as readily saleable if repossessed.

Loans secured by owner-occupied real estate and commercial and industrial loans are both reliant on the underlying operating businesses to provide cash flow to meet debt service obligations, and as a result they are more susceptible to the general impact on the economic environment affecting those operating companies as well as the real estate market.

Although the economy in our market areas generally, and the real estate market in particular, is improving, we can give you no assurance that it will continue to grow. Many factors, including continuing global economic difficulties could reduce or halt growth in our local economy and real estate market. Accordingly, it may be more difficult for commercial real estate borrowers to repay their loans in a timely manner in the current economic climate, as commercial real estate borrowers' ability to repay their loans frequently depends on the successful development of their properties. The deterioration of one or a few of our commercial real estate loans could cause a material increase in our level of nonperforming loans, which would result in a loss of revenue from these loans and could result in an increase in the provision for loan losses and/or an increase in charge offs, all of which could have a material adverse impact on our net income. We also may incur losses on commercial real estate loans due to declines in occupancy rates and rental rates, which may decrease property values and may decrease the likelihood that a borrower may find permanent financing alternatives. Any weakening of the commercial real estate market may increase the likelihood of default on these loans, which could negatively impact our loan portfolio's performance and asset quality. If we are required to liquidate the collateral securing a loan to satisfy the debt during a period of reduced real estate values, we could incur material losses. Any of these events could increase our costs, require management time and attention, and materially and adversely affect us.

Federal banking agencies have issued guidance regarding high concentrations of commercial real estate loans within bank loan portfolios. The guidance requires financial institutions that exceed certain levels of commercial real estate lending compared with their total capital to maintain heightened risk management practices that address the following key elements: board and management oversight and strategic planning, portfolio management, development of underwriting standards, risk assessment and monitoring through market analysis and stress testing, and maintenance of increased capital levels as needed to support the level of commercial real estate lending. If there is any deterioration in our commercial real estate portfolio or if our regulators conclude that we have not implemented appropriate risk management practices, it could adversely affect our business, and could result in the requirement to maintain increased capital levels or restrict our ability to originate new loans secured by commercial real estate. We can provide no assurance that capital would be available at that time.

The nature of our commercial loan portfolio may expose us to increased lending risks.

Given the recent growth in our loan portfolio, a portion of our commercial loans are unseasoned, meaning that they were originated relatively recently. Our limited time with these loans does not provide us with a significant payment history pattern with which to judge future collectability. As a result, it may be difficult to predict the future performance of our loan portfolio. These loans may have delinquency or charge off levels above our expectations, which could negatively affect our performance.

The small to mid-sized businesses that we lend to may have fewer resources to weather a downturn in the economy, which may impair a borrower's ability to repay a loan to us that could materially harm our operating results.

We target our business development and marketing strategy primarily to serve the banking and financial services needs of small to mid-sized businesses. These small to mid-sized businesses frequently have smaller market share than their competition, may be more vulnerable to economic downturns, often need substantial additional capital to expand or compete and may experience significant volatility in operating results. Any one or more of these factors may impair the borrower's ability to repay a loan. In addition, the success of a small to mid-sized business often depends on the management talents and efforts of one or two persons or a small group of persons, and the death, disability or resignation of one or more of these persons could have a material adverse impact on the business and its ability to repay a loan. Economic downturns and other events that negatively impact our market areas could cause us to incur substantial credit losses that could negatively affect our results of operations and financial condition.

Our lending limit may restrict our growth.

We are limited in the amount we can loan to a single borrower by the amount of our capital. Generally, under current law, we may lend up to 15% of our unimpaired capital and surplus, including capital notes, to any one borrower. Based upon our current capital levels, the amount we may lend is less than that of many of our larger competitors and may discourage potential borrowers who have credit needs in excess of our lending limit from doing business with us. We may accommodate larger loans by selling participations in those loans to other financial institutions, but this ability may not always be available.

We must maintain and follow high underwriting standards to grow safely.

Our ability to grow our assets safely depends on maintaining disciplined and prudent underwriting standards and ensuring that our relationship managers and lending personnel follow those standards. The weakening of these standards for any reason, such as to seek higher yielding loans, or a lack of discipline or diligence by our employees in underwriting and monitoring loans, may result in loan defaults, foreclosures and additional charge offs and may necessitate that we significantly increase our allowance for loan losses. As a result, our business, results of operations, financial condition or prospects could be adversely affected.

Our allowance for loan losses may not be adequate to cover actual losses.

Like all financial institutions, we maintain an allowance for loan losses to provide for loan defaults and nonperformance. The process for determining the amount of the allowance is critical to our financial results and condition. It requires difficult, subjective and complex judgments about external factors, including the impact of national and regional economic conditions on the ability of our borrowers to repay their loans. If our judgment proves to be incorrect, our allowance for loan losses may not be sufficient to cover losses inherent in our loan portfolio. Further, state and federal regulatory agencies, as an integral part of their examination process, review our loans and allowance for loan losses and may require an increase in our allowance for loan losses.

Although we believe that our allowance for loan losses at December 31, 2016 is adequate to cover known and probable incurred losses included in the portfolio, we cannot provide assurances that we will not further increase the allowance for loan losses or that our regulators will not require us to increase this allowance. Either of these occurrences could adversely affect our earnings.

We may not be able to successfully integrate BCB or any other banks or other businesses that we may acquire.

Our strategy has been to carefully evaluate each acquisition opportunity presented to us to determine whether it fits into our strategic growth plan and ensure that it does not involve excessive risk to the Bank. As described in Item 1. Business, we have entered into an agreement to acquire BCB, which we expect will occur in the third quarter of 2017, but is subject to certain conditions, including receiving regulatory and shareholder approval. We may not be able to successfully integrate the assets, liabilities, customers, systems and management personnel we acquire into our operations, and we may not be able to realize related revenue synergies and cost savings within our expected time frames. In addition, we will incur substantial legal, investment banking, accounting and other expenses in pursuing the BCB acquisition and any other acquisitions. With respect to any completed acquisition, there will be potential goodwill impairment charges and fluctuations in the fair values of assets in the event projected financial results are not achieved within expected time frames.

Historically low interest rates may adversely affect our net interest income and profitability.

For several years it has been the policy of the Federal Reserve to maintain interest rates at historically low levels through its targeted federal funds rate and, for a period, the purchase of mortgage-backed securities. As a result, yields on securities we have purchased and market rates on the loans we have originated have been at levels lower than were available prior to 2008. Consequently, the average yield on our interest earning assets has decreased during the low interest rate environment period. As a general matter, our interest bearing liabilities re-price or mature more quickly than our interest earning assets, which have contributed to increases in net interest income (the difference between interest income earned on assets and interest expense paid on liabilities) in the short term. However, our ability to lower our interest expense is limited at these interest rate levels, while the average yield on our interest earning assets may continue to decrease. The Federal Reserve increased the Federal Funds rate in late 2016 and March 2017 and has indicated its intention to further increase interest rates in the future, depending on the performance of the U.S. economy. Accordingly, our net interest income may decrease, which may have an adverse effect on our profitability.

For information with respect to changes in interest rates, see the Risk Factor entitled, "Changes in interest rates may adversely affect our earnings and financial condition."

We are a community bank and our ability to maintain our reputation is critical to the success of our business and the failure to do so may materially adversely affect our performance.

We are a community bank, and our reputation is one of the most valuable components of our business. As such, we strive to conduct our business in a manner that enhances our reputation. This is done, in part, by recruiting, hiring and retaining employees who share our core values of being an integral part of the communities we serve, delivering superior service to our customers and caring about our customers and associates. If our reputation is negatively affected, by the actions of our employees or otherwise, our business and, therefore, our operating results may be materially adversely affected. Additionally, damage to our reputation could undermine the confidence of our current and potential clients in our ability to provide financial services. Such damage could also impair the confidence of our counterparties and business partners, and ultimately affect our ability to effect transactions. Maintenance of our reputation depends not only on our success in maintaining our service-focused culture and controlling and mitigating the various risks described herein, but also on our success in identifying and appropriately addressing issues that may arise in areas such as potential conflicts of interest, anti-money laundering, client personal information and privacy issues, record-keeping, regulatory investigations and any litigation that may arise from the failure or perceived failure of us to comply with legal and regulatory requirements. Maintaining our reputation also depends on our ability to successfully prevent third-parties from infringing on the "First Bank" brand and associated trademarks. Defense of our reputation, including through litigation, could result in costs adversely affecting our business, results of operations, financial condition or prospects.

Our internal control systems could fail to detect certain events.

We are subject to certain operational risks, including but not limited to data processing system failures and errors and customer or employee fraud. We maintain a system of internal controls to mitigate such occurrences and maintain insurance coverage for such risks. However, should such an event occur that is not prevented or detected by our internal controls, is uninsured or in excess of applicable insurance limits, it could have a significant adverse effect on our business, results of operations, financial condition or prospects.

If the Bank cannot favorably assess the effectiveness of its internal controls over financial reporting or if its independent registered public accounting firm is unable to provide an unqualified attestation report on the Bank's internal controls, we may be subject to additional regulatory scrutiny.

At January 1, 2017, the Bank's total assets exceeded $1.0 billion. Therefore, it will be subject to further reporting requirements under the rules of the FDIC as of and for the fiscal year ending December 31, 2017. Pursuant to these rules, management will be required to prepare a report that contains an assessment by management of the Bank's effectiveness of internal control structure and procedures for financial reporting (including the Call Report that is submitted to the FDIC) as of the end of such fiscal year. The Bank's independent public accounting firm will also be required to examine, attest to and report on the assessment of the Bank's management concerning the effectiveness of the Bank's internal control structure and procedures for financial reporting. The rules that must be met for management to assess the Bank's internal controls over financial reporting are complex and require significant documentation and testing and possible remediation of internal control weaknesses. The effort to comply with regulatory requirements relating to internal controls will likely cause us to incur increased expenses and will cause a diversion of management's time and other internal resources. We also may encounter problems or delays in completing the implementation of any changes necessary to make a favorable assessment of the Bank's internal control over financial reporting. In addition, in connection with the attestation process, the Bank may encounter problems or delays in completing the implementation of any requested improvements or receiving a favorable attestation from its independent registered public accounting firm. If the Bank cannot favorably assess the effectiveness of its internal control over financial reporting, or if its independent registered public accounting firm is unable to provide an unqualified attestation report on the Bank's internal controls, investor confidence and the price of our common stock could be adversely affected and we may be subject to additional regulatory scrutiny.

We rely on third parties to provide key components of our business infrastructure, and a failure of these parties to perform for any reason could disrupt our operations.

Third parties provide key components of our business infrastructure such as data processing, Internet connections, network access, core application processing, statement production and account analysis. Our business depends on the successful and uninterrupted functioning of our information technology and telecommunications systems and third-party servicers. The failure of these systems, or the termination of a third-party software license or service agreement on which any of these systems is based, could interrupt our operations. Because our information technology and telecommunications systems interface with and depend on third-party systems, we could experience service denials if demand for such services exceeds capacity or such third-party systems fail or experience interruptions. Replacing vendors or addressing other issues with our third-party service providers could entail significant delay and expense. If we are unable to efficiently replace ineffective service providers, or if we experience a significant, sustained or repeated, system failure or service denial, it could compromise our ability to operate effectively, damage our reputation, result in a loss of customer business, and subject us to additional regulatory scrutiny and possible financial liability, any of which could have a material adverse effect on our business, financial condition, results of operations and future prospects.

Risks Related to the Banking Industry Generally:

The financial services industry is undergoing a period of great volatility and disruption.

Beginning in mid-2007, there has been significant turmoil and volatility in global financial markets. Market uncertainty regarding the financial sector increased. In addition to the impact on the economy generally, changes in interest rates, in the shape of the yield curve, or in valuations in the debt or equity markets or disruptions in the liquidity or other functioning of financial markets, most of which have occurred, could directly impact us in one or more of the following ways:

- Net interest income, the difference between interest earned on interest earning assets and interest paid on interest bearing liabilities, represents a significant portion of our earnings. Both increases and decreases in the interest rate environment may reduce our profits. We expect that we will continue to realize income from the spread between the interest we earn on loans, securities and other interest earning assets, and the interest we pay on deposits, borrowings and other interest bearing liabilities. The net interest spread is affected by the differences between the maturity and repricing characteristics of our interest earning assets and interest bearing liabilities. Our interest earning assets may not reprice as slowly or rapidly as our interest bearing liabilities.
- The market value of our securities portfolio may decline and result in other than temporary impairment charges. The value of the securities in our portfolio is affected by factors that impact the U.S. securities markets in general as well as specific financial sector factors and entities. Recent uncertainty in the market regarding the financial sector has at times negatively impacted the value of securities within our portfolio. Further declines in these sectors may result in future other than temporary impairment charges.
- Asset quality may deteriorate as borrowers become unable to repay their loans.

Changes in interest rates may adversely affect our earnings and financial condition.

Our net income depends primarily upon our net interest income. The level of net interest income is primarily a function of the average balance of our interest earning assets, the average balance of our interest bearing liabilities, and the spread between the yield on such assets and the cost of such liabilities. These factors are influenced by both the pricing and mix of our interest earning assets and our interest bearing liabilities which, in turn, are impacted by such external factors as the local economy, competition for loans and deposits, the monetary policy of the Federal Open Market Committee of the Federal Reserve, and market interest rates.

A sustained increase in market interest rates could adversely affect our earnings if our cost of funds increases more rapidly than our yield on our interest earning assets, and compresses our net interest margin. In addition, the economic value of equity could decline if interest rates increase. Different types of assets and liabilities may react differently, and at different times, to changes in market interest rates. We expect that we will periodically experience gaps in the interest rate sensitivities of our assets and liabilities. That means either our interest bearing liabilities will be more sensitive to changes in market interest rates than our interest earning assets, or vice versa. When interest bearing liabilities mature or re-price more quickly than interest earning assets, an increase in market rates of interest could reduce our net interest income. Likewise, when interest earning assets mature or re-price more quickly than interest bearing liabilities, falling interest rates could reduce our net interest income. We are unable to predict changes in market interest rates, which are affected by many factors beyond our control, including inflation, deflation, recession, unemployment, money supply, domestic and international events and changes in the United States and other financial markets.

We also attempt to manage risk from changes in market interest rates, in part, by controlling the mix of interest rate sensitive assets and liabilities. However, interest rate risk management techniques are not exact. A rapid increase or decrease in interest rates could adversely affect our results of operations and financial performance.

We are subject to significant government regulation, which could affect our business, financial condition and results of operations.

We are subject to extensive governmental supervision, regulation and control. These laws and regulations are subject to change, and may require substantial modifications to our operations or may cause us to incur substantial additional compliance costs. In addition, future legislation and government policy could adversely affect the commercial banking industry and our operations. Such governing laws can be anticipated to continue to be the subject of future modification. Our management cannot predict what effect any such future modifications will have on our operations. In addition, the primary focus of federal and state banking regulation is the protection of depositors and not the shareholders of the regulated institutions.

For example, the Dodd-Frank Act may result in substantial new compliance costs. Although signed into law in 2010, different effective dates apply to specific sections of the Dodd-Frank Act, many of which will not become effective until various federal regulatory agencies have promulgated rules implementing the statutory provisions. Uncertainty remains as to the ultimate impact of the Dodd-Frank Act, which could have a material adverse impact either on the financial services industry as a whole, or on our business, results of operations and financial condition. The Dodd-Frank Act impacts, among other things, the rules and regulations of the CFPB, the underwriting and securitization of residential mortgages, regulatory capital requirements and deposit insurance assessments.

These provisions, as well as any other aspects of current or proposed regulatory or legislative changes to laws applicable to the financial industry, may impact the profitability of our business activities and may change certain of our business practices, including the ability to offer new products, obtain financing, attract deposits, make loans, and achieve satisfactory interest spreads, and could expose us to additional costs, including increased compliance costs. These changes also may require us to invest significant management attention and resources to make any necessary changes to operations in order to comply, and could therefore also materially and adversely affect our business, financial condition and results of operations.

Our management is actively reviewing the provisions of the Dodd-Frank Act, many of which are to be phased-in over the next several months and years, and assessing the probable impact on our operations. However, the ultimate effect of these changes on the financial services industry in general, and us in particular, is uncertain at this time.

The laws that regulate our operations are designed for the protection of depositors and the public, not our shareholders.

The federal and state laws and regulations applicable to our operations give regulatory authorities extensive discretion in connection with their supervisory and enforcement responsibilities, and generally have been promulgated to protect depositors and the Deposit Insurance Fund and not for the purpose of protecting shareholders. These laws and regulations can materially affect our future business. Laws and regulations now affecting us may be changed at any time, and the interpretation of such laws and regulations by bank regulatory authorities is also subject to change.

We can give no assurance that future changes in laws and regulations or changes in their interpretation will not adversely affect our business. Legislative and regulatory changes may increase our cost of doing business or otherwise adversely affect us and create competitive advantages for non-bank competitors.

We cannot predict how changes in technology will impact our business; increased use of technology may expose us to service interruptions.

The financial services market, including banking services, is increasingly affected by advances in technology, including developments in:

- telecommunications;
- data processing;
- automation;
- Internet banking, including mobile banking;
- social media;
- debit cards and so-called “smart cards”; and
- remote deposit capture.

Our ability to compete successfully in the future will depend, to a certain extent, on whether we can anticipate and respond to technological changes. We offer electronic banking services for our consumer and business customers including Internet banking, mobile banking and electronic bill payment, as well as banking by phone. We also offer ATM and debit cards, wire transfers, and ACH transfers. The successful operation and further development of these and other new technologies will likely require additional capital investment in the future. In addition, increased use of electronic banking creates opportunities for interruptions in service which could expose us to claims by customers or other third parties. We can provide no assurance that we will have sufficient resources or access to the necessary technology to remain competitive in the future.

We may be vulnerable to cyberattacks or other security breaches affecting our electronic data and product delivery systems.

The financial services industry has experienced an increase in both the number and severity of reported cyberattacks aimed at gaining unauthorized systems access as a way to misappropriate assets and sensitive information, corrupt and destroy data, or cause operational disruptions. We are increasingly dependent on technology systems to run our core operations and as a delivery channel to provide products and services to our customers. We also rely on the integrity and security of a variety of third party processors, payment, clearing and settlement systems, as well as the various participants involved in these systems, many of which have no direct relationship with us. Failure by these participants or their systems to protect our customers' transaction data may put us at risk for possible losses due to fraud or operational disruption. In many cases, in order for these systems to function, they must be connected to the Internet, directly or indirectly. These connections open our systems to potential attacks by third parties seeking to steal our data, our customers' information or to disable our systems. A successful attack on our systems could adversely affect our results of operations by, among other things, harming our reputation among current and potential customers if their information is stolen, disrupting our operations if our systems are impaired, the loss of assets which could be stolen in an attack and the costs of remediating our systems after an attack. Although we have security safeguards and take numerous steps to protect our systems from a potential attack, we can provide no assurance that these measures will be successful in preventing intrusions into our systems. The occurrence of a breach of security involving our customers could damage our reputation and result in a loss of customers and business, subject us to additional regulatory scrutiny and could expose us to litigation and possible financial liability. Any of these events could have a material adverse effect on our financial condition and results of operations.

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

As of December 31, 2016, our properties consisted of leased premises for our corporate office and full-service branch offices, except for our Denville property which we own, as indicated below:

- Our corporate office and main branch office are located at 2465 Kuser Road, Hamilton, New Jersey. We occupy approximately 12,000 square feet under a lease with a term of ten years that expires on June 30, 2025 and includes two 5-year renewal options;
- Our Ewing branch is located at 1340 Parkway Avenue, Ewing, New Jersey. We occupy this 2,900 square foot location under a lease with a term of five years that expires on April 1, 2019 and includes two remaining 5-year renewal options;
- Our Lawrenceville branch is a 3,600 square foot building located at 590 Lawrence Square Boulevard South, Lawrenceville, New Jersey. Our lease has a term of ten years that expires on November 10, 2023 and includes one 5-year renewal option;
- Our Williamstown branch is a 3,500 square foot building located at 1020 N. Black Horse Pike, Williamstown, New Jersey, a property for which the Bank has a 20-year ground lease that expires on October 31, 2029 and includes six 5-year renewal options;
- Our Somerset branch is composed of 3,100 square feet space that is located at DeMott Lane and New Brunswick Road, Somerset, New Jersey. Our lease has a term of seven years that expires on December 31, 2019, and includes one 7-year renewal option;
- Our Randolph branch is located at 1206 Sussex Turnpike, Randolph, New Jersey. The branch is a 3,300 square foot facility with a lease that has a term of 5 years and expires on July 31, 2020. There are three 5-year renewal options remaining on this lease;
- Our Cranbury branch is a 2,200 square foot building located at 2664 U.S. Route 130, Cranbury, New Jersey. The lease has a term of ten years and three months that expires on October 31, 2024 and includes two 5-year renewal options;
- Our Trevose branch is a 4,000 square foot branch located at 4956-66 Old Street Road, Trevose, Bucks County, Pennsylvania. The lease has a term of ten years that expires on April 30, 2025 and has four 5-year renewal options;

- Our Flemington branch is located at 334 Highway 31 North, Flemington, New Jersey. The branch is a 3,300 square foot facility with a lease that has a term of 15 years and expires on January 31, 2031. There are three 5-year renewal options on this lease; and
- We own our Denville branch property located at 530 E. Main Street, Denville, New Jersey. The building is composed of 4,000 square feet.

We believe each of our facilities is suitable and adequate to meet our current operational needs.

Item 3. Legal Proceedings.

From time to time we are a party to various litigation matters incidental to the conduct of our business. There are no material pending legal proceedings, other than ordinary routine litigation incidental to our business, to which we are a party or to which any of our property is subject, and the results of such matters will not have a material effect on our business or financial condition.

Item 4. Mine Safety Disclosures.

Not applicable.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Market Information for Common Stock

The Company's common stock is traded on the NASDAQ Global Market exchange under the symbol "FRBA". The following table sets forth the high and low closing sales prices of the Company's common stock as reported on the NASDAQ Global Market exchange on the last trading day of the periods indicated.

	FRBA Closing Sales Price			
	2016		2015	
	High	Low	High	Low
Fourth Quarter	$ 12.00	$ 8.27	$ 7.11	$ 6.16
Third Quarter	8.70	6.71	6.40	5.96
Second Quarter	7.33	6.68	6.38	5.94
First Quarter	7.00	6.37	6.35	5.82

The Company declared its first cash dividend on November 15, 2016. Shareholders of record at the close of business on February 10, 2017 received a cash dividend of $0.02 per share on February 28, 2017. As noted above, dividends may be restricted by law or regulation. Therefore, investors should not purchase shares of common stock with a view for a current return on their investment in the form of cash dividends.

As of March 14, 2017, there were approximately 254 stockholders of record of the Company's common stock. Certain shares of the Company's common stock are held in "nominee" or "street" name and therefore the number of such holders is not known or included in the foregoing number.

Equity Compensation Plan Information

The following table presents certain information regarding the Company's equity compensation plans as of December 31, 2016.

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans excluding securities reflected in column (a) (c)
Equity compensation plans approved by security holders (1)	793,858	$ 5.78	361,979
Equity compensation plans not approved by security holders	-	-	-
Total	793,858	$ 5.78	361,979

(1) 96,620 warrants issued in the Company's initial stock offering are not included as they were not issued through any of our equity compensation plans. None of the warrants have been exercised as of December 31, 2016.

Item 6. Selected Financial Data.

The following selected consolidated financial data should be read in connection with Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations", and the Company's consolidated financial statements and the related notes appearing in Item 8. "Financial Statements and Supplementary Data" of this Annual Report on Form 10-K.

The Company derived the consolidated statements of income data for the years ended December 31, 2016 and 2015 and the consolidated statements of financial condition data at December 31, 2016 and 2015 from the audited consolidated financial statements appearing in Item 8. of this Annual Report on Form 10-K. The Company derived the consolidated statements of income data for the years ended December 31, 2014, 2013 and 2012 and the consolidated statements of financial condition data at December 31, 2014, 2013 and 2012 from audited consolidated financial statements that are not included in this Annual Report on Form 10-K. The Company's historical results are not necessarily indicative of the results to be expected in any future period.

	At or For the Year Ended December 31,				
	2016	**2015**	**2014** (1)	**2013**	**2012**
	(in thousands, except share data)				
SELECTED BALANCE SHEET DATA					
Total assets	$1,073,294	$ 856,106	$ 677,458	$ 466,792	$ 350,782
Total loans	898,429	689,887	547,759	339,975	260,039
Allowance for loan losses	9,826	7,940	6,104	4,675	4,084
Total deposits	894,934	739,021	596,482	399,113	309,048
Total borrowings	64,510	24,000	14,000	14,000	10,219
Total subordinated debentures	21,641	21,533	-	-	-
Total stockholders' equity	88,806	68,763	64,759	52,507	31,025
Average total assets	963,448	764,400	597,811	396,974	311,809
Average common stockholders' equity	79,317	67,708	61,530	34,107	26,348
SELECTED INCOME STATEMENT DATA					
Interest and dividend income	$ 38,327	$ 30,764	$ 25,350	$ 16,620	$ 14,210
Interest expense	9,424	6,941	4,137	3,414	3,278
Net interest income	28,903	23,823	21,213	13,206	10,932
Provision for loan losses	2,697	2,669	2,438	1,543	1,366
Net interest income after provision for loan losses	26,206	21,154	18,775	11,663	9,566
Non-interest income	1,630	1,643	5,099	512	394
Non-interest expense	18,332	17,725	15,820	9,388	7,702
Income before income taxes	9,504	5,072	8,054	2,787	2,258
Income tax expense (benefit)	3,098	1,185	2,218	1,079	(330)
Net income	$ 6,406	$ 3,887	$ 5,836	$ 1,708	$ 2,588
COMMON SHARE DATA					
Basic earnings per share	$ 0.61	$ 0.41	$ 0.63	$ 0.33	$ 0.63
Diluted earnings per share	0.61	0.41	0.63	0.33	0.63
Basic weighted average common shares outstanding	10,420,622	9,423,029	9,244,005	5,128,061	4,083,012
Diluted weighted average common shares outstanding	10,580,040	9,492,289	9,309,134	5,172,233	4,083,012
Book value per common share	$ 7.78	$ 7.26	$ 6.88	$ 6.16	$ 6.62
Common shares outstanding	11,410,274	9,470,157	9,408,491	8,520,299	4,686,965

	At or For the Year Ended December 31,				
	2016	**2015**	**2014** (1)	**2013**	**2012**
	(in thousands, except share data)				
SELECTED PERFORMANCE RATIOS					
Return on average assets	0.66%	0.51%	0.98%	0.43%	0.83%
Return on average equity	8.08%	5.74%	9.48%	5.01%	9.82%
Net interest margin, tax equivalent (2)	3.11%	3.27%	3.75%	3.47%	3.68%
Efficiency ratio (3)	61.20%	71.73%	69.34%	68.55%	68.00%
SELECTED ASSET QUALITY RATIOS					
Nonaccrual loans to total loans	0.58%	0.55%	0.85%	0.98%	1.28%
Nonperforming loans to total loans (4)	0.66%	0.57%	1.30%	0.98%	1.28%
Nonperforming assets to total assets (5)	0.68%	0.64%	1.39%	1.09%	1.69%
Allowance for loan losses to total loans	1.09%	1.15%	1.11%	1.38%	1.57%
Allowance for loan losses to nonperforming loans	164.67%	203.43%	85.83%	140.14%	122.90%
Net loan charge offs to average loans	0.10%	0.14%	0.22%	0.32%	0.25%
CAPITAL RATIOS					
Tangible stockholders' equity to assets (3)	8.26%	8.00%	9.51%	11.25%	8.84%
Stockholders' equity to assets	8.27%	8.03%	9.56%	11.25%	8.84%
Tier 1 leverage capital	8.56%	8.22%	9.72%	11.89%	8.89%
Common equity tier 1 capital (6)	8.78%	8.58%	-	-	-
Tier 1 risk-based capital	8.78%	8.58%	10.96%	14.11%	10.53%
Total risk-based capital	11.91%	12.29%	12.00%	15.35%	11.78%

(1) Includes effects of the acquistion of Heritage Community Bank.
(2) The tax equivalent adjustment is calculated using a federal income tax rate of 34 percent.
(3) This measure is not recognized under generally accepted accounting principles in the United States of America ("U.S. GAAP"), and is therefore considered to be a non-U.S. GAAP financial measure. See the section entitled "Non-U.S. GAAP Financial Measures" for a definition and a reconciliation.
(4) Nonperforming loans consist of nonaccrual loans and loans past due 90 days or more and still accruing.
(5) Nonperforming assets consist of nonperforming loans, other real estate owned and other repossessed assets.
(6) New regulatory capital measure calculated under Basel III rules which became effective January 1, 2015.

Non-U.S. GAAP Financial Measures

The Company reports certain financial measures it believes are widely followed in the banking industry that are not recognized under generally accepted accounting principles in the United States of America ("U.S. GAAP").

The efficiency ratio measures adjusted non-interest expense as a percentage of adjusted total revenue. The following table provides a reconciliation between certain U.S. GAAP financial measures (net interest income, non-interest income and non-interest expense) and the related non-U.S. GAAP measures (adjusted non-interest expense, total revenue and adjusted total revenue) to derive the efficiency ratio measure:

	Year Ended December 31,				
	2016	2015	2014	2013	2012
	(dollars in thousands)				
Non-interest expense	$ 18,332	$ 17,725	$ 15,820	$ 9,388	$ 7,702
Less: Merger-related expenses	-	-	590	88	-
Adusted non-interest expense (numerator)	$ 18,332	$ 17,725	$ 15,230	$ 9,300	$ 7,702
Net interest income	$ 28,903	$ 23,823	$ 21,213	$ 13,206	$ 10,932
Non-interest income	1,630	1,643	5,099	512	394
Total revenue	30,533	25,466	26,312	13,718	11,326
Less:					
Gains on sales of investment securities, net	25	11	34	18	-
Gains on sales of loans held for sale	-	-	283	134	-
Gain on acquisition of Heritage Community Bank	-	-	2,606	-	-
Gains on recovery of acquired loans	556	744	1,425	-	-
Adjusted total revenue (denominator)	$ 29,952	$ 24,711	$ 21,964	$ 13,566	$ 11,326
Efficiency ratio	61.20%	71.73%	69.34%	68.55%	68.00%

The tangible stockholders' equity ratio measures stockholders' equity as a percentage of total assets after deducting intangible assets. The following table provides a reconciliation between certain U.S. GAAP financial measures (stockholders' equity and total assets) and the related non-U.S. GAAP measures (tangible stockholders' equity and adjusted total assets) to derive the tangible stockholders' equity ratio:

	Year Ended December 31,				
	2016	2015	2014	2013	2012
	(dollars in thousands)				
Stockholder's equity	$ 88,806	$ 68,763	$ 64,759	$ 52,507	$ 31,025
Less: Intangible assets, net	224	286	356	-	-
Tangible stockholders' equity (numerator)	$ 88,582	$ 68,477	$ 64,403	$ 52,507	$ 31,025
Total assets	$1,073,294	$ 856,106	$ 677,458	$ 466,792	$ 350,782
Less: Intangible assets, net	224	286	356	-	-
Adjusted total assets (denominator)	$1,073,070	$ 855,820	$ 677,102	$ 466,792	$ 350,782
Tangible stockholders' equity ratio	8.26%	8.00%	9.51%	11.25%	8.84%

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The purpose of this discussion and analysis is to provide the reader with information pertinent to understanding and assessing First Bank and Subsidiaries financial condition and results of operations for each of the years ended December 31, 2016 and 2015. The discussion and analysis should be read in conjunction with the consolidated financial statements and accompanying notes included elsewhere in this document.

Management's Discussion and Analysis of Financial Condition and Results of Operations contains forward-looking statements with respect to the financial condition, results of operations and business of First Bank. These forward-looking statements involve risks and uncertainties. Certain factors that may cause actual results to differ materially from those contemplated by such forward-looking statements are described in the section "Forward-Looking Statements" on Page 1 of this document.

Company Overview

We are a New Jersey state-chartered commercial bank headquartered in Hamilton in Mercer County, New Jersey that began operations on April 23, 2007. We provide a traditional set of lending, deposit and other financial products and services with an emphasis on commercial real estate and commercial and industrial loans to small to mid-sized businesses and individuals. Our existing and targeted markets are located in the corridor between New York City and Philadelphia. As of December 31, 2016, we operated 10 full-service branches, including 3 branches and our corporate office in our primary market of Mercer County, New Jersey. Our other branches are located in Williamstown, Gloucester County, Somerset, Somerset County, Cranbury, Middlesex County, Flemington, Hunterdon County, and two branches in Morris County, all in New Jersey, and a branch in Trevose, Bucks County, Pennsylvania.

As described in Item 1. Business, on March 28, 2017, the Bank entered into an Agreement and Plan of Merger with BCB. BCB is a Pennsylvania state-chartered commercial bank headquartered in Doylestown, Bucks County, Pennsylvania. As of December 31, 2016, BCB had total assets, total loans, total deposits and total stockholders' equity of $197.8 million, $178.6 million, $145.3 million and $21.8 million, respectively. The Bank expects the merger transaction to close in the third quarter of 2017 subject to receipt of approvals from regulators and First Bank and BCB's shareholders.

In June 2016 we raised $13.4 million in net new capital through the private placement of 1,890,000 shares of common stock at a price of $7.25 per share. We are using the capital for general corporate purposes including organic growth initiatives and potential acquisitions.

In January 2016, we opened a branch in Flemington, Hunterdon County, New Jersey. We expanded into eastern Pennsylvania with our retention of a team of lenders to service the Bucks County, Pennsylvania market during 2014. To further develop and service that market, in the first quarter of 2015 we opened our first branch in Pennsylvania, in Trevose, Bucks County.

As part of a tax planning strategy we have a New Jersey real estate investment trust indirect subsidiary and a Delaware investment company direct subsidiary. We also have five wholly-owned subsidiaries which hold foreclosed assets.

As a provider of traditional loan and deposit services we face continuous competitive pressures as both banks and nonbanks compete for customers with a broad array of banking, investment and capital market products. Despite the increased competition we have grown our loan portfolio both in our existing markets and by expanding into contiguous markets, and we see opportunities for continued growth. We believe these markets have customers with banking needs that desire the personalized service we can provide. We believe that the key differentiating factors between us and our competitors is our philosophy of relationship banking and our in-market expertise. We remain committed to building customer relationships and delivering quality service to the banking markets we serve.

We expect to continue to grow our balance sheet organically. Our loan pipeline and deposit generation activities remain very active despite increasing competition. We also continue to explore merger and acquisition opportunities that would help us achieve additional economies of scale and enhanced earnings per share growth.

Critical Accounting Policies and Estimates

Our consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America ("U.S. GAAP"). In the preparation of our consolidated financial statements we are required to make estimates, judgments and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses as well as the disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

Our significant accounting policies are fundamental to understanding Management's Discussion and Analysis of Financial Condition and Results of Operations. Our significant accounting policies are more fully described in Note 1 of the Notes to Consolidated Financial Statements located elsewhere in this document.

We define our critical accounting policies as those accounting principles generally accepted in the United States of America that require us to make subjective estimates and judgments about matters that are uncertain and are likely to have a material impact on our financial condition and results of operations as well as the specific manner in which we apply those principles. We believe our accounting policies governing the determination of the fair value of acquired loans and the allowance for loan losses, the assessment of other than temporary impairment of securities, intangible assets and the determination of income taxes are critical accounting policies. Management has reviewed and approved these critical accounting policies and has discussed these policies with the Audit and Risk Management Committee of our Board of Directors. We believe the critical accounting policies used in the preparation of our financial statements that require significant estimates and judgments are as follows:

Acquired Loans. In 2014 we acquired Heritage Community Bank. At the time of acquisition we acquired $98.2 million in loans. Acquired loans were recorded at fair value with no carryover of the related allowance for loan losses at the time of acquisition. Determining the fair value of the loans involves estimating the amount and timing of principal and interest cash flows expected to be collected on the loans and discounting those cash flows at a market rate of interest.

For acquired loans accounted for under ASC 310-30, Accounting for Purchased Loans with Deteriorated Credit Quality, individual acquired loans determined to have evidence of deterioration in credit quality are accounted for individually. Acquired loans that are not individually in the scope of ASC 310-30 because they do not meet the criteria above are accounted for under ASC 310-20, Nonrefundable Fees and Other Costs.

For acquired loans accounted for under ASC 310-30, the excess of expected cash flows from acquired loans over the estimated fair value of acquired loans at acquisition is called the accretable discount and is recognized in interest income over the remaining life of the acquired loans using the interest method. The difference between contractually required payments at acquisition and the cash flows expected to be collected at acquisition is referred to as the non-accretable discount. The non-accretable discount represents estimated future credit losses expected to be incurred over the life of the acquired loans. Subsequent decreases to the expected cash flows require us to evaluate the need for an addition to the allowance for loan losses. Subsequent improvements in expected cash flows result in the reversal of a corresponding amount of the non-accretable discount which we can then reclassify as accretable discount that is recognized in interest income over the remaining life of the loan using the interest method. Our evaluation of the amount of future cash flows that we expect to collect takes into account actual credit performance of the acquired loans to date and our best estimates for the expected lifetime credit performance of the loans using currently available information. Charge offs of the principal amount on acquired loans would be first applied to the non-accretable discount portion of the fair value adjustment. To the extent that we experience a deterioration in credit quality in our expected cash flows subsequent to the acquisition of the loans, an allowance for loan losses would be established based on our estimate of future credit losses over the remaining life of the loans.

In accordance with ASC 310-30, recognition of income is dependent on having a reasonable expectation about the timing and amount of cash flows expected to be collected. We perform such an evaluation on a quarterly basis on our acquired loans individually accounted for under ASC 310-30. To the extent that we cannot reasonably estimate cash flows, interest income recognition is discontinued.

Principal and interest payments on ASC 310-30 loans that were written down to $0 at the acquisition date are reported in the consolidated statements of income as gains on recovery of acquired loans. Payoffs on loans that had partial charge offs at the time of acquisition are reported in the consolidated statements of income in interest and dividend income on loans, including fees, after retirement of principal.

Allowance for Loan Losses. The allowance for loan losses represents our best estimate of probable credit losses inherent in the loan portfolio. The adequacy of our allowance for loan losses is evaluated regularly. The allowance for loan losses has been determined in accordance with U.S. GAAP, under which we are required to maintain an adequate allowance for loan losses. The allowance for loan losses is based upon our assessment of several factors including an assessment of probable losses included in the portfolio, giving consideration to the size and composition of the loan portfolio, actual loan loss experience, level of delinquencies, detailed analysis of specific loans for which full collectability may not be assured, the existence and estimated net realizable value of any underlying collateral and guarantees securing the loans, and current economic and market conditions. Although management uses the best information available, the level of the allowance for loan losses remains an estimate which is subject to significant judgment and short-term change. Various regulatory agencies, as an integral part of their examination process, periodically review our allowance for loan losses. Such agencies may require us to make additional provisions for loan losses based upon information available to them at the time of their examination. Furthermore, the majority of our loans are secured by real estate in New Jersey. Accordingly, the collectability of a substantial portion of the carrying value of our loan portfolio is susceptible to changes in local market conditions and may be adversely affected by declines in real estate values. Future adjustments to the allowance for loan losses may be necessary due to economic, operating, regulatory and other conditions beyond our control. We believe that our allowance for loan losses is adequate to cover probable loan losses which are specifically identifiable, as well as losses inherent in our portfolio which are probable but not specifically identifiable.

For acquired loans accounted for under ASC 310-30, our allowance for loan losses is estimated based upon our expected cash flows of those acquired loans. To the extent that we experience a deterioration in borrower credit quality resulting in a decrease in our expected cash flows subsequent to the acquisition of the loans, an allowance for loan losses would be established based on our estimate of future credit losses over the remaining life of the loans.

For acquired loans accounted for under ASC 310-20, we establish our allowance for loan losses through a provision for loan losses based upon an evaluation process that is similar to our evaluation process used for originated loans. This evaluation, which includes a review of loans on which full collectability may not be reasonably assured, considers, among other matters, the estimated fair value of the underlying collateral, economic conditions, historical net loan loss experience, carrying value of the loans and other factors that warrant recognition in determining our allowance for loan losses.

Note 1 of the Notes to Consolidated Financial Statements located elsewhere in this document describes the methodology used to determine the allowance for loan losses.

Assessment of Other than Temporary Impairment. Certain of our assets are carried in the consolidated statements of financial condition at fair value or at the lower of cost or fair value. Valuation allowances are established when necessary to recognize impairment of such assets. We periodically perform analyses to test for impairment of various assets. In addition to our impairment analyses related to loans, other real estate owned and other repossessed assets, another significant analysis relates to other than temporary declines in the value of our securities. We conduct a quarterly review and evaluation of the investment securities portfolio, restricted stocks and other investments to determine if the value of any security has declined below its carrying value and whether such decline is other than temporary. If such decline is deemed other than temporary, we would adjust the carrying value of the security by writing down the security to fair value through a charge to current period earnings. At December 31, 2016, we determined that all unrealized losses on such items were temporary in nature.

Intangible Assets. Our intangible assets consist of a core deposit intangible that is amortized on an accelerated basis using an estimated life of 10 years. The core deposit intangible is evaluated annually for impairment in accordance with U.S. GAAP. An impairment loss will be recognized if the carrying amount of the intangible asset is not recoverable and exceeds fair value. The carrying amount of the intangible asset is not considered recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use of the asset. We believe that the fair value of the core deposit intangible was in excess of its carrying amount and therefore there was no impairment to intangible assets at December 31, 2016.

Income Taxes. We are primarily subject to the income tax laws of the United States of America and the State of New Jersey. We are also subject to other state income tax laws where we conduct our business. We account for income taxes by recognizing the amount of taxes payable or refundable for the current year and deferred tax assets and liabilities for estimated future tax consequences, which require judgment with respect to events that have been recognized in our consolidated financial statements or tax returns. Fluctuations in the actual outcome of future tax consequences, including the recoverability of deferred tax assets, could materially impact our consolidated financial condition or results of operations.

As of December 31, 2016, we had net deferred tax assets of $8.4 million. These deferred tax assets can only be realized if we generate taxable income in the future. We regularly evaluate the realizability of deferred tax asset positions. In determining whether a valuation allowance is necessary, we consider the level of taxable income in prior years to the extent that carrybacks are permitted under current tax laws, as well as estimates of future pre-tax and taxable income and tax planning strategies that would, if necessary, be implemented. We expect to realize our deferred tax assets over the allowable carryback and/or carryforward periods. Therefore, no valuation allowance was deemed necessary against our deferred tax assets as of December 31, 2016. However, if an unanticipated event occurred that materially changed pre-tax and taxable income in future periods, a valuation allowance may become necessary and could have a material effect on our consolidated financial statements.

See Notes 1 and 11 of the Notes to Consolidated Financial Statements located elsewhere in this document for further information on our accounting for income taxes.

RESULTS OF OPERATIONS
Years Ended December 31, 2016 and 2015

Net Income

Net income for the years ended December 31, 2016 and 2015 was $6.4 million and $3.9 million, respectively, or $0.61 and $0.41 per diluted share, respectively. The increase in net income for the comparative periods was due primarily to higher net interest income during 2016, partially offset by higher income tax expense, primarily due to higher pre-tax income, and slightly higher non-interest expense.

Pre-tax income was $9.5 million for 2016 compared to $5.1 million for 2015. Pre-tax income growth for 2016 compared to 2015 was driven by net interest income growth. Net interest income grew primarily due to strong loan growth, mainly in commercial loans. Strong deposit growth primarily funded our loan growth at comparatively higher interest rates during 2016 compared to 2015. Incremental borrowings supplemented the funding growth. Pressure on loan yields due to refinancing activity, competition and a continued low interest rate environment contributed to a lower earning asset yield in 2016. Combined with higher deposit costs the result was a lower net interest margin in 2016 compared to 2015.

Partially offsetting the net interest income increase was higher non-interest expense. The higher non-interest expense was driven by increases in salaries and employee benefits, occupancy and equipment expense, regulatory fees, and data processing expense commensurate with our growth. These increases were partially offset by lower other real estate owned expense, net.

Net Interest Income

Our results of operations depend primarily on our net interest income, the largest and most significant component of our operating income. Net interest income is the difference between income on interest earning assets and the expense on interest bearing liabilities, primarily deposits. Net interest income depends upon the relative amounts and types of interest earning assets and interest bearing liabilities, and the interest rate earned or paid on them. Net interest income is also impacted by changes in interest rates and the shape of market yield curves. Net interest spread is the difference between the weighted average rate received on interest earning assets and the weighted average rate paid on interest bearing liabilities to fund those interest earning assets.

The following table provides an analysis of net interest income by each major category of average interest earning assets and interest bearing liabilities, and the related interest yields and costs for the years ended December 31, 2016, 2015 and 2014. Average interest yields are derived by dividing interest income by the average balance of the related assets, and average interest costs are derived by dividing interest expense by the average balance of the related liabilities. The interest yields and costs include fees, costs, premiums and discounts, which are considered adjustments to interest income and interest expenses.

AVERAGE BALANCE SHEETS WITH INTEREST AND AVERAGE RATES

	Year Ended December 31,								
	2016			2015			2014		
	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate
	(dollars in thousands)								
Interest earning assets									
Investment securities (1) (2)	$ 88,264	$ 1,891	2.14%	$ 94,773	$ 2,029	2.14%	$ 73,741	$ 1,678	2.28%
Loans (3)	794,396	36,227	4.56%	586,574	28,642	4.88%	456,105	23,536	5.16%
Interest bearing deposits in other banks and Federal funds sold	43,956	238	0.54%	44,980	130	0.29%	31,508	101	0.32%
Restricted investment in bank stocks	1,880	74	3.94%	1,387	54	3.89%	1,337	53	3.96%
Other investments	5,000	67	1.34%	5,000	63	1.26%	5,000	81	1.62%
Total interest earning assets (2)	933,496	38,497	4.12%	732,714	30,918	4.22%	567,691	25,449	4.48%
Allowance for loan losses	(8,930)			(6,817)			(5,138)		
Non-interest earning assets	38,882			38,503			35,258		
Total assets	$ 963,448			$ 764,400			$ 597,811		
Interest bearing liabilities									
Interest bearing demand deposits	$ 93,285	$ 576	0.62%	$ 52,971	$ 375	0.71%	$ 19,380	$ 84	0.43%
Money market deposits	129,769	875	0.67%	112,504	766	0.68%	91,121	521	0.57%
Savings deposits	72,647	363	0.50%	89,852	477	0.53%	113,415	713	0.63%
Time deposits	432,400	5,810	1.34%	316,149	4,040	1.28%	218,934	2,601	1.19%
Total interest bearing deposits	728,101	7,624	1.05%	571,476	5,658	0.99%	442,850	3,919	0.88%
Borrowings	20,978	207	0.99%	14,072	218	1.55%	14,000	218	1.56%
Subordinated debentures	21,586	1,593	7.38%	14,506	1,065	7.34%	-	-	-
Total interest bearing liabilities	770,665	9,424	1.22%	600,054	6,941	1.16%	456,850	4,137	0.91%
Non-interest bearing deposits	110,804			94,817			77,831		
Other liabilities	2,662			1,821			1,600		
Stockholders' equity	79,317			67,708			61,530		
Total liabilities and stockholders' equity	$ 963,448			$ 764,400			$ 597,811		
Net interest income/interest rate spread (2)		29,073	2.90%		23,977	3.06%		21,312	3.57%
Net interest margin (2) (4)			3.11%			3.27%			3.75%
Tax-equivalent adjustment (2)		(170)			(154)			(99)	
Net interest income		$ 28,903			$ 23,823			$ 21,213	

(1) Average balances of investment securities available for sale are based on amortized cost.
(2) Interest and average rates are presented on a tax equivalent basis using a federal income tax rate of 34 percent.
(3) Average balances of loans include loans on nonaccrual status.
(4) Net interest income divided by average total interest earning assets.

Rate/Volume Analysis

Changes in net interest income and margin result from the interaction between the volume and composition of interest earning assets, interest bearing liabilities, related yields and associated funding costs.

The following table demonstrates the impact on net interest income of changes in the volume of interest earning assets and interest bearing liabilities and changes in interest rates earned and paid for the years presented.

CHANGES IN NET INTEREST INCOME

	Year Ended December 31, 2016 Compared to 2015 Increase (Decrease) Due to Change (1) in			Year Ended December 31, 2015 Compared to 2014 Increase (Decrease) Due to Change (1) in		
	Average Volume	Average Rate	Net Change	Average Volume	Average Rate	Net Change
	(in thousands)					
Interest income						
Investment securities (2)	$ (139)	$ 1	$ (138)	$ 455	$ (104)	$ 351
Loans	9,583	(1,998)	7,585	6,428	(1,322)	5,106
Interest bearing deposits in other banks and Federal funds sold	(3)	111	108	40	(11)	29
Restricted investment in bank stocks	19	1	20	2	(1)	1
Other investments	-	4	4	-	(18)	(18)
Total interest income (2)	9,460	(1,881)	7,579	6,925	(1,456)	5,469
Interest expense						
Interest bearing demand deposits	254	(53)	201	213	78	291
Money market deposits	116	(7)	109	135	110	245
Savings deposits	(87)	(27)	(114)	(135)	(101)	(236)
Time deposits	1,553	217	1,770	1,230	209	1,439
Total interest bearing deposits	1,836	130	1,966	1,443	296	1,739
Borrowings	85	(96)	(11)	1	(1)	-
Subordinated debentures	522	6	528	1,065	-	1,065
Total interest expense	2,443	40	2,483	2,509	295	2,804
Net interest income (2)	$ 7,017	$ (1,921)	$ 5,096	$ 4,416	$ (1,751)	$ 2,665

(1) Changes in interest income or expense attributable to both changes in volume and changes in rate have been allocated in proportion to the relationship of the absolute dollar amount of change in each category.
(2) Interest is presented on a tax equivalent basis using a federal income tax rate of 34 percent.

Our tax equivalent net interest margin for 2016 was 3.11% compared to 3.27% for 2015. The net interest margin is calculated by dividing net interest income by average interest earning assets. As has been the case over the last several years, the Federal Open Market Committee has kept the targeted federal funds rate at historic lows with the rate at 50 basis points during most of 2016 with a small increase of 25 basis points in mid-December to 75 basis points at year-end December 31, 2016. As a result of this prolonged low interest rate environment and increased competition for loans and deposits, we experienced a lower net interest margin in 2016 compared to 2015, due primarily to lower loan yields and higher interest bearing liabilities costs.

There are a number of factors that will impact our net interest income in 2017. The recent positive change in the slope of the Treasury yield curve in the fourth quarter of 2016 and the prospect for higher interest rates in 2017 due, in part, to the perceived future strengthening of the economy has generally been an environment banks perform better in. Our margin will also be impacted by increased competition for both loans and deposits as rates move higher off of their historic lows. We expect our margin in 2017 to be relatively stable to modestly better in a higher interest rate environment.

Net interest income on a tax equivalent basis increased $5.1 million, or 21.3%, to $29.1 million for 2016, compared to $24.0 million for 2015. The increase for the comparative years is attributed primarily to average loan growth. Partially offsetting the increase in net interest income was a lower average yield on loans, a higher volume of interest bearing liabilities, mainly deposits and, to a lesser extent, borrowings and subordinated debentures, and the related interest expense. For the comparative years presented, interest income on a tax equivalent basis rose primarily due to higher interest income on loans. For 2016, interest income on a tax equivalent basis rose $7.6 million, or 24.5%, to $38.5 million from $30.9 million in 2015. Average loans for the comparative annual periods increased $207.8 million or 35.4%. Average interest earning assets increased $200.8 million, or 27.4%, to $933.5 million in 2016 from $732.7 million in 2015.

Interest and fees on loans increased 26.5% to $36.2 million for 2016 compared to $28.6 million for 2015 primarily due to significant additional loan volume, as the average loan yield declined 32 basis points to 4.56% for 2016 compared to 4.88% for 2015. Our loan yield is affected by market rates, the level of adjustable rate loans, repayment, re-pricing and refinancing of higher rate fixed rate loans, prepayment penalties, the level of nonaccrual loans, interest income on certain paid off nonaccrual loans, the level of fees paid and other factors. The combination of a lower interest rate environment and increased competition in our markets was reflected in competitive terms and interest rates on fixed rate loans, which contributed to a lower average loan yield in 2016.

Average investment securities decreased $6.5 million, or 6.9%, to $88.3 million in 2016, compared to $94.8 million in 2015, while the portfolio yield remained stable at 2.14% for 2016, the same yield as 2015. As a result, interest income on investment securities on a tax equivalent basis for 2016 decreased $138,000 to $1.9 million compared to $2.0 million for 2015. The decrease in average investment securities in 2016 was primarily due to the sale of residential mortgage-backed securities, and, to a lesser extent, corporate obligations in the first quarter of 2016. These securities were sold to meet risk-based capital and asset and liability management objectives.

Average interest bearing liabilities increased $170.6 million, or 28.4%, to $770.7 million for 2016 compared to $600.1 million for 2015. During 2016, the competitive pricing of deposits, primarily time deposits, attracted additional deposits to fund loan growth. In addition, we utilized our borrowings with the FHLB in 2016 as part of our funding strategy and to achieve asset and liability management objectives. The cost of interest bearing liabilities increased 6 basis points to 1.22% for 2016 compared to 1.16% for 2015. Interest expense on average interest bearing liabilities increased $2.5 million, or 35.8%, for the year ended December 31, 2016 compared to the same period in 2015. The increase was primarily due to higher average deposits and the impact of a full year of the subordinated debentures. Also contributing to the increase was a 6 basis point increase in the cost of time deposits.

Average interest bearing deposit growth of $156.6 million in 2016 was led primarily by time deposits and, to a lesser extent, interest bearing demand deposits and money market deposits. This growth was offset by a decrease of $17.2 million or 19.1% in savings deposits. Time deposits, interest bearing demand deposits, and money market deposits grew $116.3 million, $40.3 million, and $17.3 million respectively. All of these products were competitively priced during 2016 to attract deposits in order to fund commercial loan growth. As a result, our average cost of deposits increased 6 basis points to 1.05% during 2016.

Average non-interest bearing demand deposits increased $16.0 million or 16.9% to $110.8 million in 2016 compared to $94.8 million in 2015. The increase was primarily due to growth in business accounts, a continuing trend.

Average borrowed funds were $21.0 million for 2016 and $14.1 million for 2015. The average rate paid on borrowings was 0.99% and 1.55% for 2016 and 2015, respectively. We generally use FHLB advances to provide liquidity and manage interest rate risk. The lower average rate paid is due to the lower interest rate environment and the maturity structure of our FHLB advance portfolio. A portion of our FHLB portfolio is advances with maturities of 1 year or less. We are selectively extending the maturity of certain advances to meet interest rate risk objectives. A higher interest rate environment and extension of certain FHLB advances is expected to increase the average cost of borrowings in 2017.

Average subordinated debentures were $21.6 million in 2016 compared to $14.5 million in 2015. In April 2015, we completed a $22.0 million private placement of fixed-to-floating rate subordinated debentures with a 10-year maturity at a fixed interest rate of 6.75% for the first 5 years. We have used the additional capital for general corporate purposes including organic growth initiatives and it may also support potential merger and acquisition opportunities in the future. Subordinated debentures in our consolidated statements of financial condition and our average balance sheets include related unamortized debt issuance costs. The debt issuance costs are being amortized into interest expense. The average rate on our subordinated debentures for 2016 was 7.38%.

In 2017, we expect continued competition for commercial loans and retail deposits. To achieve our profitability goals in 2017 we will need to meet net interest income projections by increasing commercial loans, maintain a stable sound asset quality profile, effectively price deposits and continue to build our lower cost core deposit base in the expanded markets we now serve.

Provision for Loan Losses

We provide for loan losses by a charge to current income to maintain the allowance for loan losses at an adequate level to absorb probable losses inherent in our loan portfolio, determined according to our documented allowance adequacy methodology. The provision for loan losses is determined after a detailed review of our loan portfolio which focuses on, including other things, credit risk ratings, delinquent and nonaccrual loans and the level of problem credits.

The provision for loan losses for the year ended December 31, 2016 and 2015 was $2.7 million. Despite significant loan growth, the continued strong asset quality profile of our loan portfolio resulted in a stable level of provision for loan losses for the year ended December 31, 2016 compared to the year ended December 31, 2015. Net charge offs were 0.10% and 0.14% of average loans for the years ended December 31, 2016 and 2015, respectively. At December 31, 2016 and 2015, the allowance for loan losses to total loans ratio was 1.09% and 1.15%, respectively.

Non-Interest Income

The two largest components of our non-interest income in 2016 were gains on recovery of acquired loans and income from bank-owned life insurance (“BOLI”). We also earned non-interest income from service charges and related fees on deposit accounts, loan fees and fees for other banking services. For the year ended December 31, 2016, non-interest income excluding gains on recovery of acquired loans represented less than 3% of our gross revenue.

Non-interest income totaled $1.6 million in 2016 and 2015. The stable level of income resulted primarily from a decrease in gains on recovery of acquired loans offset by an increase in income from BOLI. Gains on recovery of acquired loans totaled $556,000 in 2016, a decrease of $188,000 compared to 2015. This decrease for the comparative period was due to fewer payments made on loans written down to $0 at the HCB acquisition date.

Income on BOLI was $496,000 in 2016, an increase of $71,000, or 16.7%, from $425,000 in 2015. The increase was due to the additional purchase of $6.0 million in BOLI in August 2016. BOLI income is exempt from federal and state income taxes as long as the policies are held until the death of the insured individuals and the income is retained within the policy. BOLI assets are single premium policies purchased from multiple carriers to, among other things, offset the costs of employee benefits. The level of these assets is generally limited to 25% of Tier 1 capital at the time of purchase.

Service fees on deposit accounts totaled $154,000 in 2016, an increase of $26,000 compared to $128,000 in 2015. Loan fee income increased $35,000 to $79,000 in 2016. Other non-interest income increased by $29,000 in 2016 to $320,000, compared to $291,000 in 2015. Other non-interest income includes debit card income, remote deposit capture fees, ATM fees and wire transfer fees.

With our focus on net interest income generation, non-interest income is expected to remain a minor portion of our gross revenue. However, we do expect to increase service fees on deposit accounts as we continue to grow. In 2017, we are also focused on originating and selling Small Business Administration loans, at a gain, which is a natural complement to our strength as a commercial lender.

Non-Interest Expense

Non-interest expense consists of salaries and employee benefits, occupancy, equipment and other expenses related to conducting our operations and growing our business. Other expenses include loan origination expenses and expenses associated with the management of problem assets, including other real estate owned (“OREO”), data processing fees, marketing expenses and regulatory and professional fees.

The level of non-interest expense growth was effectively managed in 2016, however, non-interest expense did increase slightly as we have grown and invested in our staffing and infrastructure. For 2016, non-interest expense totaled $18.3 million, a $607,000 or 3.4% increase from $17.7 million in 2015. The year over year increase was primarily due to higher salaries and employee benefits, occupancy and equipment expense, regulatory fees and data processing costs, all primarily related to our growth. These increases were partially offset by lower other real estate owned expense, net.

Salaries and employee benefits is the largest component of non-interest expense. Benefits expense includes the cost of health insurance, other benefit plans and payroll taxes, which have increased as we have employed more personnel due to our growth. Salaries and employee benefits increased $397,000, or 4.3%, to $9.6 million in 2016 compared to $9.2 million for 2015. The increase in salaries and employee benefits does not include the full year effect of certain hires made during 2016.

Full-time equivalent employees increased to 108 at December 31, 2016 from 99 at December 31, 2015.

Occupancy and equipment expense increased $280,000, or 11.8%, to $2.7 million for 2016 compared to $2.4 million in 2015. Occupancy and equipment expense consists primarily of rent, real estate taxes, depreciation, maintenance and expenses associated with equipment. The increase was primarily due to the occupancy costs associated with the opening of our Flemington branch in January 2016 and the full year impact of additional rent and other occupancy costs associated with our Trevose branch which opened in May 2015.

Other non-interest expenses that increased due to our growth included regulatory fees and data processing fees. Regulatory fees increased $164,000, or 32.3%, to $671,000 in 2016 compared to $507,000 in 2015. Data processing fees increased $123,000, or 15.2%, to $934,000 in 2016 compared to $811,000 in 2015.

Other professional fees remained flat at $1.2 million for 2016 compared to 2015. These costs may increase in the future as we have reached an asset threshold that is expected to require additional accounting and consulting fees.

Conversely, other real estate owned expense, net, decreased $369,000, or 46.1%, to $432,000 for 2016 compared to $801,000 in 2015. The decrease was due primarily to the lower level of OREO properties in 2016 and related expense. We continue to actively work to dispose of these nonperforming assets.

We continue to actively manage the level of our non-interest expense growth. During 2016 and 2015 we streamlined our administrative structure to help reduce costs going forward. For example, in the fourth quarter of 2015 we finalized the closure of our Route 10 branch in Randolph, New Jersey. As a growing bank we do expect the level of non-interest expense to grow as we consider the opening of additional branches, for example. Increased levels of staffing and professional fees to support that growth are also anticipated in 2017. However, our objective remains to effectively manage non-interest expense moving forward.

The efficiency ratio, a non-U.S. GAAP financial measure that we believe is widely followed in the banking industry, measures adjusted non-interest expense as a percentage of adjusted total revenue. Due to our continued growth and cost containment measures our efficiency ratio for 2016 decreased to 61.20% compared to 71.73% for 2015.

The following table provides a reconciliation between certain U.S. GAAP financial measures (net interest income, non-interest income and non-interest expense) and the related non-U.S. GAAP measures (adjusted non-interest expense, total revenue and adjusted total revenue) to derive the efficiency ratio measure:

	Year Ended December 31,	
	2016	**2015**
	(dollars in thousands)	
Non-interest expense (numerator)	$ 18,332	$ 17,725
Net interest income	$ 28,903	$ 23,823
Non-interest income	1,630	1,643
Total revenue	30,533	25,466
Less:		
Gains on sale of investment securities, net	25	11
Gains on recovery of acquired loans	556	744
Adjusted total revenue (denominator)	$ 29,952	$ 24,711
Efficiency ratio	61.20%	71.73%

Income Taxes

In 2016, we recorded income tax expense of $3.1 million compared to $1.2 million for the year ended December 31, 2015. The increase was due to higher income before income taxes and a higher effective tax rate.

Our effective tax rate for 2016 was 32.60% compared to 23.36% for 2015. Our effective tax rates for 2016 and 2015 reflect the ownership of tax-exempt BOLI and tax-free municipal securities and also reflect the effect of our real estate investment trust. The increase in our effective tax rate in 2016 was primarily due to higher state income tax. State income tax was higher in 2016 mainly due to the increased apportionment of receipts from Pennsylvania and New York State lending which reduces the benefit of our New Jersey real estate investment trust. Also contributing to the higher effective tax rate in 2016 was higher total pre-tax income with only a slight increase in tax-exempt interest income and bank-owned life insurance income which reduced the benefit of these items on our effective tax rate in 2016. The lower effective tax rate in 2015 was also due to a tax benefit recorded in 2015 for a change in estimate relating to our 2014 tax provision. Absent these tax advantages and adjustments, our effective tax rate would have been 39.94%, which is the combined federal and state statutory tax rate for a New Jersey corporation.

FINANCIAL CONDITION

Assets

Total assets increased from $856.1 million at December 31, 2015 to $1.1 billion at December 31, 2016, an increase of $217.2 million or 25.4%. The increase was primarily attributable to loan growth. The growth in assets was funded by an increase in deposits of $155.9 million and borrowings of $40.5 million.

We expect solid asset growth in 2017 as we continue to grow our commercial loan portfolio in our markets. In January 2016, we expanded our central New Jersey market and opened a branch in Flemington, Hunterdon County, New Jersey. In 2015 we entered the Bucks County, Pennsylvania market, opening a branch in Trevose. Throughout 2016 we have experienced growth in all of our markets, Northern NJ, Central NJ, and eastern Pennsylvania. We see continued opportunities in our new and established markets to grow the Bank.

Investment Securities

At December 31, 2016, the investment securities portfolio was comprised of U.S. treasury securities, obligations of U.S. government-sponsored agencies, residential mortgage-backed securities, tax-exempt obligations of state and political subdivisions, asset-backed securities and corporate obligations. There were no securities issued by any one issuer exceeding 10% of stockholders' equity, except for securities issued by U.S. government-sponsored agencies, including mortgage-backed securities issued by the Government National Mortgage Association, the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation.

Management believes that all of our securities are investment grade as defined by regulation and our investment policy. Upon review of the issuer's financial information, management must assess whether a security is investment grade by determining that the bond has a low risk of default by the obligor and the full and timely repayment of principal and interest is expected over the life of the investment. Management's analysis of our investment portfolio, as supported by ratings from the rating agencies utilized by the Bank, supports our conclusion that our securities are all investment grade.

The investment securities portfolio is used principally to manage liquidity, interest rate risk and regulatory capital, and to take advantage of market opportunities that provide favorable returns with limited credit risk. The portfolio is generally structured to provide consistent cash flows to enhance liquidity and provide funding for loan growth.

Investment securities are classified as "held to maturity" ("HTM"), "available for sale" ("AFS"), or "trading" at time of purchase. We held no trading securities at December 31, 2016 or 2015. Securities are classified as HTM based upon our intent and ability to hold them to maturity. Such securities are stated at amortized cost or book value and adjusted for unamortized purchase premiums and discounts. Securities which are bought and held principally for resale in the near term are classified as trading securities, which are carried at market value. Realized gains and losses as well as gains and losses from marking the portfolio to fair value are included in trading revenue. Securities not classified as HTM or trading are classified as AFS. AFS securities are those securities that we intend to hold for an indefinite period of time but not necessarily to maturity and are carried at fair value. Unrealized gains and losses on AFS securities are reported as a component of accumulated other comprehensive income, net of tax, which is included in stockholders' equity unless a decline in value is deemed to be other-than-temporary, in which case the decline is reported in current period results. Any decision to sell a security classified as AFS would be based on various factors, including significant movements in interest rates, changes in the maturity mix of assets and liabilities, liquidity needs, regulatory capital considerations and other factors.

At December 31, 2016, the investment securities portfolio totaled $100.6 million or 9.4% of assets, compared to $98.6 million or 11.5% of assets at December 31, 2015. The increase was due primarily to the purchase of U.S. treasury securities and corporate obligations, partially offset by the sale of mortgage-backed securities. Agency mortgage-backed securities represented 47.0% of the total investment portfolio at year-end 2016. In 2016 we purchased securities during periods of slower loan growth to reduce levels of excess liquidity.

Investment Securities Available for Sale

The following tables present the amortized cost and estimated fair values of our available for sale securities portfolio at December 31, 2016 and 2015:

	December 31, 2016			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(in thousands)			
Investment securities available for sale:				
Residential mortgage-backed securities:				
Issued by FNMA and FHLMC	$ 20,804	$ 66	$ (286)	$ 20,584
Issued by GNMA	7,381	-	(117)	7,264
U.S. Treasury securities	11,988	-	(94)	11,894
Asset-backed securities	3,327	-	(94)	3,233
Corporate obligations	4,070	32	-	4,102
Total	$ 47,570	$ 98	$ (591)	$ 47,077

	December 31, 2015			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(in thousands)			
Investment securities available for sale:				
Residential mortgage-backed securities:				
Issued by FNMA and FHLMC	$ 32,638	$ 212	$ (163)	$ 32,687
Issued by GNMA	3,321	3	(39)	3,285
Asset-backed securities	3,485	-	(157)	3,328
Corporate obligations	6,154	1	(114)	6,041
Total	$ 45,598	$ 216	$ (473)	$ 45,341

Investment Securities Held to Maturity

The following tables present the amortized cost and estimated fair values of our held to maturity securities portfolio at December 31, 2016 and 2015:

	December 31, 2016			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(in thousands)			
Investment securities held to maturity:				
U.S. Government-sponsored agency securities	$ 2,000	$ 120	$ -	$ 2,120
Residential mortgage-backed securities:				
Issued by FNMA and FHLMC	17,313	59	(144)	17,228
Issued by GNMA	2,124	-	(47)	2,077
Obligations of state and political subdivisions	26,786	85	(190)	26,681
Corporate obligations	5,250	2	-	5,252
Total	$ 53,473	$ 266	$ (381)	$ 53,358

	December 31, 2015			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(in thousands)			
Investment securities held to maturity:				
U.S. Government-sponsored agency securities	$ 2,000	$ 156	$ -	$ 2,156
Residential mortgage-backed securities:				
Issued by FNMA and FHLMC	21,444	192	(148)	21,488
Issued by GNMA	2,171	-	(46)	2,125
Obligations of state and political subdivisions	27,647	404	(27)	28,024
Total	$ 53,262	$ 752	$ (221)	$ 53,793

As of December 31, 2016, our AFS investment securities totaled $47.1 million, an increase of $1.7 million from $45.3 million at December 31, 2015. The AFS portfolio represented 46.8% of the total investment portfolio at December 31, 2016 and was composed of residential mortgage-backed securities ("MBS"), U.S. treasury securities, asset-backed securities, and corporate obligations. The increase in the AFS portfolio in 2016 compared to 2015 was due primarily to the purchase of U.S. treasury securities, partially offset by lower MBS balances due to sales and principal paydowns. There was an unrealized loss on AFS securities of $493,000 at December 31, 2016 compared to an unrealized loss of $257,000 at December 31, 2015.

HTM investment securities totaled $53.5 million at December 31, 2016 compared to $53.3 million at December 31, 2015. The slight increase in the HTM portfolio in 2016 was due to the purchase of corporate obligations offset by principal paydowns on the MBS portfolio. The HTM portfolio is composed primarily of municipal bonds and MBS. At December 31, 2016, our municipal bond portfolio totaled $26.8 million or 50.1% of the HTM portfolio. The majority of the municipal bond portfolio is made up of New Jersey school-based bonds further secured through the New Jersey Fund for Support of Free Public Schools. Each New Jersey school-based bond has an implicit AA rating. Increasing the holding of tax-free municipal bonds reduces our effective tax rate and enhances the tax equivalent yield of our investment portfolio. At December 31, 2016, the HTM MBS portfolio totaled $19.4 million or 36.3% of total HTM securities. Certain MBS at the time of purchase in 2015 were classified as HTM due to potential market value fluctuations in a rising rate environment.

We evaluate all securities with unrealized losses quarterly to determine whether the losses are other than temporary. At December 31, 2016 and 2015, we determined that all unrealized losses were temporary in nature. This conclusion was based on several factors, including the strong credit quality of the securities. We believe that the unrealized losses in the investment portfolio were caused by changes in interest rates, market credit spreads, and perceived and actual changes in prepayment speeds on MBS.

The following table presents the maturity distribution and weighted average yields of our investment securities portfolio on a contractual maturity basis at December 31, 2016:

	December 31, 2016					
	Available for Sale			**Held to Maturity**		
	Amortized Cost	**Fair Value**	**Weighted Average Yield** (1)	**Amortized Cost**	**Fair Value**	**Weighted Average Yield** (1)
	(in thousands)					
Due within one year	$ -	$ -	-	$ 1,268	$ 1,266	1.14%
Due after one year through five years	11,988	11,894	0.92%	16,189	16,279	2.55%
Due after five years through ten years	7,397	7,335	1.32%	16,303	16,249	3.90%
Due after ten years	-	-	-	276	259	3.35%
Residential mortgage-backed securities:						
Issued by FNMA and FHLMC	20,804	20,584	2.01%	17,313	17,228	1.99%
Issued by GNMA	7,381	7,264	1.74%	2,124	2,077	2.04%
Total	$ 47,570	$ 47,077	1.59%	$ 53,473	$ 53,358	2.73%

(1) Presented on a tax equivalent basis using a federal income tax rate of 34 percent.

Mortgage-Backed Securities

We had $47.6 million and $59.6 million in residential MBS (amortized cost) at December 31, 2016 and 2015, respectively. All of the MBS we own were issued by FNMA, FHLMC or GNMA. The MBS have generally been purchased with 3-4 year average lives in the base case. MBS are expected to provide stable cash flows in rising or falling interest rate environments. These securities provide liquidity through the monthly cash flow of principal and interest. Cash flows from the MBS portfolio totaled $10.1 million and $10.2 million in 2016 and 2015, respectively. Included in our MBS portfolio at December 31, 2016 and 2015 were $21.0 million and $30.4 million, respectively, of U.S. agency CMOs.

Like all securities we own, MBS are sensitive to changes in interest rates, increasing and decreasing in market value as interest rates rise and fall. As interest rates rise, cash flows from MBS prepayments generally decline while the duration extends. On the other hand, when interest rates fall, prepayments generally increase, which may reduce the yield on mortgage-backed securities, with reinvestment of the proceeds generally at lower yields.

In 2017, we will continue to monitor the impact of changes in interest rates, cash flows and duration to investment portfolio performance and adjust our strategy accordingly, consistent with our asset and liability objectives.

See Note 2 of the Notes to Consolidated Financial Statements included elsewhere in this document for more information regarding our investment securities portfolio.

Other Investments

Other investments consist of the Solomon Hess SBA Loan Fund ("Fund"), which we hold to assist in satisfying our CRA requirements. An investor can have its interest in the Fund redeemed for the balance of its capital account at any quarter end, assuming it gives the Fund 60 days' notice. The investment in this Fund is recorded at cost. At December 31, 2016 and 2015, our balance in the Fund was $5.0 million.

Loans

Our loan portfolio consists primarily of commercial real estate loans and commercial and industrial loans. We have experienced consistent loan growth over the last several years. Our loan portfolio is the highest yielding component of our interest earning assets.

Total loans at December 31, 2016 were $898.4 million, an increase of $208.5 million, or 30.2%, compared to $689.9 million at year end 2015. Growth was primarily in commercial real estate loans. Growth in average loans for 2016 was $207.8 million.

As reflected in our loan origination results in 2016 we have thrived in an increasingly competitive market place as the economy has improved. We continue to focus our efforts on building new relationships with creditworthy borrowers in our markets and providing quality service to our established loan customers who value our relationship banking philosophy.

The following table reflects the composition of the loan portfolio at each year-end presented:

	December 31,				
	2016	2015	2014	2013	2012
			(in thousands)		
Commercial and industrial	$ 112,576	$ 99,852	$ 101,090	$ 60,407	$ 52,246
Commercial real estate:					
Owner-occupied	203,245	158,939	122,283	80,140	58,685
Investor	373,013	273,532	196,992	122,499	82,668
Construction and development	81,103	44,169	35,601	23,537	13,692
Multi-family	50,826	42,558	26,987	17,028	15,950
Residential real estate:					
Residential mortgage and first lien home equity loans	40,367	33,691	33,858	22,635	19,885
Home equity—second lien loans and revolving lines of credit	23,165	22,946	23,977	7,851	9,560
Consumer and other	15,409	15,426	7,666	6,366	7,648
	899,704	691,113	548,454	340,463	260,334
Net deferred loan fees and costs	(1,275)	(1,226)	(695)	(488)	(295)
Total loans	$ 898,429	$ 689,887	$ 547,759	$ 339,975	$ 260,039

At December 31, 2016, total commercial loans represented 91.4% of total loans. We manage risk associated with our commercial loan portfolio through underwriting policies and procedures, diversification and loan monitoring efforts which includes stress testing. Our underwriting standards include requiring independent third-party appraisals, periodic property inspections, analyses of the quality and experience of the organization or developer managing each property, and evaluations of the cash flow capability of borrowers to repay loans. In addition to real estate collateral, the majority of our commercial loans are secured by business assets and many are supported by personal guarantees and other assets of the principals or the borrower. Our stress testing includes loan level and balance sheet level stress testing which analyzes the effect on individual loans as well as the overall effect on capital and loan concentrations.

Commercial and industrial loans consist of lines of credit, term loans and demand loans. Commercial and industrial loans typically consist of loans to finance equipment, inventory, receivables, and other working capital needs for small to mid-sized businesses. Commercial and industrial loans increased $12.7 million, or 12.7%, to $112.6 million in 2016 from $99.9 million in 2015. Our commercial and industrial loan portfolio encompasses a wide variety of industry classifications. Industry classifications include real estate-related, construction and services. Loans to the service industry, for example, include loans made to healthcare facilities, professionals and hotels, among others. There are no significant concentrations of loans to any particular sector of the services industry. We will continue to monitor loan concentrations by industry classification and diversify risk as we deem appropriate.

Commercial real estate loans, the largest component of our loan portfolio, are composed of owner-occupied, investor, construction, land development and other land loans and multi-family loans. Commercial real estate loans grew $189.0 million, or 36.4%, to $708.2 million in 2016 from $519.2 million in 2015. The principal areas of growth were in commercial real estate investor ("CREI") and commercial real estate owner-occupied ("CREO") loans. CREI and CREO loans grew 36.4% and 27.9%, respectively. CREI and CREO loans are generally offered on a fixed and variable rate basis with a 5-year repricing and a term of 5-15 years.

CREI loans grew $99.5 million to $373.0 million in 2016. CREI loans include investor-owned and tenanted investment properties. CREI loans are secured by different types of properties including retail, office, industrial and mixed use. Retail properties make up our largest concentration, comprising $138.1 million of CREI loans. Our retail concentration is further broken down into 3 categories: single tenant/credit rated, single tenant/non-credit rated and strip mall/multiple tenants. Loans secured by office buildings make up our next largest concentration totaling $72.4

million. Mixed use properties totaled $52.6 million. Loans secured by industrial properties totaled $48.0 million. Other types of investor loans include hotels, medical buildings, and restaurants.

CREO loans grew $44.3 million to $203.2 million in 2016. CREO loans are made for the acquisition of new property or the refinancing of existing property. These loans are typically related to commercial businesses and secured by the underlying real estate used in the business or real property of the principals.

Construction and development loans primarily fund residential and commercial projects, and to a lesser extent, acquisition of land for future development. Residential construction loans include single family and multi-family projects. Commercial construction loans include office and professional development, retail development and other commercial-related projects. Generally, construction loans have terms of 1-2 years, are interest only, and have floating rates of interest indexed to the prime rate. Construction, land development and other land loans represented 9.0% of the loan portfolio or $81.1 million at December 31, 2016. Multi-family loans consist primarily of loans secured by apartment buildings and are generally originated on a fixed rate basis for 5-10 year terms. Multi-family loans grew $8.3 million, or 19.4%, to $50.8 million in 2016 from $42.6 million in 2015.

The following tables provide information concerning the maturities and interest rate sensitivity of our commercial and industrial and commercial real estate–construction and development portfolios at December 31, 2016:

	December 31, 2016			
	Due Under 1 Year	Due 1 to 5 Years	Due Over 5 Years	Total
	(in thousands)			
Maturities by Portfolio Type				
Commercial and industrial	$ 38,280	$ 50,354	$ 23,942	$ 112,576
Construction and development	61,950	11,537	7,616	81,103
Total	$ 100,230	$ 61,891	$ 31,558	$ 193,679
Maturities by Interest Rate Type				
Fixed rate	$ 14,948	$ 40,764	$ 13,906	$ 69,618
Floating rate	85,282	21,127	17,652	124,061
Total	$ 100,230	$ 61,891	$ 31,558	$ 193,679

Residential real estate loans are composed of loans secured by 1-4 family properties, in two main categories: (i) residential mortgage and first lien home equity loans, and (ii) second lien home equity loans and revolving lines of credit. Generally, 1-4 family residential loans are made in connection with a broader loan relationship. We underwrite home equity loans to the same credit standards as single family homes. We generally underwrite residential real estate loans to conform to standards required by the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation. Residential real estate loans totaled $63.5 million at December 31, 2016 an increase of $6.9 million in 2016 compared to 2015. Residential mortgage and first lien home equity loans increased $6.7 million to $40.4 million at December 31, 2016. Second lien home equity loans and revolving lines of credit increased $219,000 during 2016. At December 31, 2016, residential real estate loans represented 7.1% of total loans.

Consumer and other loans include auto loans, personal loans, traditional installment loans and other loans. At December 31, 2016 and 2015 consumer and other loans totaled $15.4 million. Consumer and other loans represented 1.7% of total loans at December 31, 2016.

Commercial loan growth remains an important contributor to increasing profitability and enhancing franchise value. In 2017 one of our strategic objectives is to gradually change the loan mix as we focus on more lending to businesses, understanding that commercial real estate will remain an important segment of our loan portfolio. We believe we can achieve our loan origination goals in 2017 by capitalizing on our strength as a commercial and business lender and continuing to develop business in new markets. With a legal lending limit of $17.9 million at December 31, 2016, we can continue to compete for larger loan relationships.

For further information about our loan portfolio, see Note 3 of the Notes to Consolidated Financial Statements located elsewhere in this document.

Asset Quality

While the most profitable part of our business is commercial lending, the risk and complexity of that business is also the greatest. Extending credit to our borrowers exposes us to credit risk, which is the risk that the principal balance of a loan and related interest will not be collected due to the inability of the borrower to repay the loan. We seek to manage credit risk by carefully analyzing both the debt service capacity of a borrower and the underlying collateral securing their loan. Through our lending and credit risk management functions we continuously review our loan portfolio for credit risk. We manage credit risk in our loan portfolio through written loan policies, which establish underwriting standards or limits deemed necessary or prudent. These guidelines are approved by our Board of Directors.

Nonperforming assets as a percentage of total assets were 0.68% at the end of 2016 compared to 0.64% at the end of 2015. Our allowance for loan losses as a percentage of nonperforming loans decreased to 164.67% at the end of 2016 compared to 203.43% at the end of 2015. Net charge offs as a percentage of average loans were 0.10% for 2016 and 0.14% for 2015.

Lastly, our Texas Ratio was 7.41% at the end of 2016 compared to 7.18% at the end of 2015. The Texas Ratio is a non-U.S. GAAP financial measurement which was designed to measure the credit problems of banks and we believe is widely followed in the banking industry. The Texas Ratio measures a bank's likelihood of failure by comparing its bad assets to available capital. When this ratio exceeds 100% a bank's capital cushion is no longer adequate to absorb potential losses from troubled assets. We believe the low level of our Texas Ratio is another indicator of our strong asset quality. The following table provides a reconciliation and calculation of the non-U.S. GAAP Texas Ratio measure:

	December 31,	
	2016	2015
	(in thousands)	
Nonperforming assets (numerator)	$ 7,289	$ 5,490
Stockholders' equity	$ 88,806	$ 68,763
Plus: Allowance for loan losses	9,826	7,940
Less: Intangible assets, net	224	286
Total (denominator)	$ 98,408	$ 76,417
Texas Ratio	7.41%	7.18%

Asset Classification

Federal banking regulations and our policies require that we utilize an internal asset classification system as a means of reporting and tracking problem and potential problem assets. Federal banking regulations set forth a grid for classifying problem and potential problem assets as "substandard," "doubtful" or "loss" assets. Loans classified as "substandard" have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. An asset is considered "substandard" if it is inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. "Substandard" assets include those characterized by the distinct possibility that the insured institution will sustain some loss if the deficiencies are not corrected. Assets classified as "doubtful" have all of the weaknesses inherent in those classified "substandard" with the added characteristic that the weaknesses present make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly improbable. Assets classified as "loss" are those considered uncollectible and are charged to the allowance for loan losses. Assets which do not currently expose us to sufficient risk to warrant adverse classification in one of the aforementioned categories but possess weaknesses are designated "special mention". Loans not classified are rated "pass".

On a quarterly basis our Asset Quality Review ("AQR") Committee formally reviews the ratings on all criticized and classified loans. While we make every effort to accurately assess the loan portfolio, we can give no assurance that we have identified all of our potential problem loans. We also engage an independent third-party loan review consultant to review the loan portfolio. As part of their scope they review a significant portion of criticized and classified loans.

The following tables provide information on our "substandard" loans and those designated "special mention" as of the dates indicated. There were no loans classified as "doubtful" or "loss" at December 31, 2016 and 2015.

	December 31, 2016			
	Pass	Special Mention	Substandard	Total
		(in thousands)		
Commercial and industrial	$ 108,978	$ 519	$ 3,079	$ 112,576
Commercial real estate:				
Owner-occupied	200,312	1,449	1,484	203,245
Investor	372,217	-	796	373,013
Construction and development	81,103	-	-	81,103
Multi-family	48,019	2,657	150	50,826
Residential real estate:				
Residential mortgage and first lien home equity loans	38,776	566	1,025	40,367
Home equity–second lien loans and revolving lines of credit	21,120	752	1,293	23,165
Consumer and other	15,333	-	76	15,409
Total	$ 885,858	$ 5,943	$ 7,903	$ 899,704

	December 31, 2015			
	Pass	Special Mention	Substandard	Total
		(in thousands)		
Commercial and industrial	$ 95,681	$ 1,531	$ 2,640	$ 99,852
Commercial real estate:				
Owner-occupied	152,368	3,454	3,117	158,939
Investor	272,713	100	719	273,532
Construction and development	44,169	-	-	44,169
Multi-family	39,800	2,758	-	42,558
Residential real estate:				
Residential mortgage and first lien home equity loans	32,010	-	1,681	33,691
Home equity–second lien loans and revolving lines of credit	21,827	-	1,119	22,946
Consumer and other	15,203	-	223	15,426
Total	$ 673,771	$ 7,843	$ 9,499	$ 691,113

Past Due Loans

The following tables show the delinquencies in our loan portfolio as of the dates indicated.

	December 31, 2016						
	30-59 Days Past Due	60-89 Days Past Due	Past Due > 90 Days and Still Accruing	Nonaccrual	Total Past Due	Total Current	Total Loans
				(in thousands)			
Commercial and industrial	$ 117	$ 84	$ -	$ 1,594	$ 1,795	$ 110,443	$ 112,238
Commercial real estate:							
Owner-occupied	-	-	697	1,484	2,181	201,064	203,245
Investor	-	-	-	95	95	372,859	372,954
Construction and development	-	-	-	-	-	81,103	81,103
Multi-family	150	2,281	-	-	2,431	48,395	50,826
Residential real estate:							
Residential mortgage and first lien home equity loans	-	-	-	1,025	1,025	38,100	39,125
Home equity—second lien loans and revolving lines of credit	10	-	-	931	941	21,959	22,900
Consumer and other	182	-	65	76	323	15,086	15,409
Total	$ 459	$ 2,365	$ 762	$ 5,205	$ 8,791	$ 889,009	$ 897,800

	December 31, 2015						
	30-59 Days Past Due	60-89 Days Past Due	Past Due > 90 Days and Still Accruing	Nonaccrual	Total Past Due	Total Current	Total Loans
				(in thousands)			
Commercial and industrial	$ 1,339	$ -	$ -	$ 1,759	$ 3,098	$ 96,292	$ 99,390
Commercial real estate:							
Owner-occupied	5,333	907	-	987	7,227	151,520	158,747
Investor	100	-	-	-	100	273,373	273,473
Construction and development	550	175	-	-	725	43,444	44,169
Multi-family	157	2,352	-	-	2,509	40,049	42,558
Residential real estate:							
Residential mortgage and first lien home equity loans	-	-	-	414	414	32,011	32,425
Home equity—second lien loans and revolving lines of credit	130	-	75	412	617	21,720	22,337
Consumer and other	177	84	33	223	517	14,909	15,426
Total	$ 7,786	$ 3,518	$ 108	$ 3,795	$ 15,207	$ 673,318	$ 688,525

Nonaccrual loans in the preceding tables do not include $1.9 million and $2.6 million of loans acquired with deteriorated loan quality, which were recorded at fair value at acquisition, at December 31, 2016 and 2015, respectively.

Nonperforming Assets and Troubled Debt Restructured Loans

Nonperforming loans consist of loans on a nonaccrual basis and loans past due 90 days or more and still accruing. Nonperforming assets include nonperforming loans, other real estate owned ("OREO") and other repossessed assets.

The following table provides information concerning our nonperforming assets and performing troubled debt restructured loans as of the dates indicated:

	December 31,				
	2016	2015	2014	2013	2012
			(dollars in thousands)		
Nonaccrual loans:					
Commercial and industrial	$ 1,594	$ 1,759	$ 1,731	$ 1,640	$ 286
Commercial real estate:					
Owner-occupied	1,484	987	1,700	1,187	1,486
Investor	95	-	423	121	265
Residential real estate:					
Residential mortgage and first lien home equity loans	1,025	414	222	172	502
Home equity—second lien loans and revolving lines of credit	931	412	436	145	458
Consumer and other	76	223	152	71	326
Total nonaccrual loans	5,205	3,795	4,664	3,336	3,323
Loans past due 90 days or more and still accruing	762	108	2,448	-	-
Total nonperforming loans	5,967	3,903	7,112	3,336	3,323
Other real estate owned, net	1,292	1,557	2,182	1,664	2,604
Other repossessed assets	30	30	100	87	-
Total nonperforming assets	$ 7,289	$ 5,490	$ 9,394	$ 5,087	$ 5,927
Performing troubled debt restructured loans	$ 253	$ 481	$ 585	$ 209	$ 32
Nonaccrual loans to total loans	0.58%	0.55%	0.85%	0.98%	1.28%
Nonperforming loans to total loans	0.66%	0.57%	1.30%	0.98%	1.28%
Nonperforming assets to total assets	0.68%	0.64%	1.39%	1.09%	1.69%

Nonperforming loans totaled $6.0 million, or 0.66% of total loans, at December 31, 2016, and $3.9 million, or 0.57% of total loans, at December 31, 2015. Nonperforming loans at December 31, 2016 and 2015 exclude $1.9 million and $2.6 million, respectively, of loans acquired with deteriorated credit quality which were recorded at their fair value at acquisition. Nonperforming loans at December 31, 2016 included three loans totaling $762,000 that were 90 days or more past due and still accruing and in the process of collection. Loans 90 days or more past due and still accruing at December 31, 2015 totaled $108,000.

The accrual of interest is discontinued on a loan, meaning the loan is placed on nonaccrual status, when the contractual payment of principal or interest has become 90 days past due or management has serious doubt about further collectability of principal or interest, even though the loan is currently performing. A loan may remain on accrual status if it is in the process of collection and is well secured. When a loan is placed on nonaccrual status, unpaid interest credited to income is reversed. Interest income is not accrued on these loans until the loan is brought current, is performing in accordance with the contractual terms for a reasonable period of time, and the ultimate collectability of principal and interest is no longer in doubt.

During 2016, had the nonaccrual loans and the nonperforming troubled debt restructured loans ("TDRs"), described below, performed in accordance with their original terms, we would have recorded $277,000 in interest income. Interest income on these loans recognized in 2016 was $61,000.

Real estate that is acquired through foreclosure or deed in lieu of foreclosure in partial or total satisfaction of loans is classified as OREO. The properties are recorded at fair value less estimated costs to sell at the date acquired. When a property is acquired, the excess of the loan balance over the fair value is charged to the allowance for loan losses. Any subsequent write downs that may be required to the carrying value of the property are recorded in non-interest expense. At December 31, 2016, OREO totaled $1.3 million compared to $1.6 million at December 31, 2015. We also had other repossessed assets of $30,000 at December 31, 2016 and 2015, which consist of manufactured housing units.

Loans whose terms have been restructured because of deterioration in the financial position of the borrower are classified as TDRs. On a case by case basis, we may extend, restructure or otherwise modify the terms of existing loans to remain competitive and retain certain borrowers, as well as assist other borrowers who may be experiencing financial difficulties. If a borrower is experiencing financial difficulties and a concession is made by way of a modification of terms we would not otherwise consider, the loan would be classified as a TDR. At December 31, 2016, we had 2 nonperforming TDRs totaling $1.4 million and 4 performing TDRs totaling $253,000. At December 31, 2015, we had 1 nonperforming TDR with a balance of $1.0 million and 5 performing TDRs totaling $481,000.

We account for our impaired loans in accordance with U.S. GAAP. Impaired loans include nonaccrual loans and performing and nonperforming TDRs. An impaired loan generally is one for which it is probable, based on current information and events, that we will not collect all the amounts due under the contractual terms of the loan agreement. Impairment is measured on a loan-by-loan basis by either the present value of expected future cash flows discounted at the loan's effective interest rate or the fair value of the collateral, if the loan is collateral dependent. Most of our impaired loans are collateral dependent. Total impaired loans amounted to $5.5 million and $4.3 million at December 31, 2016 and 2015, respectively.

We remain focused on maintaining sound asset quality. We continue to actively work to reduce nonaccrual loans to maximize our collection of principal and interest. We also continue to actively work on disposition of our OREO and thereby eliminate the expenses associated with those properties. Since the majority of our loans are backed by real estate collateral, if it were necessary to liquidate our real estate collateral during a period of reduced real estate values, earnings could be negatively impacted.

Allowance for Loan Losses

The allowance for loan losses ("ALL") is maintained at a level considered adequate to absorb losses inherent in the loan portfolio. The level of the allowance is based on our evaluation of estimated losses in the portfolio, after consideration of risk characteristics of the loans and prevailing and anticipated economic conditions.

Our methodology for evaluating the adequacy of the ALL consists of specific and general components. The specific component relates to loans that are classified as impaired. The general component covers pools of loans by loan class including loans not considered impaired and other loans which have not been otherwise reviewed or measured on an individual basis. These pools of loans are evaluated for loss exposure based upon historical loss rates for each of these classes of loans, adjusted for qualitative factors. Qualitative factors include, among other things, assessments of the amounts and trends of delinquencies, concentrations, risk ratings, charge offs, lending policies and procedures, and experience, ability and depth of lending management and staff. The formal evaluation process for determining the adequacy of the ALL takes place quarterly.

As part of our formal process, our lending staff evaluates and rates our commercial loans at origination based on their respective risk characteristics. On a quarterly basis our AQR Committee, which includes the President and CEO, Chief Lending Officer, Chief Financial Officer, Chief Accounting Officer and loan relationship and workout managers, formally reviews the ratings on all criticized and classified loans. The AQR Committee oversees higher risk performing loans classified as special mention and substandard, and nonperforming loans. We define higher risk loans as those loans that exhibit certain weaknesses and require a higher level of monitoring because of factors such as payment performance, business conditions, nature of collateral or other factors. The AQR Committee reviews changes in risk ratings, approves strategies regarding problem credits and reviews the impaired loan analyses. Risk classifications range from one to ten or from minimal risk to loss. Charge offs are determined based on this review process. The AQR Committee confirms ALL allocations for all impaired loans and ASC 310-30 loans each quarter. The ALL associated with these loans are based on an analysis of the most probable source of repayment which is normally the liquidation of collateral but could also include discounted future cash flows.

Acquired loans accounted for under ASC 310-30 are individually evaluated for impairment quarterly. To the extent that we experience deterioration in credit quality of the expected cash flows subsequent to acquisition of the loans, an allowance for loan losses would be established based on estimates of future credit losses over the remaining life of the loans. In accordance with U. S. GAAP, there was no carryover of the allowance for loan losses that had been previously recorded by HCB. For additional information on the accounting of acquired loans under ASC 310-30, see Note 1 of the Notes to Consolidated Financial Statements located elsewhere in this document.

Results of regulatory examinations may also impact our allowance for loan losses, as a review of loan quality and the related ALL is an integral part of the regulatory examination process.

We provide for probable loan losses inherent in the loan portfolio by a charge to current income to maintain the allowance for loan losses at an adequate level according to our documented ALL methodology. For additional information on the allowance for loan losses, see Notes 1 and 4 of the Notes to Consolidated Financial Statements located elsewhere in this document.

The following table provides information regarding loans charged off, loan recoveries, the provision for loan losses and the allowance for loan losses for each of the years presented.

	Year Ended December 31, 2016	Year Ended December 31, 2015
	(in thousands)	
Balance - beginning of year	$ 7,940	$ 6,104
Loans charged off:		
Commercial and industrial	(342)	(30)
Commercial real estate:		
Owner-occupied	(96)	(728)
Investor	-	(103)
Residential real estate:		
Residential mortgage and first lien home equity loans	-	(41)
Home equity—second lien loans and revolving lines of credit	(458)	(226)
Consumer and other	(1)	(19)
Total charge offs	(897)	(1,147)
Recoveries of loans previously charged off:		
Commercial and industrial	59	32
Commercial real estate:		
Owner-occupied	8	55
Investor	12	175
Residential real estate:		
Residential mortgage and first lien home equity loans	-	39
Home equity—second lien loans and revolving lines of credit	3	10
Consumer and other	4	3
Total recoveries	86	314
Net charge offs	(811)	(833)
Provision for loan losses	2,697	2,669
Balance - end of year	$ 9,826	$ 7,940
Net charge offs to average loans	0.10%	0.14%
Allowance for loan losses to loans	1.09%	1.15%
Allowance for loan losses to nonperforming loans	164.67%	203.43%

The ALL is increased by provisions charged to expense. Loans or portions of loans deemed uncollectible are charged off and deducted from the ALL, while recoveries of amounts previously charged off, if any, are added to the allowance. Recoveries on ASC 310-30 loans that had been partially charged off at the time of acquisition are recognized in interest income on loans since there was no carryover of HCB's ALL at acquisition. Net loan charge offs were $811,000 for the year ended December 31, 2016 and $833,000 for the year ended December 31, 2015. The ratio of net charge offs to average loans was 0.10% for 2016 and 0.14% for 2015. We recorded provisions for loan losses of $2.7 million in 2016 and 2015.

At December 31, 2016, the ALL totaled $9.8 million, reflecting an increase of $1.9 million, or 23.8%, from $7.9 million at December 31, 2015. The ratio of the allowance for loan losses to total loans was 1.09% and 1.15% at December 31, 2016 and December 31, 2015, respectively. It is our assessment, based on our ALL methodology, judgment and analysis, that the allowance for loan losses was adequate in relation to losses inherent in the portfolio at December 31, 2016 and 2015.

Allocation of the Allowance for Loan Losses

The general allocation of the ALL is important to maintain the overall allowance at a level that is adequate to absorb credit losses inherent in the total loan portfolio. The allocation is not necessarily indicative of the loan classes in which future loan losses may occur. The total ALL is available to absorb losses from any class of loans.

The following table illustrates the allocation of the ALL among the various loan classes and provides certain other information as of the dates indicated:

	December 31, 2016			December 31, 2015		
	ALL Amount	% of Total ALL	% of Total Loans	ALL Amount	% of Total ALL	% of Total Loans
			(dollars in thousands)			
Commercial and industrial	$ 1,341	13.65%	0.15%	$ 1,240	15.62%	0.18%
Commercial real estate:						
Owner-occupied	2,628	26.75%	0.29%	2,258	28.44%	0.33%
Investor	3,929	39.98%	0.44%	2,838	35.74%	0.41%
Construction and development	730	7.43%	0.08%	375	4.72%	0.06%
Multi-family	488	4.97%	0.06%	362	4.56%	0.05%
Residential real estate:						
Residential mortgage and first lien home equity loans	389	3.96%	0.04%	400	5.04%	0.06%
Home equity—second lien loans and revolving lines of credit	130	1.32%	0.01%	232	2.92%	0.03%
Consumer and other	191	1.94%	0.02%	235	2.96%	0.03%
Total	$ 9,826	100.00%	1.09%	$ 7,940	100.00%	1.15%

Deposits

Deposits are our primary source of funds to support growth in earning assets. Total deposits reached $894.9 million at December 31, 2016, an increase of $155.9 million, or 21.1%, from $739.0 million at December 31, 2015. We had $18.0 million in brokered money market deposits at December 31, 2016. We had no brokered deposits in 2015.

In 2016, we expanded our geographic footprint into Flemington, Hunterdon County, New Jersey. In 2015 we opened our first branch in Pennsylvania, in Trevose, Bucks County. Throughout 2016 we marketed our products and services in all of our markets, including Hunterdon and Bucks counties to attract core deposits. Expanding our geographic footprint into new markets remains an important factor in attracting a lower cost diversified deposit base to fund loans at appropriate margin spreads.

The cost of interest bearing deposits was 1.05% for 2016 compared to 0.99% for 2015. During 2016, we competitively priced deposits, particularly certificates of deposit and interest bearing demand deposits, to fund loan growth, which resulted in a higher average cost of interest bearing deposits.

The following table sets forth the average balances and average interest rates of deposits for the years indicated:

	Year Ended December 31,			
	2016		2015	
	Average Balance	Average Rate	Average Balance	Average Rate
	(dollars in thousands)			
Non-interest bearing demand deposits	$ 110,804	-	$ 94,817	-
Interest bearing demand deposits	93,285	0.62%	52,971	0.71%
Money market deposits	129,769	0.67%	112,504	0.68%
Savings deposits	72,647	0.50%	89,852	0.53%
Time deposits	432,400	1.34%	316,149	1.28%
Total deposits	$ 838,905	0.91%	$ 666,293	0.85%

Average total deposits increased $172.6 million, or 25.9%, to $838.9 million for 2016 from $666.3 million in 2015. The average interest rate paid on total deposits for 2016 was 0.91% compared to 0.85% for 2015. The average interest rate paid on deposits during 2016 increased due to the competitive pricing of deposits, particularly time deposits, in the marketplace. Throughout 2016 we priced our deposits to fund loan growth and enhance liquidity. As a result of this, we experienced growth in all of our deposit types during the year except savings deposits. Average savings balances declined as depositors moved funds from savings accounts into higher yielding deposit products. Significant growth occurred primarily in average time deposits and interest bearing demand deposits in 2016 which increased 36.8% and 76.1%, respectively. The increase in interest bearing demand deposits was due to several factors including a competitive interest rate and the continued addition of new business relationships. For 2016, average non-interest bearing deposits increased $16.0 million, or 16.9%, to $110.8 million compared to $94.8 million for 2015. The increase was due primarily to new and expanded deposit relationships with our loan customers.

The following table summarizes the maturity distribution of time deposits in denominations of $100,000 or more as of December 31, 2016:

	December 31, 2016
	(in thousands)
3 months or less	$ 89,100
3 to 6 months	43,078
6 to 12 months	45,949
Over 12 months	100,938
Total	$ 279,065

Our objective is to continue to attract lower cost deposits enabling us to effectively manage our cost of funds, increase profitability and enhance shareholder value. In 2017 we have committed staff to attract new lower cost commercial deposits. We are also working with a deposit consultant to strengthen our cash management product offerings as well as identify cash rich businesses to solicit our products and services to. In an increasingly more competitive deposit marketplace we have continued to increase our deposit base in our branches. Additional branch opportunities continue to be explored so that we may further broaden our markets, increase our funding base, and strengthen liquidity.

Borrowings

Borrowings consist primarily of Federal Home Loan Bank ("FHLB") advances. We are a member of the FHLB of New York and use FHLB advances as an alternative source of funds and to manage interest rate risk. Outstanding advances are secured by eligible investment securities and qualifying commercial mortgage loans.

Borrowings totaled $64.5 million and $24.0 million at December 31, 2016 and 2015, respectively, which represented 6.0% and 2.8% of total assets at those respective year ends. As a result of strong commercial loan growth in 2016, we added $40.5 million in FHLB borrowings mainly during the fourth quarter of 2016 to help fund our loan growth and to bolster our liquidity position. The maturities of certain FHLB advances may be extended in 2017 to meet interest rate risk objectives in a projected higher interest rate environment. The terms of these borrowings were mainly one year or less with a portion extended to two or three years. For the years ended December 31, 2016 and 2015, borrowings averaged $21.0 million and $14.1 million, respectively, and the average cost of borrowings was 0.99% and 1.55%, respectively.

Subordinated Debentures

On April 30, 2015, we completed a $22.0 million private placement of fixed-to-floating rate subordinated debentures. The notes have a maturity date of May 1, 2025 and carry a fixed interest rate of 6.75% for the first 5 years. Thereafter, the notes will pay interest at 3-month LIBOR plus 5.30%. The notes include a right of prepayment, without penalty, on or after May 1, 2020. The subordinated debt qualifies as Tier 2 capital for regulatory capital purposes. We have used the additional capital for general corporate purposes including organic growth initiatives and may use the capital for any potential merger and acquisition opportunities that may arise. Our subordinated debentures, net, totaled $21.6 million at December 31, 2016, which includes $359,000 of remaining unamortized debt issuance costs which are being amortized into interest expense over the expected life of the issue.

For the year ended December 31, 2016, subordinated debentures averaged $21.6 million and the average cost of subordinated debentures was 7.38%.

Liquidity

The Bank's liquidity is a measure of its ability to fund loans, withdrawals of deposits and other cash outflows in a cost-effective manner. Liquidity risk arises from the possibility we may not be able to satisfy current or future financial commitments or unexpected deposit outflows or other cash needs. Our principal sources of funds include deposit growth, scheduled amortization and prepayments of loan principal, principal cash flows from mortgage-backed securities, borrowings, and funds provided by operations. While scheduled loan payments, borrowings, and principal cash flows from mortgage-backed securities are relatively predictable sources of funds, deposit flow and loan prepayments are greatly influenced by general interest rates, economic conditions and competition.

The Board of Director's Asset and Liability Committee ("ALCO") is responsible for liquidity risk management. This committee recommends liquidity policy guidelines to the Board for approval. Each quarter management presents detailed reports to the ALCO on our liquidity position, including compliance with limits and guidelines. The ALCO reviews forecasted liquidity needs and the adequacy of deposits and other funding sources to meet these needs. As part of our liquidity risk management, we have developed a detailed contingency funding plan. On a quarterly basis, the ALCO reviews the adequacy of funding in adverse environments due to changes in interest rates, credit markets and other internal or external risks through our contingency funding report.

At December 31, 2016, the Bank's liquid assets remained at a level management deemed adequate to ensure that, on a short and long-term basis, contractual liabilities, depositors' withdrawal requirements and other operational and customer credit needs could be satisfied. Liquid assets (cash and due from banks, interest bearing deposits in other banks and unpledged securities) were $69.2 million at December 31, 2016, which represented 6.4% of total assets on that date.

Our cash and cash equivalents decreased by $3.0 million from $33.3 million at December 31, 2015 to $30.3 million at December 31, 2016. The decrease was largely due to $222.3 million used in investing activities, primarily an increase in loans, and a comparatively small increase in investments and BOLI. This decrease was partially offset by $210.1 million provided by financing activities and $9.2 million provided by operating activities. The cash provided from financing activities was mainly from an increase in deposits and, to a lesser extent, net borrowings and our capital stock offering proceeds.

As a member of the FHLB, we are eligible to borrow funds up to 50% of total assets from the FHLB, subject to its stock and collateral requirements. FHLB advances are collateralized by certain securities and commercial mortgage loans. Based on available qualified collateral as of December 31, 2016, we had the ability to borrow $114.6 million. In addition, we have $10.0 million in unsecured borrowing capacity through a correspondent bank.

We believe by competitively positioning and pricing our deposits that we can continue to attract lower cost core deposits and further strengthen liquidity. Our liquidity profile is further enhanced by branches in attractive markets. Additionally, we have reliable secondary sources of liquidity that we can use as needed. Based on projected loan and deposit growth, we anticipate having adequate liquidity using available sources to meet our funding goals for 2017.

Off-Balance Sheet Arrangements

We are a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of our customers. These financial instruments include commitments to extend credit and letters of credit. Those instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated statements of financial condition. Our exposure to credit loss in the event of non-performance by the counterparty to these instruments is represented by the contractual amount of those instruments. We use the same credit analyses in making commitments and conditional obligations as we do for on-balance-sheet instruments.

The contractual amount of off-balance sheet financial instruments as of December 31, 2016 was $122.3 million for commitments to extend credit and $4.4 million for performance letters of credit. Commitments under performance standby letters of credit do not necessarily represent future cash requirements, in that these commitments often expire without being drawn upon.

Further discussion of these commitments is included in Note 16 of the Notes to Consolidated Financial Statements located elsewhere in this document.

Contractual Obligations

The following table presents the Bank's contractual obligations by expected maturity or payment period, as of December 31, 2016:

	December 31, 2016				
	Less Than 1 Year	1-3 Years	4-5 Years	Over 5 Years	Total
			(in thousands)		
Time deposits	$ 271,776	$ 113,099	$ 51,975	$ -	$ 436,850
Operating lease obligations	1,137	2,257	1,964	4,875	10,233
Borrowings	50,257	14,253	-	-	64,510
Subordinated debentures	-	-	-	22,000	22,000
Total	$ 323,170	$ 129,609	$ 53,939	$ 26,875	$ 533,593

Time deposits have stated maturities. Operating lease obligations represent obligations entered into by us for the use of land and premises. The leases generally have escalation terms based upon certain defined indexes. Borrowings are advances from the FHLB. Subordinated debentures are private placement debt instruments. For additional information on our contractual obligations, refer to Notes 7, 8 and 9 of the Notes to Consolidated Financial Statements located elsewhere in this document.

Asset and Liability Management

Asset and liability management involves the evaluation, monitoring, and managing of market risk, interest rate risk, liquidity risk and the appropriate use of capital, while maximizing profitability. ALCO provides oversight to the asset and liability management process and recommends policy guidelines regarding interest rate risk, liquidity and capital limits for approval by our Board of Directors. One of the primary goals of asset and liability management is to prudently maximize net interest income while maintaining acceptable levels of interest rate risk. The risk to net interest income is derived from the difference in the maturity and repricing characteristics between assets and liabilities.

Market and Interest Rate Risk

Market risk is the risk of loss from adverse changes in market prices and rates. Market risk arises from interest rate risk inherent in loans, securities, deposits and borrowings. We seek to manage our asset and liability portfolios to help reduce any adverse impact on net interest income and earnings caused by fluctuating interest rates.

The primary goals of our interest rate risk management process are to control exposure to interest rate risk inherent in our balance sheet, determine the appropriate risk level given our strategic objectives, and manage the risk consistent with limits and guidelines approved by ALCO and our Board of Directors. On a quarterly basis, we provide a detailed analysis of our interest rate risk position to ALCO and the Board of Directors.

We manage and control interest rate risk by identifying and quantifying interest rate risk exposures through the use of net interest income simulation and economic value at risk models. Various assumptions are used to produce these analyses, including, but not limited to, the rate paid on interest bearing nonmaturity deposits relative to market interest rates, the level of new and existing business, loan and investment prepayment speeds, the shape of the yield curve and competitive pricing.

We also use a traditional gap analysis that complements the simulation and economic value at risk modeling. The gap analysis does not assess the relative sensitivity of assets and liabilities to changes in interest rates and also does not fully account for embedded options, caps and floors. The gap analysis is prepared based on the maturity characteristics of interest earning assets and interest bearing liabilities for selected time periods.

Interest Rate Sensitivity Analysis

At December 31, 2016 and 2015, the results of our simulation and economic value at risk models were within guidelines prescribed by our Board of Directors. If model results were to fall outside prescribed ranges, action plans would be required, including additional monitoring and reporting to the Board, until results were back within prescribed limits.

We believe that the simulation of net interest income in different interest rate environments provides a more meaningful measure of our interest rate risk position than gap analysis. Our simulation model measures the volatility of net interest income to changes in market interest rates. We model our interest income and interest expense dynamically over specified time periods under different interest rate scenarios and balance sheet structures. We measure the sensitivity of net interest income over 12 and 24-month time horizons, based on assumptions established by ALCO and approved by our Board of Directors. Policy guidelines have been established for interest rate shocks, positive and negative, ranging from 200 to 400 basis points. Rates are shocked immediately in year 1 with rates remaining stable in year 2. Yield curve shifts are parallel and instantaneous. We generally focus on interest rates +/- 200 basis points. ALCO has established a policy guideline that net interest income sensitivity is acceptable if net interest income in the +/- 200 basis points scenarios are within a -12% change in net interest income in the first 12 months and within a -22% change over the 2 year time frame. The net interest income simulation model for December 31, 2016 shows that over the next 12 month period, a +200 basis points rate shock will decrease our net interest income by 3.8%. For a -200 basis points rate shock, net interest income over that next year is estimated to decrease 1.0%. As of December 31, 2016, net interest income in year 2 is projected in a +200 basis points rate shock to decrease 4.5% and decrease 4.7% in a -200 basis point rate shock. At the end of 2016 we were liability sensitive from a modeling perspective with a 12-month gap position of -8.4%. Our objective for our interest rate risk position is to be relatively balanced in an increasing or decreasing interest rate environment.

We also measure, through simulation analysis, the impact to net interest income based on our 2016 financial plan or growth scenario in both a higher and lower interest rate environment. Assuming rising interest rates with +300 basis points rate increase over 12 months with lagging core deposit rates in relation to market rates, net interest income is flat in year 1. In year 1, assuming declining interest rates with -300 basis points, net interest income increases 0.6%. We also review a rising rate simulation scenario with a flattening yield curve, which we believe to be a worst case scenario, to understand the potential impact to our net interest income over a 1 and 2-year period.

Due to the assumptions used in preparing our simulation analysis, actual outcomes could differ significantly from the simulation outcomes.

Economic Value at Risk

We measure long-term interest rate risk through an Economic Value of Equity ("EVE") model. This model involves projecting our asset and liability cash flows to their maturity dates, discounting those cash flows at appropriate interest rates, and then aggregating the discounted cash flows. EVE is the estimated net present value of assets less the net present value of liabilities. Market rates are adjusted up and down 200 to 400 basis points in the model to calculate the various levels of EVE with rate changes. The variance in the economic value of equity is measured as a percentage of the present value of equity. The sensitivity of EVE to changes in the level of interest rates is a measure of potential market value risk. We use the sensitivity of EVE principally to measure the exposure of equity to changes in interest rates over a relatively long time horizon. Based on the underlying assumptions, we were within our policy guidelines at December 31, 2016 and 2015. Our EVE as of December 31, 2016 would decline by 15.3% with a rate shock of +200 basis points and increase by 6.1% with a rate shock of -200 basis points. Our policy guideline is -25%. We believe our EVE market risk at December 31, 2016 is within acceptable ranges.

Modeling changes in the simulation and EVE analyses require the making of certain assumptions, which may or may not reflect the manner in which actual yields or costs respond to changes in market interest rates. In addition, on an annual basis we perform assumption sensitivity testing, which includes faster deposit betas, the modification of prepayment speeds and the flattening of the U.S. Treasury yield curve to analyze the impacts to net interest income over a 1 and 2-year period. Although the models discussed above provide an indication of our interest rate risk exposure at a particular point in time, such measurements are not intended to and do not provide a precise forecast of the effect of changes in market interest rates on our net interest income or economic value of equity and may differ from actual results.

We believe that any changes to interest rate levels are likely to occur gradually. We continue to monitor our gap position and rate ramp and shock analyses to detect changes to our exposure to fluctuating interest rates. We have the ability to shorten or lengthen maturities on assets, sell securities, or seek funding sources with different repricing characteristics in order to change our asset and liability structure for the purpose of mitigating the effect of interest rate risk changes.

Capital Management

We manage capital in a highly regulated environment which requires a balance between earning the highest return for our stockholders while maintaining sufficient capital levels for proper risk management and satisfying regulatory requirements. Our capital management is designed to ensure that we are always well capitalized, while having the necessary capital to support future growth.

A significant measure of the strength of a financial institution is its stockholders' equity. Stockholders' equity at December 31, 2016 totaled $88.8 million compared to $68.8 million at December 31, 2015, an increase of $20.0 million or 29.1%. The increase in stockholders' equity in 2016 was primarily the result of the capital offering completed in June 2016, which raised $13.4 million in net new capital, and $6.2 million of growth in retained earnings. Stockholders' equity to assets was 8.27% and 8.03% at December 31, 2016 and 2015, respectively.

Our tangible stockholders' equity ratio was 8.26% as of December 31, 2016 and 8.00% as of December 31, 2015. Tangible stockholders' equity and the tangible stockholders' equity ratio are non-U.S. GAAP financial measures which we believe are widely followed in the banking industry. This ratio measures stockholders' equity after deduction of intangible assets.

The increases in both the stockholders' equity ratio and tangible stockholder's equity ratio from December 31, 2015 to December 31, 2016 were due primarily to the capital offering in 2016 and retained earnings offset by growth in total assets in 2016.

The following table provides a reconciliation of certain U.S. GAAP financial measures (stockholders' equity and total assets) and the related non-U.S. GAAP financial measures (tangible stockholders' equity and adjusted total assets) to derive the tangible stockholders' equity ratio measure.

	December 31,	
	2016	2015
	(dollars in thousands)	
Stockholders' equity	$ 88,806	$ 68,763
Less: Intangible assets, net	224	286
Tangible stockholders' equity (numerator)	$ 88,582	$ 68,477
Total assets	$ 1,073,294	$ 856,106
Less: Intangible assets, net	224	286
Adjusted total assets (denominator)	$ 1,073,070	$ 855,820
Tangible stockholders' equity ratio	8.26%	8.00%

Unrealized gains and losses on AFS investment securities are recognized in accumulated other comprehensive income which is a component of stockholders' equity. Our accumulated other comprehensive loss increased as AFS investment securities values moved lower at the end of 2016 compared to 2015, due primarily to changes in the U.S. Treasury yield curve which resulted in higher long term market interest rates. When interest rates rise, fixed rate investment securities will decrease in value, resulting in unrealized losses. Accumulated other comprehensive loss in the consolidated statement of financial condition at December 31, 2016 totaled $469,000 and consisted of 2 components: (i) an unrealized loss, net of tax, of $296,000 on AFS investment securities, and (ii) the unrealized tax-effected loss and amortization on AFS securities transferred to HTM, which was $173,000. The unrealized loss on securities transferred from AFS to HTM is being amortized over the average life of those securities, approximately 5 years.

Regulatory Capital

We are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet the minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on our consolidated financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, we must meet specific capital guidelines that involve quantitative measures of our assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices.

Effective January 1, 2015 (with some changes transitioned into full effectiveness over 2-4 years), we became subject to new capital requirements due to substantial amendments to the previous capital regulations. These amended regulations implemented the Basel III regulatory capital reforms and changes required by the Dodd-Frank Act. The new requirements created a required ratio for common equity Tier 1 ("CET1") capital, increased the leverage and Tier 1 capital ratios, changed the risk weight of certain assets for purposes of the risk-based capital ratios, created an additional capital conservation buffer over the required capital ratios and changed what qualifies as capital for purposes of meeting these various capital requirements.

Under the new capital regulations, the minimum capital ratios are: (i) a Tier 1 leverage ratio of 4.0%; (ii) CET1 capital of 4.5% of risk-weighted assets; (iii) Tier 1 capital of 6.0% of risk-weighted assets; and (iv) total capital of 8.0% of risk-weighted assets. CET1 generally consists of common stock and retained earnings, subject to applicable regulatory adjustments and deductions.

The required capital conservation buffer consists of additional CET1 capital greater than 2.5% of risk-weighted assets above the required minimum levels. We must maintain such buffer in order to avoid limitations on paying dividends, engaging in share repurchases, and paying discretionary bonuses based on percentages of eligible retained income that could be utilized for such actions. This new capital conservation buffer requirement is being phased in over three years. As of January 1, 2016, it started at 0.625% of risk-weighted assets and increases 0.625% on January 1 of each year until fully implemented in January 2019.

The regulatory prompt corrective action standards also changed effective January 1, 2016. Under the new standards, in order to be considered well capitalized, the Company must have: (i) a Tier 1 leverage ratio of 5.0%; (ii) CET1 capital of 6.5% of risk-weighted assets, (iii) Tier 1 capital of 8.0% of risk-weighted assets, and (iv) total risk-based ratio of 10.0% of risk-weighted assets.

Our capital amounts and classification are subject to qualitative judgments by the regulators about components, risk weightings and other factors.

The following tables present our regulatory capital amounts and ratios as well as the required regulatory minimums of as the dates indicated:

	Actual		Minimum For Capital Adequacy Purposes		Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(dollars in thousands)			
December 31, 2016:						
Tier 1 leverage capital	$ 88,392	8.56%	$ 41,308	4.00%	$ 51,634	5.00%
Common equity tier 1 capital	88,392	8.78%	45,292	4.50%	65,421	6.50%
Tier 1 risk-based capital	88,392	8.78%	60,389	6.00%	80,519	8.00%
Total risk-based capital	119,859	11.91%	80,519	8.00%	100,648	10.00%
December 31, 2015:						
Tier 1 leverage capital	$ 68,224	8.22%	$ 33,186	4.00%	$ 41,483	5.00%
Common equity tier 1 capital	68,224	8.58%	35,777	4.50%	51,678	6.50%
Tier 1 risk-based capital	68,224	8.58%	47,703	6.00%	63,604	8.00%
Total risk-based capital	97,697	12.29%	63,604	8.00%	79,505	10.00%

In June 2016 we raised $13.4 million in net new capital through the private placement of 1,890,000 shares of common stock at a price of $7.25 per share. We are using the capital for general corporate purposes including organic growth initiatives and potential acquisitions.

We believe as of December 31, 2016 and 2015 that the Bank met all capital adequacy requirements to which it is subject. First Bank is considered "well capitalized" under the FDIC's prompt corrective action capital provisions.

Recent Accounting Pronouncements

ASU 2014-09, "Revenue from Contracts with Customers (Topic 606)." The objective of ASU 2014-09 is to require an entity to recognize the amount of revenue which it expects to be entitled for the transfer of promised goods or services to customers. ASU 2014-09 will replace most existing revenue recognition guidance under U.S. GAAP when it becomes effective. The amendments become effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. Early application is permitted for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. The standard allows an entity to apply the amendments in ASU 2014-09 using either the retrospective or cumulative effect transition method. Because the guidance does not apply to revenue associated with financial instruments, including loans and securities, the new guidance is not expected to have a material impact on the components of the Consolidated Statement of Income most closely associated with financial instruments, including securities gains/losses and interest income. We are currently evaluating this guidance to determine the impact on other components of non-interest income.

ASU 2014-15, "Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern." This ASU requires management to determine whether substantial doubt exists regarding the entity's going concern presumption, which generally refers to an entity's ability to meet its obligations as they become due. If substantial doubt exists, certain disclosures are required. As such, management will now have primary responsibility for the going concern assessment under U.S. GAAP. To date, this responsibility has rested principally with the independent auditor. The amendments in ASU 2014-15 apply to all entities, unless they have adopted the liquidation basis of accounting under Subtopic 205-30. The new standard applies prospectively to annual periods ending after December 15, 2016, and to interim and annual periods thereafter. Early application is permitted. We do not believe this will have a material impact on our consolidated financial statements.

ASU 2016-01, "Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities." This new guidance makes targeted improvements to existing U.S. GAAP by: (i) requiring equity investments (except those accounted for under the equity method of accounting, or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income; (ii) requiring public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes; (iii) requiring separate presentation of financial assets and financial liabilities by measurement category and form of financial asset (that is, securities or loans and receivables) on the balance sheet or the accompanying notes to the financial statements; (iv) eliminating the requirement to disclose the fair value of financial instruments measured at amortized cost for organizations that are not public business entities; (v) eliminating the requirement for public business entities to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet; and (vi) requiring a reporting organization to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk (also referred to as "own credit") when the organization has elected to measure the liability at fair value in accordance with the fair value option for financial instruments. Public business entities must apply the new requirements for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. We are currently evaluating the impact of this ASU on our consolidated financial statements.

ASU 2016-02, "Leases (Topic 842)." Under this new guidance, a lessee will be required to recognize assets and liabilities for leases with lease terms of more than 12 months. Consistent with current U.S. GAAP, the recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee primarily will depend on its classification as a finance or operating lease. However, unlike current U.S. GAAP, which requires only capital leases to be recognized on the balance sheet, the new ASU will require both types of leases to be recognized on the balance sheet. The ASU also will require disclosures to help investors and other financial statement users better understand the amount, timing, and uncertainty of cash flows arising from leases. These disclosures include qualitative and quantitative requirements, providing additional information about the amounts recorded in the financial statements. The ASU will take effect for public companies for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. Early adoption is permitted. We are currently evaluating the impact of this new guidance but we do not believe it will have a material effect on the Company's consolidated financial statements.

ASU 2016-03, "Simplifying the Presentation of Debt Issuance Costs." This ASU revises Subtopic 835-30 to require that debt issuance costs be reported in the balance sheet as a direct deduction from the face of the related liability, consistent with the presentation of debt discounts. Prior to the amendments, debt issuance costs were presented as a deferred charge, i.e., an asset, on the balance sheet. Further, the amendments require the amortization of debt issuance costs to be reported as interest expense. Similarly, debt issuance costs and any discount or premium are to be considered in the aggregate when determining the effective interest rate on the debt. The amendments are effective for the Company for fiscal years beginning after December 31, 2016, and interim periods within those fiscal years, and must be applied retrospectively. Early adoption is permitted as of an earlier date for which financial statements have not been previously issued. The Company early-adopted the provisions of this ASU effective with its consolidated financial statements as of and for the period ended June 30, 2016, which was the period in which the Company initially adopted an accounting principle in recognition of a debt issuance cost transaction occurring for the first time. There was no material effect on the Company's financial position or results of operations. See Note 8 of the Notes to Consolidated Financial Statements located elsewhere in this Annual Report on Form 10-K for more information on the Company's debt issuance costs and related subordinated debentures.

ASU 2016-09, "Compensation-Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting." This new guidance is part of the FASB's Simplification Initiative. The objective of the Simplification Initiative is to identify, evaluate, and improve areas of U.S. GAAP for which cost and complexity can be reduced while maintaining or improving the usefulness of the information provided to users of financial statements. The areas for simplification in this ASU involve several aspects of the accounting for 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. The ASU will take effect for public companies for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2016. This new guidance will have tax consequences for the Company but we do not believe it will have a material impact on our consolidated financial statements.

ASU 2016-13, "Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments." This new guidance will require the earlier recognition of credit losses on loans and other financial instruments based on an expected loss model, replacing the incurred loss model that is currently in use. Under the new guidance, an entity will measure all expected credit losses for financial instruments held at the reporting date based on historical experience, current conditions and reasonable and supportable forecasts. The expected loss model will apply to loans and leases, unfunded lending commitments, held-to-maturity debt securities and other debt instruments measured at amortized cost. The impairment model for available-for-sale debt securities will require the recognition of credit losses through a valuation allowance when fair value is less than amortized cost, regardless of whether the impairment is considered to be other-than-temporary. The new guidance is effective on January 1, 2020, with early adoption permitted on January 1, 2019. We are currently evaluating the impact of this new guidance on our consolidated financial statements.

ASU 2016-15, "Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments." This new guidance addresses eight specific cash flow issues with the objective of reducing the existing diversity in practice for reporting in the statement of cash flows. The new guidance is effective on January 1, 2018, with retrospective application. The adoption of this guidance will only affect the Consolidated Statements of Cash Flows.

ASU 2016-18, "Statement of Cash Flows (Topic 230): Restricted Cash." This new guidance requires restricted cash and restricted cash equivalents to be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. This guidance is effective for fiscal years beginning after December 15, 2017 and interim periods within those fiscal years. The adoption of this guidance will only affect the Consolidated Statements of Cash Flows.

ASU 2017-01, "Business Combinations (Topic 805): "Clarifying the Definition of a Business." This new guidance provides clarification on the definition of a business and provides criteria to aid in the assessment of whether an integrated set of assets and activities constitutes a business. This guidance is effective for fiscal years beginning after December 15, 2017 and interim periods within those fiscal years. We are currently evaluating the impact of this new guidance on our consolidated financial statements.

ASU 2017-04, "Intangibles-Goodwill and Other (Topic 350): "Simplifying the Test for Goodwill Impairment." This new guidance simplifies the measurement of goodwill impairment. An entity will no longer perform a hypothetical purchase price allocation to measure goodwill impairment. Instead, impairment will be measured using the difference between the carrying amount and the fair value of the reporting unit. This guidance is effective for impairment tests in fiscal years beginning after December 15, 2019 and interim periods within those fiscal years. The Company does not currently have any recorded goodwill but this could affect the Company if goodwill is recorded in future periods.

Impact of Inflation and Changing Prices

Our consolidated financial statements and notes thereto, located elsewhere in this document, have been prepared in accordance with U.S. GAAP which requires the measurement of financial position and operating results in terms of historical dollars without considering the change in the relative purchasing power of money over time and due to inflation. The impact of inflation is reflected in the increased cost of our operations. Since nearly all of our assets and liabilities are monetary, interest rates have a greater impact on our performance than do the effects of general levels of inflation. Interest rates do not necessarily move in the same direction or to the same extent as the prices of goods and services.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk.

See the section entitled, "Interest Rate Sensitivity Analysis" in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations herein for a discussion of our management of our interest rate risk.

Item 8. Financial Statements and Supplementary Data.

The audited consolidated financial statements are set forth in this Annual Report on Form 10-K on the pages listed in the Index to First Bank and Subsidiaries Consolidated Financial Statements which follows.

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FIRST BANK AND SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders
First Bank

We have audited the accompanying Consolidated Statements of Financial Condition of First Bank and Subsidiaries ("the Company") as of December 31, 2016 and 2015, and the related Consolidated Statements of Income, Comprehensive Income, Changes in Stockholders' Equity and Cash Flows for the years then ended. These Consolidated Financial Statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the Consolidated Financial Statements referred to above present fairly, in all material respects, the financial position of First Bank and Subsidiaries as of December 31, 2016 and 2015 and the results of their operations and their cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

/s/ RSM US LLP
Blue Bell, Pennsylvania
March 30, 2017

FIRST BANK AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
(in thousands, except for share data)

	December 31, 2016	December 31, 2015
Assets		
Cash and due from banks	$ 6,078	$ 10,032
Federal funds sold	5,000	-
Interest bearing deposits in other banks	19,211	23,299
Cash and cash equivalents	30,289	33,331
Interest bearing time deposits in other banks	7,440	4,125
Investment securities available for sale	47,077	45,341
Investment securities held to maturity (fair value of $53,358 and $53,793 at December 31, 2016 and 2015, respectively)	53,473	53,262
Restricted investment in bank stocks	3,890	1,862
Other investments	5,000	5,000
Loans, net of deferred fees and costs	898,429	689,887
Less: Allowance for loan losses	9,826	7,940
Net loans	888,603	681,947
Premises and equipment, net	3,338	3,449
Other real estate owned, net	1,292	1,557
Accrued interest receivable	2,573	2,056
Bank-owned life insurance	21,067	14,572
Intangible assets, net	224	286
Deferred income taxes	8,350	7,935
Other assets	678	1,383
Total assets	$ 1,073,294	$ 856,106
Liabilities and Stockholders' Equity		
Deposits:		
Non-interest bearing	$ 118,569	$ 99,966
Interest bearing	776,365	639,055
Total deposits	894,934	739,021
Borrowings	64,510	24,000
Subordinated debentures	21,641	21,533
Accrued interest payable	636	612
Other liabilities	2,767	2,177
Total liabilities	984,488	787,343
Stockholders' Equity:		
Preferred stock, par value $2 per share; 5,000,000 shares authorized; no shares issued and outstanding	-	-
Common stock, par value $5 per share; 20,000,000 shares authorized; issued and outstanding 11,410,274 shares and 9,470,157 shares at December 31, 2016 and 2015, respectively	56,885	47,218
Additional paid-in capital	18,779	14,510
Retained earnings	13,611	7,433
Accumulated other comprehensive loss	(469)	(398)
Total stockholders' equity	88,806	68,763
Total liabilities and stockholders' equity	$ 1,073,294	$ 856,106

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

FIRST BANK AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(in thousands, except for share data)

	Year Ended December 31, 2016	Year Ended December 31, 2015
Interest and Dividend Income		
Investment securities - taxable	$ 1,221	$ 1,423
Investment securities - tax-exempt	500	452
Interest bearing deposits in other banks, Fed funds sold, and other	379	247
Loans, including fees	36,227	28,642
Total interest and dividend income	38,327	30,764
Interest Expense		
Deposits	7,624	5,658
Borrowings	207	218
Subordinated debentures	1,593	1,065
Total interest expense	9,424	6,941
Net interest income	28,903	23,823
Provision for loan losses	2,697	2,669
Net interest income after provision for loan losses	26,206	21,154
Non-Interest Income		
Service fees on deposit accounts	154	128
Loan fees	79	44
Income on bank-owned life insurance	496	425
Gains on sale of investment securities, net	25	11
Gains on recovery of acquired loans	556	744
Other non-interest income	320	291
Total non-interest income	1,630	1,643
Non-Interest Expense		
Salaries and employee benefits	9,618	9,221
Occupancy and equipment	2,652	2,372
Legal fees	287	336
Other professional fees	1,225	1,225
Regulatory fees	671	507
Directors' fees	457	429
Data processing	934	811
Marketing and advertising	502	503
Travel and entertainment	234	269
Insurance	209	196
Other real estate owned expense, net	432	801
Other expense	1,111	1,055
Total non-interest expense	18,332	17,725
Income Before Income Taxes	9,504	5,072
Income tax expense	3,098	1,185
Net Income	$ 6,406	$ 3,887
Basic earnings per share	$ 0.61	$ 0.41
Diluted earnings per share	$ 0.61	$ 0.41
Basic weighted average common shares outstanding	10,420,622	9,423,029
Diluted weighted average common shares outstanding	10,580,040	9,492,289

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

FIRST BANK AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(in thousands)

	Year Ended December 31,	
	2016	**2015**
Net income	$ 6,406	$ 3,887
Other comprehensive income (loss):		
Unrealized losses on investment securities available for sale and transfered securities:		
Net unrealized losses arising during the period	(211)	(554)
Reclassification adjustment for net gains included in net income	(25)	(11)
Amortization of unrealized losses on investment securities transfered to held to maturity	119	119
	(117)	(446)
Income tax effect	46	178
Total other comprehensive loss	(71)	(268)
Total comprehensive income	$ 6,335	$ 3,619

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

FIRST BANK AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(in thousands, except share data)

	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total Stockholders' Equity
Balance - December 31, 2014	$ 47,042	$ 14,301	$ 3,546	$ (130)	$ 64,759
Net income	-	-	3,887	-	3,887
Other comprehensive loss, net of tax	-	-	-	(268)	(268)
Exercise of stock options, 35,166 shares	176	1	-	-	177
Tax benefit from stock option exercises	-	7	-	-	7
Stock-based compensation	-	201	-	-	201
Balance - December 31, 2015	47,218	14,510	7,433	(398)	68,763
Net income	-	-	6,406	-	6,406
Other comprehensive loss, net of tax	-	-	-	(71)	(71)
Vesting of restricted stock, 8,819 shares	44	(44)	-	-	-
Exercise of stock options, 34,498 shares	173	31	-	-	204
Tax benefit from stock option exercises	-	6	-	-	6
Stock-based compensation	-	317	-	-	317
Cash dividends, common stock	-	-	(228)	-	(228)
Sale of 1,890,000 shares of common stock net issuance costs of $294	9,450	3,959	-	-	13,409
Balance - December 31, 2016	$ 56,885	$ 18,779	$ 13,611	$ (469)	$ 88,806

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

FIRST BANK AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Year Ended December 31, 2016	2015
Cash flows from operating activities:		
Net income	$ 6,406	$ 3,887
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	2,697	2,669
Depreciation and amortization of premises and equipment	566	538
Amortization and accretion of premiums/discounts on investment securities, net	613	635
Amortization and accretion of fair value adjustments, net	(339)	(761)
Amortization and accretion of deferred loan fees and costs, net	(1,122)	(718)
Amortization of intangible assets	62	70
Amortization of subordinated debentures issuance cost	108	71
Stock-based compensation	317	201
Gains on sales of investment securities available for sale	(25)	(11)
Losses on sales of other real estate owned and other repossessed assets	31	34
Writedowns of other real estate owned and other repossessed assets	137	498
Income on bank-owned life insurance	(496)	(425)
Changes in assets and liabilities:		
Increase in accrued interest receivable	(517)	(332)
Increase in deferred income taxes	(369)	(893)
Decrease (increase) in other assets	705	(896)
Increase in accrued interest payable	24	275
Increase in other liabilities	362	297
Net cash provided by operating activities	9,160	5,139
Cash flows from investing activities:		
Net (increase) decrease in interest bearing time deposits in other banks	(3,315)	1,058
Net loan originations	(208,574)	(141,579)
Purchases of investment securities available for sale	(26,801)	(20,500)
Purchases of investment securities held to maturity	(5,250)	(23,222)
Proceeds from sales of investment securities available for sale	18,794	7,123
Proceeds from maturities, calls and paydowns of investment securities available for sale	5,859	7,613
Proceeds from maturities, calls and paydowns of investment securities held to maturity	4,746	3,976
Purchases of restricted stocks	(2,028)	(558)
Proceeds from sales of other real estate owned and other repossessed assets	719	164
Purchases of bank-owned life insurance	(5,999)	-
Purchases of premises and equipment	(459)	(539)
Net cash used in investing activities	(222,308)	(166,464)
Cash flows from financing activities:		
Net increase in deposits	155,977	142,640
Proceeds from borrowings	78,510	10,000
Repayments of borrowings	(38,000)	-
Proceeds from issuance of subordinated debentures	-	21,462
Proceeds from stock option exercises	204	177
Tax benefit from stock option exercises	6	7
Net proceeds from sale of common stock	13,409	-
Net cash provided by financing activities	210,106	174,286
Net (decrease) increase in cash and cash equivalents	(3,042)	12,961
Cash and cash equivalents at beginning of year	33,331	20,370
Cash and cash equivalents at end of year	$ 30,289	$ 33,331

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

FIRST BANK AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

(in thousands)

	Year Ended December 31,	
	2016	**2015**
Supplementary disclosures of cash flow information:		
Cash payments for:		
Interest on deposits and borrowings	$ 9,400	$ 6,666
Income taxes	2,875	2,634
Supplemental schedule of non-cash activities:		
Loans transferred to other real estate owned	$ 622	$ -
Common stock dividends declared but not paid	228	-

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FIRST BANK AND SUBSIDIARIES
Years Ended December 31, 2016 and 2015

Note 1 – Summary of Significant Accounting Policies

Business

First Bank (the "Company") is a New Jersey chartered commercial bank, incorporated in 2007. The Company provides a wide range of lending, deposit and other financial products and services with an emphasis on commercial real estate and commercial and industrial loans to small to mid-sized businesses and individuals. Our existing and targeted markets are located in the corridor between New York City and Philadelphia. As of December 31, 2016, we operated 10 full-service branches, including three branches and our corporate office in our primary market of Mercer County, New Jersey. Our other branch facilities are located in Williamstown, Gloucester County, in Somerset, Somerset County, in Cranbury, Middlesex County, in Flemington, Hunterdon County, New Jersey, two locations in Morris County, New Jersey, and a branch in Pennsylvania, located in Trevose, Bucks County.

In the first quarter of 2014, the Company acquired Heritage Community Bank, headquartered in Randolph, Morris County, New Jersey, which at the time had two branches in Randolph and one branch in Denville, New Jersey. In the fourth quarter of 2015 we consolidated one of the Randolph branches with our other Morris County branches.

The Company has a New Jersey real estate investment trust indirect subsidiary and a Delaware investment company direct subsidiary. The Company also has wholly-owned subsidiaries which hold foreclosed assets.

The Company is subject to regulation by the New Jersey Department of Banking and Insurance and the Federal Deposit Insurance Corporation.

The Company is subject to competition from other financial institutions and non-bank providers of financial services.

Basis of Financial Statement Presentation

The consolidated financial statements of First Bank and Subsidiaries have been prepared in conformity with generally accepted accounting principles in the United States of America ("U.S. GAAP").

The consolidated financial statements are prepared on an accrual basis and include the accounts of First Bank's wholly-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated from the accompanying consolidated financial statements.

In preparing the consolidated financial statements, management is required 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 financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses, assessment of other than temporary impairment of securities, restricted stocks and other investments, the valuation of other real estate owned, the income tax provision and the valuation of deferred tax assets.

Business Segments

ASC 280, *Business Segments*, establishes standards for the way business enterprises report information about operating segments in annual consolidated financial statements. The Company has one reportable segment, "Community Banking." Community Banking encompasses the Company's primary business which includes providing a wide range of commercial and retail and related banking services. The Company's primary focus within Community Banking is to grow the loan portfolio, primarily in commercial loans, and fund these loans using deposits generated by the Company's branches.

Significant Group Concentrations of Credit Risk

During 2016 and 2015, our business was generated principally in central and northern New Jersey. We generated additional business in Gloucester, Atlantic and Camden Counties in southern New Jersey and in Bucks County, Pennsylvania. Note 2 discusses the types of securities in which the Company invests. Note 3 discusses the types of lending that the Company engages in. Although the Company intends to have a diversified loan portfolio, its debtors' ability to honor their contracts will be influenced by the region's economy. The Company does not have any significant concentrations to any one industry or customer.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 – Summary of Significant Accounting Policies (Continued)

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, amounts due from banks, interest bearing deposits in other banks and federal funds sold. Cash and due from banks includes $13.1 million and $7.8 million at December 31, 2016 and 2015, respectively, representing reserve balances required by federal banking regulations to be on deposit with the Federal Reserve Bank.

Investment Securities

Management determines the appropriate classification of investment securities at the time of purchase and re-evaluates such designation as of each balance sheet date. Investment securities classified as available for sale are those securities that the Company intends to hold for an indefinite period of time, but not necessarily to maturity. Investment securities available for sale are carried at fair value. Any decision to sell a security classified as available for sale would be based on various factors, including significant movements in interest rates, changes in the maturity mix of assets and liabilities, liquidity needs, regulatory capital considerations and other similar factors. Unrealized gains and losses are reported as increases or decreases in other comprehensive income. Realized gains or losses, determined on the basis of the cost of the specific securities sold, are included in earnings. Amortization of premiums and accretion of discounts are recognized in interest income using the interest method over the terms of the securities. Investment securities that the Company has the positive intent and ability to hold to maturity regardless of changes in market conditions, liquidity needs or changes in general economic conditions are classified as held to maturity. These securities are carried at amortized cost adjusted for the amortization of premiums and accretion of discounts, computed by a method which approximates the interest method over the terms of the securities.

If transfers between the available for sale and held to maturity portfolios occur, they are accounted for at fair value and unrealized holdings gains and losses are accounted for at the date of transfer. For securities transferred to available for sale from held to maturity, unrealized gains or losses at the date of transfer are recognized in other comprehensive income, a separate component of stockholders' equity. For securities transferred into the held to maturity portfolio from the available for sale portfolio, unrealized gains or losses as of the date of transfer continue to be reported in other comprehensive income, and are amortized over the remaining life of the security as an adjustment to its yield, consistent with amortization of the premium or accretion of the discount.

Declines in the fair value of investment securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses if the decline is related to credit losses. Other than temporary impairment losses related to other factors are recognized in other comprehensive income, net of tax. In estimating other than temporary impairment losses, management considers (i) the length of time and the extent to which the fair value has been less than cost, (ii) the financial condition and near-term prospects of the issuer, (iii) the ability of the Company to hold its investment, and (iv) whether the Company will be required to sell the security before a recovery in fair value. The Company recorded no impairment losses on investment securities for the years ended December 31, 2016 and 2015.

Other Investments

Other investments consist of the Solomon Hess SBA Loan Fund ("Fund"), purchased for the purpose of assisting the Company in satisfying its CRA requirements. As this fund operates as a private fund, shares in the Fund are not publicly traded and therefore have no readily determinable market value. An investor can have its interest in the Fund redeemed for the balance of its capital account at any quarter end, assuming it gives the Fund 60 days notice. The investment in this Fund is recorded at cost. The Company does not record other investments at fair value on a recurring basis, as this investment's carrying amount approximates fair value. The Company recorded no impairment charge on its other investments for the years ended December 31, 2016 and 2015.

Restricted Investment in Bank Stocks

Restricted stock, which represents required investments in the common stock of certain correspondent banks, is carried at cost and consists of common stock of the Federal Home Loan Bank of New York ("FHLB") and Atlantic Community Bancshares, Inc. ("ACBI"), the holding company for Atlantic Community Bankers Bank ("ACBB"). Management evaluates the restricted stock for impairment in accordance with ASC 320, *Investments in Debt and Equity*. Management's determination of whether these investments are impaired is based on an assessment of the ultimate recoverability of their cost rather than by recognizing temporary declines in value. The determination of whether a decline affects the ultimate recoverability of their cost is influenced by criteria such as: (i) the significance of the decline in net assets of the FHLB and ACBI as compared to the capital stock amount for the FHLB and ACBI, respectively, and the length of time this situation has persisted; (ii) commitments by the FHLB and ACBI to make payments required by

Note 1 – Summary of Significant Accounting Policies (Continued)

law or regulation and the level of such payments in relation to the operations of the FHLB and ACBI, respectively; (iii) the impact of legislative and regulatory changes on institutions and, accordingly, on the customer base of the FHLB and ACBB; and (iv) the liquidity position of the FHLB or ACBI. The Company recorded no impairment charge related to the FHLB or ACBI stocks for the years ended December 31, 2016 and 2015.

Loans

The loan portfolio includes commercial and industrial, commercial real estate, residential real estate and consumer and other loan segments. Commercial and industrial loans typically consist of loans to finance equipment, inventory, receivables and other working capital needs of small to mid-sized businesses. The commercial real estate portfolio includes mortgage loans on owner-occupied and tenanted investment properties, construction and land development loans and multi-family loans. Residential real estate loans are composed of loans secured by 1-4 family residential properties. Consumer and other loans include auto loans, personal loans, traditional installment loans and other loans.

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

The accrual of interest is discontinued when the contractual payment of principal or interest has become 90 days past due or management has serious doubts about the collectability of principal or interest even though the loan is currently performing. A loan may remain on accrual status if it is in the process of collection and is either guaranteed or well secured. When a loan is placed on nonaccrual status, unpaid interest accrued to income is reversed. Interest received on nonaccrual loans is subsequently recognized only to the extent cash payments are received in excess of principal due. Generally, loans are restored to accrual status when the obligation is brought current, has performed in accordance with the contractual terms for a reasonable period of time, and the ultimate collectability of the total contractual principal and interest is no longer in doubt.

Acquired Loans

Acquired loans are recorded at fair value with no carryover of the related allowance for loan losses at the time of acquisition. Determining the fair value of the loans involves estimating the amount and timing of principal and interest cash flows expected to be collected on the loans and discounting those cash flows at a market rate of interest.

For acquired loans accounted for under ASC 310-30, *Loan and Debt Securities Acquired with Deteriorated Credit Quality*, acquired loans determined to have evidence of deterioration in credit quality are accounted for individually. Acquired loans that were not in the scope of ASC 310-30 because they did not meet the criteria above were accounted for under ASC 310-20, *Nonrefundable Fees and Other Costs*.

For acquired loans accounted for under ASC 310-30, the excess of expected cash flows from acquired loans over the estimated fair value of acquired loans at acquisition is called the accretable discount and is recognized into interest income over the remaining life of the acquired loans using the interest method. The difference between contractually required payments at acquisition and the cash flows expected to be collected at acquisition is referred to as the non-accretable discount. The non-accretable discount represents estimated future credit losses expected to be incurred over the life of the acquired loans. Subsequent decreases to the expected cash flows require us to evaluate the need for an addition to the allowance for loan losses. Subsequent improvements in expected cash flows result in the reversal of a corresponding amount of the non-accretable discount which we can then reclassify as accretable discount that is recognized in interest income over the remaining life of the loan using the interest method. Our evaluation of the amount of future cash flows that we expect to collect takes into account actual credit performance of the acquired loans to date and our best estimates for the expected lifetime credit performance of the loans using currently available information. Charge offs of the principal amount on acquired loans would be first applied to the non-accretable discount portion of the fair value adjustment. To the extent that we experience a deterioration in credit quality in our expected cash flows subsequent to the acquisition of the loans, an allowance for loan losses would be established based on our estimate of future credit losses over the remaining life of the loans.

In accordance with ASC 310-30, recognition of income is dependent on having a reasonable expectation about the timing and amount of cash flows expected to be collected. We perform such an evaluation on a quarterly basis on our acquired loans individually accounted for under ASC 310-30. To the extent that we cannot reasonably estimate cash flows, interest income recognition is discontinued.

Note 1 – Summary of Significant Accounting Policies (Continued)

Principal and interest payments on ASC 310-30 loans that were written off at the acquisition date are reported in the consolidated statements of income as gains on recovery of acquired loans.

Allowance for Loan Losses

The allowance for loan losses represents management's estimate of losses inherent in the loan portfolio as of the balance sheet date and is recorded as a reduction to loans. The allowance for loan losses is increased by the provision for loan losses and decreased by charge offs, net of recoveries. Loan charge offs are charged against the allowance for loan losses and subsequent recoveries, if any, are credited to the allowance. All, or part, of the principal balance of loans are either reserved for specifically or charged off to the allowance as soon as it is determined that the repayment of all, or part, of the principal balance is highly unlikely. Nonresidential consumer loans are generally charged off no later than the point they are 120 days past due on a contractual basis, earlier in the event of bankruptcy, or if there is an amount deemed uncollectible. The total allowance for loan losses is available to absorb losses from any category of loans.

The allowance for loan losses is maintained at a level considered adequate to provide for losses that can be reasonably anticipated. Management performs a quarterly evaluation of the adequacy of the allowance. The allowance is based on past loan loss experience, known and inherent risks in the portfolio, adverse situations that may affect the borrower's ability to repay, the estimated value of any underlying collateral, composition of the loan portfolio, current economic conditions and other relevant factors. This evaluation is inherently subjective as it requires material estimates that may be susceptible to significant revision as more information becomes available.

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

For loans that are classified as impaired, an allowance is established when the discounted cash flows, collateral value or observable market price of the impaired loan is lower than the carrying value. A general component covers pools of loans by loan class including loans not considered impaired and other loans which have not been otherwise reviewed or measured on an individual basis. These pools of loans are evaluated for loss exposure based upon historical loss rates for each of these classes of loans, adjusted for qualitative factors. These qualitative risk factors include:

- lending policies and procedures, including underwriting standards and collection, charge off, and recovery practices;
- national, regional, and local economic and business conditions as well as the condition of various market segments;
- nature and volume of the portfolio and terms of loans;
- experience, ability, and depth of lending management and staff;
- volume and severity of past due, classified and nonaccrual loans as well as other loan modifications;
- quality of the Company's loan review system, and the degree of oversight by the Board of Directors;
- existence and effect of any concentrations of credit and changes in the level of such concentrations; and
- effect of external factors, such as competition and legal and regulatory requirements.

Each factor is assigned a value to reflect improving, stable or declining conditions based on management's best judgment using relevant information available at the time of the evaluation. Adjustments to the factors are supported through documentation of changes to the allowance for loan loss calculation.

An allowance for loan losses is established for an impaired loan if its carrying value exceeds its estimated fair value.

Note 1 – Summary of Significant Accounting Policies (Continued)

Most of the Company's loans are collateral dependent, for which impairment is measured based on the estimated fair value of the loan's collateral. For commercial loans secured by real estate, which are comprised of investor-owned, owner-occupied, construction, land development and other land loans, and multi-family loans, fair values of collateral are determined primarily through third-party appraisals. When a real estate secured loan becomes impaired, a decision is made regarding whether an updated certified appraisal of the real estate is necessary. This decision is based on various considerations, including the age of the most recent appraisal, the loan-to-value ratio based on the original appraisal and the condition of the property. Appraised values are discounted to arrive at the estimated selling price of the collateral, which is considered to be the fair value. The discounts include estimated costs to sell the property.

For commercial and industrial loans secured by non-real estate collateral, such as accounts receivable, inventory and equipment, impairment is measured based on the present value of expected future cash flows discounted at the loan's effective interest rate. Fair values are determined using the borrower's financial statements, inventory reports, accounts receivable aging or equipment appraisals or invoices. Indications of value from these sources are generally discounted based on the age of the financial information or the quality of the assets.

Loans whose terms are modified are classified as troubled debt restructurings if the Company grants such borrowers concessions and it is deemed that those borrowers are experiencing financial difficulty. Concessions granted under a troubled debt restructuring generally involve a reduction in interest rate, an extension of a loan's stated maturity date or a period of interest only payments. Loans classified as troubled debt restructurings are designated as impaired. Troubled debt restructurings are individually measured for impairment based on the estimated fair value of the loan's collateral, for collateral dependent loans, or the present value of expected future cash flows discounted at the loan's effective interest rate, for non-collateral dependent loans, using the loan's modified terms as the basis. Nonaccrual troubled debt restructurings are generally restored to an accrual status if principal and interest payments, under the modified terms, are current for six consecutive months after modification.

The allowance calculation methodology includes further segregation of loan classes into risk rating categories. The borrower's overall financial condition, repayment sources, guarantors and value of collateral, if appropriate, are evaluated annually for commercial and industrial and commercial real estate loans or when credit deficiencies arise, such as delinquent loan payments, for residential and consumer and other loans.

For acquired loans accounted for under ASC 310-20, the Company establishes the allowance for loan losses through a provision for loan losses based upon an evaluation process that is similar to the evaluation process used for originated loans. This evaluation, which includes a review of loans on which full collectability may not be reasonably assured, considers, among other matters, the estimated fair value of the underlying collateral, economic conditions, historical net loan loss experience, carrying value of the loans and other factors that warrant recognition in determining our allowance for loan losses.

Credit quality risk ratings include the regulatory classifications of special mention, substandard, doubtful and loss. Loans classified as special mention have potential weaknesses that deserve management's close attention. If uncorrected, the potential weaknesses may result in deterioration of the repayment prospects. Loans classified as substandard have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They include loans that are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans classified as doubtful have all the weaknesses inherent in loans classified as substandard with the added characteristic that collection or liquidation in full, on the basis of current conditions and facts, is highly improbable. Loans classified as loss are considered uncollectible and are charged to the allowance for loan losses.

On a quarterly basis, the Company's Asset Quality Review Committee formally reviews the risk ratings on all criticized and classified loans. The Company also engages an independent third-party loan review consultant to review the loan portfolio. As part of their scope they review a significant portion of criticized and classified loans.

In addition, federal and state regulatory agencies, as an integral part of their examination process, periodically review the quality of our loans and the related allowance for loan losses and may require the Company to recognize additions to the allowance based on their judgments about information available to them at the time of their examination, which may not be currently available to management. Based on its analysis of the loan portfolio, management believes that the level of the allowance for loan losses at December 31, 2016 and 2015 was adequate.

Reserve for Unfunded Loan Commitments

The reserve for unfunded loan commitments represents management's estimate of losses inherent in its unfunded loan commitments and is recorded in other liabilities in the consolidated statements of financial condition. The determination

Note 1 – Summary of Significant Accounting Policies (Continued)

of the adequacy of the reserve is based upon an evaluation of the unfunded credit facilities, including an assessment of historical commitment utilization experience and credit risk. Net adjustments to the reserve for unfunded loan commitments are recorded to non-interest expense.

Premises and Equipment, net

Land is carried at cost and premises and equipment are stated at cost less accumulated depreciation and amortization. Depreciation is calculated using the straight-line method over the estimated useful lives of 10 to 40 years for buildings and 3 to 20 years for furniture, fixtures and equipment. Leasehold improvements are amortized using the straight-line method over the terms of the respective leases or the useful lives of the respective assets, whichever is less.

Other Real Estate Owned, net

Other real estate owned is real estate that is acquired through foreclosure or deed in lieu of foreclosure in partial or total satisfaction of loans and is held for sale. Properties are recorded at fair value less estimated disposal costs at the date acquired. When a property is acquired, the excess of the loan balance over the fair value is charged to the allowance for loan losses. Any subsequent writedown that may be required to the carrying value of the property is recorded to non-interest expense and a corresponding valuation reserve.

Bank-Owned Life Insurance

The Company owns bank-owned life insurance (“BOLI”) to help offset the cost of employee benefits. BOLI is recorded at its cash surrender value. The change in the cash surrender value is included as a component of non-interest income and is exempt from federal and state income taxes as long as the policies are held until the death of the insured individuals and all earnings are retained in the policy.

Intangible Assets, net

The Company’s intangible assets consist of a core deposit intangible in connection with the acquisition of Heritage Community Bank (“HCB”) that is amortized on an accelerated basis using an estimated life of 10 years. The intangible is evaluated annually for impairment in accordance with U.S. GAAP. An impairment loss will be recognized if the carrying amount of the intangible asset is not recoverable and exceeds fair value. The carrying amount of the intangible asset is not considered recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use of the asset. The Company recorded no impairment charge on its core deposit intangible for the years ended December 31, 2016 and 2015.

Transfers of Financial Assets

Transfers of financial assets, including loan and loan participation sales, are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (i) the assets have been isolated from the Company, (ii) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (iii) the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity. During the normal course of business, the Company may transfer a portion of a financial asset, for example, a participation in a loan. In order to be available for sale treatment, the transfer of the portion of the loan must meet the criteria of a participating interest. If it does not meet the criteria of a participating interest, the transfer must be accounted for as a secured borrowing. In order to meet the criteria for a participating interest, all cash flows from the loan must be divided proportionately, the rights of each loan holder must have the same priority, the loan holders must have no recourse to the transferor other than standard representations and warranties and no loan holder has the right to pledge or exchange the entire loan.

Subordinated Debt Issuance Costs

Subordinated debt issuance costs are presented in the consolidated statements of financial condition as a deduction from the carrying amount of the related debt and are being amortized over the expected life of the issue as interest expense.

Advertising Costs

Advertising costs are expensed as incurred.

Income Taxes

Income taxes are accounted for in accordance with ASC Topic 740, *Income Taxes*. Income tax accounting results in two components of income tax expense: current and deferred. Current income tax expense reflects taxes to be paid or

Note 1 – Summary of Significant Accounting Policies (Continued)

refunded for the current period by applying the provisions of the enacted tax law to taxable income. The Company determines deferred income taxes using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is based on the tax effects of the differences between the book and tax bases of assets and liabilities, and enacted changes in tax rates and laws are recognized in the period in which they occur.

Deferred income tax expense or benefit results from changes in deferred tax assets and liabilities between periods. Deferred tax assets are reduced by a valuation allowance if, based on the weight of evidence available, it is more likely than not that some portion or all of a deferred tax asset will not be realized.

The Company accounts for uncertain tax positions if it is more likely than not, based on the technical merits, that the tax position will be realized or sustained upon examination. The term "more likely than not" means a likelihood of more than 50 percent; the terms "examined" and "upon examination" also include resolution of the related appeals or litigation processes, if any. A tax position that meets the more-likely-than-not recognition threshold is initially and subsequently measured as the largest amount of tax benefit that has a greater than 50 percent likelihood of being realized upon settlement with a taxing authority that has full knowledge of all relevant information. The determination of whether or not a tax position has met the more-likely-than-not recognition threshold considers the facts, circumstances, and information available at the reporting date and is subject to management's judgment. The Company recognizes interest and penalties on income taxes, if any, as a component of income tax expense.

Off-Balance Sheet Financial Instruments

In the ordinary course of business, the Company enters into off-balance sheet financial instruments consisting of loan commitments and letters of credit. Such financial instruments are recorded in the consolidated statements of financial condition when they are funded.

Stock-Based Compensation

The Company applies ASC 718, *Compensation–Stock-Based Compensation*, which contains a fair value-based method for valuing stock-based compensation, and measures compensation cost at the grant date based on the fair value of the award. Compensation is recognized over the service period, which is usually the vesting period.

Earnings Per Share

Basic earnings per share represent the effect of earnings upon the weighted average number of shares outstanding for the period. Diluted earnings per share reflects the effect of earnings upon weighted average shares including the potential dilution that could occur if securities or contracts to issue common stock were converted or exercised, utilizing the treasury stock method.

Other Comprehensive Income

Although certain changes in assets and liabilities, such as unrealized gains and losses on available for sale securities, are reported as a separate component of the stockholders' equity section of the consolidated statements of financial condition, such items, along with net income, are components of other comprehensive income.

The components of accumulated other comprehensive income included in stockholders' equity are as follows:

	December 31,	
	2016	2015
	(in thousands)	
Net unrealized losses on investment securities available for sale	$ (493)	$ (257)
Net unrealized losses on investment securities transferred to held to maturity, net of amortization	(287)	(406)
Income tax effect	311	265
Accumulated other comprehensive loss	$ (469)	$ (398)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 – Summary of Significant Accounting Policies (Continued)

Recent Accounting Pronouncements

ASU 2014-09, "Revenue from Contracts with Customers (Topic 606)." The objective of ASU 2014-09 is to require an entity to recognize the amount of revenue which it expects to be entitled for the transfer of promised goods or services to customers. ASU 2014-09 will replace most existing revenue recognition guidance under U.S. GAAP when it becomes effective. The amendments become effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. Early application is permitted for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. The standard allows an entity to apply the amendments in ASU 2014-09 using either the retrospective or cumulative effect transition method. Because the guidance does not apply to revenue associated with financial instruments, including loans and securities, the new guidance is not expected to have a material impact on the components of the Consolidated Statement of Income most closely associated with financial instruments, including securities gains/losses and interest income. The Company is currently evaluating this guidance to determine the impact on other components of non-interest income.

ASU 2014-15, "Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern." This ASU requires management to determine whether substantial doubt exists regarding the entity's going concern presumption, which generally refers to an entity's ability to meet its obligations as they become due. If substantial doubt exists, certain disclosures are required. As such, management will now have primary responsibility for the going concern assessment under U.S. GAAP. To date, this responsibility has rested principally with the independent auditor. The amendments in ASU 2014-15 apply to all entities, unless they have adopted the liquidation basis of accounting under Subtopic 205-30. The new standard applies prospectively to annual periods ending after December 15, 2016, and to interim and annual periods thereafter. Early application is permitted. The Company does not believe this will have a material impact on its consolidated financial statements.

ASU 2016-01, "Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities." This new guidance makes targeted improvements to existing U.S. GAAP by: (i) requiring equity investments (except those accounted for under the equity method of accounting, or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income; (ii) requiring public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes; (iii) requiring separate presentation of financial assets and financial liabilities by measurement category and form of financial asset (that is, securities or loans and receivables) on the balance sheet or the accompanying notes to the financial statements; (iv) eliminating the requirement to disclose the fair value of financial instruments measured at amortized cost for organizations that are not public business entities; (v) eliminating the requirement for public business entities to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet; and (vi) requiring a reporting organization to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk (also referred to as "own credit") when the organization has elected to measure the liability at fair value in accordance with the fair value option for financial instruments. Public business entities must apply the new requirements for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The Company is currently evaluating the impact of this ASU on its consolidated financial statements.

ASU 2016-02, "Leases (Topic 842)." Under this new guidance, a lessee will be required to recognize assets and liabilities for leases with lease terms of more than 12 months. Consistent with current U.S. GAAP, the recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee primarily will depend on its classification as a finance or operating lease. However, unlike current U.S. GAAP, which requires only capital leases to be recognized on the balance sheet, the new ASU will require both types of leases to be recognized on the balance sheet. The ASU also will require disclosures to help investors and other financial statement users better understand the amount, timing, and uncertainty of cash flows arising from leases. These disclosures include qualitative and quantitative requirements, providing additional information about the amounts recorded in the financial statements. The ASU will take effect for public companies for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. Early adoption is permitted. The Company is currently evaluating the impact of this new guidance but does not believe it will have a material effect on the Company's consolidated financial statements.

ASU 2016-03, "Simplifying the Presentation of Debt Issuance Costs." This ASU revises Subtopic 835-30 to require that debt issuance costs be reported in the balance sheet as a direct deduction from the face of the related liability, consistent with the presentation of debt discounts. Prior to the amendments, debt issuance costs were presented

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 – Summary of Significant Accounting Policies (Continued)

as a deferred charge, i.e., an asset, on the balance sheet. Further, the amendments require the amortization of debt issuance costs to be reported as interest expense. Similarly, debt issuance costs and any discount or premium are to be considered in the aggregate when determining the effective interest rate on the debt. The amendments are effective for the Company for fiscal years beginning after December 31, 2016, and interim periods within those fiscal years, and must be applied retrospectively. Early adoption is permitted as of an earlier date for which financial statements have not been previously issued. The Company early-adopted the provisions of this ASU effective with its consolidated financial statements as of and for the period ended June 30, 2016, which was the period in which the Company initially adopted an accounting principle in recognition of a debt issuance cost transaction occurring for the first time. There was no material effect on the Company's financial position or results of operations. See Note 8 for more information on the Company's debt issuance costs and related subordinated debentures.

ASU 2016-09, "Compensation-Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting." This new guidance is part of the FASB's Simplification Initiative. The objective of the Simplification Initiative is to identify, evaluate, and improve areas of U.S. GAAP for which cost and complexity can be reduced while maintaining or improving the usefulness of the information provided to users of financial statements. The areas for simplification in this ASU involve several aspects of the accounting for 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. The ASU will take effect for public companies for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2016. This new guidance will have tax consequences for the Company but the Company does not believe it will have a material impact on its consolidated financial statements.

ASU 2016-13, "Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments." This new guidance will require the earlier recognition of credit losses on loans and other financial instruments based on an expected loss model, replacing the incurred loss model that is currently in use. Under the new guidance, an entity will measure all expected credit losses for financial instruments held at the reporting date based on historical experience, current conditions and reasonable and supportable forecasts. The expected loss model will apply to loans and leases, unfunded lending commitments, held-to-maturity debt securities and other debt instruments measured at amortized cost. The impairment model for available-for-sale debt securities will require the recognition of credit losses through a valuation allowance when fair value is less than amortized cost, regardless of whether the impairment is considered to be other-than-temporary. The new guidance is effective on January 1, 2020, with early adoption permitted on January 1, 2019. The Company is currently evaluating the impact of this new guidance on its consolidated financial statements.

ASU 2016-15, "Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments." This new guidance addresses eight specific cash flow issues with the objective of reducing the existing diversity in practice for reporting in the statement of cash flows. The new guidance is effective on January 1, 2018, with retrospective application. The adoption of this guidance will only affect the Consolidated Statements of Cash Flows.

ASU 2016-18, "Statement of Cash Flows (Topic 230): Restricted Cash." This new guidance requires restricted cash and restricted cash equivalents to be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. This guidance is effective for fiscal years beginning after December 15, 2017 and interim periods within those fiscal years. The adoption of this guidance will only affect the Consolidated Statements of Cash Flows.

ASU 2017-01, "Business Combinations (Topic 805): "Clarifying the Definition of a Business." This new guidance provides clarification on the definition of a business and provides criteria to aid in the assessment of whether an integrated set of assets and activities constitutes a business. This guidance is effective for fiscal years beginning after December 15, 2017 and interim periods within those fiscal years. The Company is currently evaluating the impact of this new guidance on its consolidated financial statements.

ASU 2017-04, "Intangibles-Goodwill and Other (Topic 350): "Simplifying the Test for Goodwill Impairment." This new guidance simplifies the measurement of goodwill impairment. An entity will no longer perform a hypothetical purchase price allocation to measure goodwill impairment. Instead, impairment will be measured using the difference between the carrying amount and the fair value of the reporting unit. This guidance is effective for impairment tests in fiscal years beginning after December 15, 2019 and interim periods within those fiscal years. The Company does not currently have any recorded goodwill but this could affect the Company if goodwill is recorded in future periods.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 – Summary of Significant Accounting Policies (Continued)

Reclassifications

Certain reclassifications, none of which are material, have been made to 2015 information to conform to the December 31, 2016 presentation. The reclassifications had no effect on the previously reported results of operations or changes in stockholders' equity.

Note 2 – Investment Securities

The amortized cost and fair value of investment securities available for sale are as follows:

	December 31, 2016			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(in thousands)			
Investment securities available for sale:				
Residential mortgage-backed securities:				
Issued by FNMA and FHLMC	$ 20,804	$ 66	$ (286)	$ 20,584
Issued by GNMA	7,381	-	(117)	7,264
U.S. Treasury securities	11,988	-	(94)	11,894
Asset-backed securities	3,327	-	(94)	3,233
Corporate obligations	4,070	32	-	4,102
Total	$ 47,570	$ 98	$ (591)	$ 47,077

	December 31, 2015			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(in thousands)			
Investment securities available for sale:				
Residential mortgage-backed securities:				
Issued by FNMA and FHLMC	$ 32,638	$ 212	$ (163)	$ 32,687
Issued by GNMA	3,321	3	(39)	3,285
Asset-backed securities	3,485	-	(157)	3,328
Corporate obligations	6,154	1	(114)	6,041
Total	$ 45,598	$ 216	$ (473)	$ 45,341

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 2 – Investment Securities (Continued)

The amortized cost and fair value of investment securities held to maturity are as follows:

	December 31, 2016			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(in thousands)			
Investment securities held to maturity:				
U.S. Government-sponsored agency securities	$ 2,000	$ 120	$ -	$ 2,120
Residential mortgage-backed securities:				
Issued by FNMA and FHLMC	17,313	59	(144)	17,228
Issued by GNMA	2,124	-	(47)	2,077
Obligations of state and political subdivisions	26,786	85	(190)	26,681
Corporate obligations	5,250	2	-	5,252
Total	$ 53,473	$ 266	$ (381)	$ 53,358

	December 31, 2015			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(in thousands)			
Investment securities held to maturity:				
U.S. Government-sponsored agency securities	$ 2,000	$ 156	$ -	$ 2,156
Residential mortgage-backed securities:				
Issued by FNMA and FHLMC	21,444	192	(148)	21,488
Issued by GNMA	2,171	-	(46)	2,125
Obligations of state and political subdivisions	27,647	404	(27)	28,024
Total	$ 53,262	$ 752	$ (221)	$ 53,793

The amortized cost, fair value and contractual maturities of investment securities available for sale and held to maturity are shown in the table below. Certain of these securities have call features which allow the issuer to call the security prior to maturity at the issuer's discretion. Expected maturities may differ from contractual maturities because the underlying mortgages supporting mortgage-backed securities may be prepaid without penalties. Consequently, mortgage-backed securities are not presented by maturity category.

	December 31, 2016			
	Available for Sale		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(in thousands)			
Due within one year	$ -	$ -	$ 1,268	$ 1,266
Due after one year through five years	11,988	11,894	16,189	16,279
Due after five years through ten years	7,397	7,335	16,303	16,249
Due after ten years	-	-	276	259
Residential mortgage-backed securities:				
Issued by FNMA and FHLMC	20,804	20,584	17,313	17,228
Issued by GNMA	7,381	7,264	2,124	2,077
Total	$ 47,570	$ 47,077	$ 53,473	$ 53,358

Note 2 – Investment Securities (Continued)

The unrealized losses, categorized by the length of time of continuous loss position, and the fair value of related investment securities available for sale are as follows, as of the dates indicated:

	December 31, 2016								
	Less than 12 months			12 months or longer			Total		
	Number of Losses	Fair Value	Unrealized Losses	Number of Losses	Fair Value	Unrealized Losses	Number of Losses	Fair Value	Unrealized Losses
	(dollars in thousands)								
Investment securities available for sale:									
Residential mortgage-backed securities:									
Issued by FNMA and FHLMC	10	$ 15,524	$ (286)	-	$ -	$ -	10	$ 15,524	$ (286)
Issued by GNMA	7	6,936	(115)	1	328	(2)	8	7,264	(117)
U.S. Treasury securities	4	11,894	(94)	-	-	-	4	11,894	(94)
Asset-backed obligations	-	-	-	2	3,234	(94)	2	3,234	(94)
Total	21	$ 34,354	$ (495)	3	$ 3,562	$ (96)	24	$ 37,916	$ (591)

	December 31, 2015								
	Less than 12 months			12 months or longer			Total		
	Number of Losses	Fair Value	Unrealized Losses	Number of Losses	Fair Value	Unrealized Losses	Number of Losses	Fair Value	Unrealized Losses
	(dollars in thousands)								
Investment securities available for sale:									
Residential mortgage-backed securities:									
Issued by FNMA and FHLMC	4	$ 6,609	$ (91)	3	$ 5,246	$ (72)	7	$ 11,855	$ (163)
Issued by GNMA	1	325	(1)	3	2,532	(38)	4	2,857	(39)
Asset-backed securities	2	3,328	(157)	-	-	-	2	3,328	(157)
Corporate obligations	3	5,541	(114)	-	-	-	3	5,541	(114)
Total	10	$ 15,803	$ (363)	6	$ 7,778	$ (110)	16	$ 23,581	$ (473)

The unrealized losses, categorized by the length of time of continuous loss position, and the fair value of related investment securities held to maturity are as follows, as of the dates indicated:

	December 31, 2016								
	Less than 12 months			12 months or longer			Total		
	Number of Losses	Fair Value	Unrealized Losses	Number of Losses	Fair Value	Unrealized Losses	Number of Losses	Fair Value	Unrealized Losses
	(dollars in thousands)								
Investment securities held to maturity:									
Residential mortgage-backed securities:									
Issued by FNMA and FHLMC	6	$ 8,982	$ (144)	-	$ -	$ -	6	$ 8,982	$ (144)
Issued by GNMA	-	-	-	1	2,077	(47)	1	2,077	(47)
Obligations of state and political subdivisions	36	16,971	(178)	2	1,141	(12)	38	18,112	(190)
Total	42	$ 25,953	$ (322)	3	$ 3,218	$ (59)	45	$ 29,171	$ (381)

	December 31, 2015								
	Less than 12 months			12 months or longer			Total		
	Number of Losses	Fair Value	Unrealized Losses	Number of Losses	Fair Value	Unrealized Losses	Number of Losses	Fair Value	Unrealized Losses
	(dollars in thousands)								
Investment securities held to maturity:									
Residential mortgage-backed securities:									
Issued by FNMA and FHLMC	8	$ 13,966	$ (148)	-	$ -	$ -	8	$ 13,966	$ (148)
Issued by GNMA	1	2,125	(46)	-	-	-	1	2,125	(46)
Obligations of state and political subdivisions	9	4,255	(16)	3	1,389	(11)	12	5,644	(27)
Total	18	$ 20,346	$ (210)	3	$ 1,389	$ (11)	21	$ 21,735	$ (221)

Note 2 – Investment Securities (Continued)

Investment securities with unrealized losses are evaluated quarterly to determine whether the losses are other than temporary. At December 31, 2016 and 2015, the Company determined that all unrealized losses were temporary in nature. This conclusion was based on several factors, including the strong credit quality of the securities with unrealized losses, the low level and short time frame of the unrealized losses, which were driven by changes in the yield curve, and because the Company does not intend to sell the investment securities.

Proceeds from the sale of securities available for sale during 2016 were $18.8 million. Gross gains of $249,000 and gross losses of $224,000 were realized on those sales. Proceeds from the sale of securities available for sale during 2015 were $7.1 million. Gross gains of $31,000 and gross losses of $20,000 were realized on those sales.

Investment securities with a carrying value of $36.7 million and $27.1 million at December 31, 2016 and 2015, respectively, were pledged to the FHLB as collateral for advances and for other purposes as required or permitted by law.

Note 3 – Loans

The composition of loans is as follows as of the dates indicated:

	December 31,	
	2016	2015
	(in thousands)	
Commercial and industrial	$ 112,576	$ 99,852
Commercial real estate:		
Owner-occupied	203,245	158,939
Investor	373,013	273,532
Construction and development	81,103	44,169
Multi-family	50,826	42,558
Residential real estate:		
Residential mortgage and first lien home equity loans	40,367	33,691
Home equity—second lien loans and and revolving lines of credit	23,165	22,946
Consumer and other	15,409	15,426
	899,704	691,113
Net deferred loan fees and costs	(1,275)	(1,226)
Total loans	$ 898,429	$ 689,887

Credit Risk Management and Loan Portfolio Risk Elements

Credit risk management. The Company adheres to a credit policy designed to minimize credit risk in the loan portfolio. Management reviews and approves this policy and related procedures on a regular basis with approval by the Board of Directors annually. The Company's credit focus is on commercial lending. The Company manages risk associated with its commercial portfolio through underwriting policies and procedures, diversification and loan monitoring efforts. The Company's underwriting standards include requiring independent third-party appraisals, periodic property inspections, analyses of the quality and experience of the organization or developer managing each property, and evaluations of the cash flow capability of borrowers to repay loans. The Company's lending staff evaluates and rates all loans at origination based on their respective risk characteristics. On a quarterly basis our Asset Quality Review Committee formally reviews the ratings on all criticized and classified assets. At this meeting management reviews reports concerning loan quality, loan delinquencies, nonperforming loans and potential problem loans.

Commercial and industrial loans. Commercial and industrial loans are generally made to borrowers of proven ability and strong repayment performance. Underwriting standards are designed to assess the borrower's ability to generate recurring cash flow sufficient to meet the debt service requirements of loans granted. While such recurring cash flow serves as the primary source of repayment, a significant number of the loans are collateralized by borrower assets intended to serve as a secondary source of repayment should the need arise.

Commercial real estate loans. Commercial real estate loans are composed of owner-occupied, investor, construction and development, and multi-family loans. Commercial real estate loans are subject to underwriting standards and processes similar to commercial and industrial loans. Commercial real estate loans are viewed primarily as cash flow

Note 3 – Loans (Continued)

loans and secondarily as loans secured by real property. These loans generally involve larger principal balances and longer repayment periods as compared to commercial and industrial loans. Repayment of most loans is dependent upon the cash flow generated from the property securing the loan or the business that occupies the property. Since commercial real estate loans may be more adversely impacted by conditions in the real estate market or in the general economy, conservative loan to value ratios are required at origination and loans are stress-tested to evaluate the impact of market changes relating to key underwriting elements. Construction and development loans are generally secured by the real estate to be developed and may also be secured by additional real estate to mitigate the risk. Sources of repayment for these types of loans may be from pre-committed permanent loans from other lenders, sales of developed property, or an interim commitment from the Bank until permanent financing is obtained.

Residential real estate loans. Residential real estate loans are composed of loans secured by 1-4 family properties including residential mortgages, first lien home equity loans, second lien home equity loans and home equity revolving lines of credit. The Company generally underwrites residential real estate loans to the same credit standards required by the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation. Generally, 1-4 family residential loans are made in connection with a broader relationship. The Company underwrites home equity loans to the same credit standards as single family loans. The Company is not engaged in the sub-prime residential lending market.

Consumer and other loans. Consumer and other loans include auto loans, personal loans, traditional installment loans and other loans. Consumer loans are generally secured.

Summary of Loan Ratings.

The following tables present the classes of the loan portfolio summarized by the aggregate "pass" rating and the classified ratings of "special mention" and "substandard" within the Company's internal risk rating system. There were no loans classified as "doubtful" or "loss" at December 31, 2016 and 2015.

	December 31, 2016			
	Pass	Special Mention	Substandard	Total
	(in thousands)			
Commercial and industrial	$ 108,978	$ 519	$ 3,079	$ 112,576
Commercial real estate:				
Owner-occupied	200,312	1,449	1,484	203,245
Investor	372,217	-	796	373,013
Construction and development	81,103	-	-	81,103
Multi-family	48,019	2,657	150	50,826
Residential real estate:				
Residential mortgage and first lien home equity loans	38,776	566	1,025	40,367
Home equity—second lien loans and revolving lines of credit	21,120	752	1,293	23,165
Consumer and other	15,333	-	76	15,409
Total	$ 885,858	$ 5,943	$ 7,903	$ 899,704

	December 31, 2015			
	Pass	Special Mention	Substandard	Total
	(in thousands)			
Commercial and industrial	$ 95,681	$ 1,531	$ 2,640	$ 99,852
Commercial real estate:				
Owner-occupied	152,368	3,454	3,117	158,939
Investor	272,713	100	719	273,532
Construction and development	44,169	-	-	44,169
Multi-family	39,800	2,758	-	42,558
Residential real estate:				
Residential mortgage and first lien home equity loans	32,010	-	1,681	33,691
Home equity—second lien loans and revolving lines of credit	21,827	-	1,119	22,946
Consumer and other	15,203	-	223	15,426
Total	$ 673,771	$ 7,843	$ 9,499	$ 691,113

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 3 –Loans (Continued)

Summary of Past Due Loans

The performance and credit quality of the loan portfolio are also monitored by analyzing the length of time a loan payment is past due.

The following tables present the classes of the loan portfolio summarized by past due status as of the dates indicated:

	December 31, 2016						
	30-59 Days Past Due	60-89 Days Past Due	Past Due > 90 Days and Still Accruing	Nonaccrual	Total Past Due	Total Current	Total Loans
				(in thousands)			
Commercial and industrial	$ 117	$ 84	$ -	$ 1,594	$ 1,795	$ 110,443	$ 112,238
Commercial real estate:							
Owner-occupied	-	-	697	1,484	2,181	201,064	203,245
Investor	-	-	-	95	95	372,859	372,954
Construction and development	-	-	-	-	-	81,103	81,103
Multi-family	150	2,281	-	-	2,431	48,395	50,826
Residential real estate:							
Residential mortgage and first lien home equity loans	-	-	-	1,025	1,025	38,100	39,125
Home equity—second lien loans and revolving lines of credit	10	-	-	931	941	21,959	22,900
Consumer and other	182	-	65	76	323	15,086	15,409
Total	$ 459	$ 2,365	$ 762	$ 5,205	$ 8,791	$ 889,009	$ 897,800

Nonaccrual loans in the preceeding table do not include $1.9 million of loans acquired with deteriorated loan quality, which were recorded at fair value at acquisition.

	December 31, 2015						
	30-59 Days Past Due	60-89 Days Past Due	Past Due > 90 Days and Still Accruing	Nonaccrual	Total Past Due	Total Current	Total Loans
				(in thousands)			
Commercial and industrial	$ 1,339	$ -	$ -	$ 1,759	$ 3,098	$ 96,292	$ 99,390
Commercial real estate:							
Owner-occupied	5,333	907	-	987	7,227	151,520	158,747
Investor	100	-	-	-	100	273,373	273,473
Construction and development	550	175	-	-	725	43,444	44,169
Multi-family	157	2,352	-	-	2,509	40,049	42,558
Residential real estate:							
Residential mortgage and first lien home equity loans	-	-	-	414	414	32,011	32,425
Home equity—second lien loans and revolving lines of credit	130	-	75	412	617	21,720	22,337
Consumer and other	177	84	33	223	517	14,909	15,426
Total	$ 7,786	$ 3,518	$ 108	$ 3,795	$ 15,207	$ 673,318	$ 688,525

Nonaccrual loans in the preceeding table do not include $2.6 million of loans acquired with deteriorated loan quality, which were recorded at fair value at acquisition.

The total recorded investment in loans secured by residential real estate property that were in the process of foreclosure was $460,000 and $826,000 at December 31, 2016 and 2015, respectively. The amount of foreclosed residential real estate property held by the Company at December 31, 2016 and 2015 was $120,000 and $141,000, respectively.

Note 3 –Loans (Continued)

The outstanding principal balance and related carrying amount of loans acquired with deteriorated credit quality, for which the Company applies the provisions of ASC 310-30, are as follows as of the dates indicated:

	December 31, 2016	December 31, 2015
	(in thousands)	
Outstanding principal balance	$ 5,897	$ 7,395
Carrying amount	1,904	2,588

The following table presents the change in the accretable discount on loans acquired with deteriorated credit quality for the periods presented:

	Year Ended December 31, 2016	Year Ended December 31, 2015
	(in thousands)	
Accretable discount balance – beginning of year	$ 90	$ 464
Reclassifications from nonaccretable [1]	88	-
Accretion recorded to interest income	(130)	(374)
Accretable discount balance – end of year	$ 48	$ 90

(1) Reclassifications were due to subsequent improvements in expected cash flows and/or collateral values.

Note 4 –Allowance for Loan Losses

The changes in the allowance for loan losses by loan class are as follows for the periods presented:

	Year Ended December 31, 2016	Year Ended December 31, 2015
	(in thousands)	
Balance - beginning of year	$ 7,940	$ 6,104
Loans charged off:		
Commercial and industrial	(342)	(30)
Commercial real estate:		
Owner-occupied	(96)	(728)
Investor	-	(103)
Residential real estate:		
Residential mortgage and first lien home equity loans	-	(41)
Home equity—second lien loans and revolving lines of credit	(458)	(226)
Consumer and other	(1)	(19)
Total charge offs	(897)	(1,147)
Recoveries of loans previously charged off:		
Commercial and industrial	59	32
Commercial real estate:		
Owner-occupied	8	55
Investor	12	175
Residential real estate:		
Residential mortgage and first lien home equity loans	-	39
Home equity—second lien loans and revolving lines of credit	3	10
Consumer and other	4	3
Total recoveries	86	314
Net charge offs	(811)	(833)
Provision for loan losses	2,697	2,669
Balance - end of year	$ 9,826	$ 7,940

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 4 –Allowance for Loan Losses (Continued)

The following tables summarize information regarding the allowance for loan losses by impairment methodology and class within the loan portfolio as of the dates indicated:

	December 31, 2016							
	Loan Balances				Allowance for Loan Losses Balances			
	Individually Evaluated For Impairment	Collectively Evaluated For Impairment	Acquired with Deteriorated Credit Quality(1)	Total	Individually Evaluated For Impairment	Collectively Evaluated For Impairment	Acquired with Deteriorated Credit Quality(1)	Total
	(in thousands)							
Commercial and industrial	$ 1,757	$ 110,481	$ 338	$ 112,576	$ 47	$ 1,294	$ -	$ 1,341
Commercial real estate:								
Owner-occupied	1,484	201,761	-	203,245	68	2,560	-	2,628
Investor	95	372,859	59	373,013	-	3,929	-	3,929
Construction and development	-	81,103	-	81,103	-	730	-	730
Multi-family	-	50,826	-	50,826	-	488	-	488
Residential real estate:								
Residential mortgage and first lien home equity loans	1,025	38,100	1,242	40,367	-	389	-	389
Home equity—second lien loans and revolving lines of credit	930	21,970	265	23,165	-	130	-	130
Consumer and other	167	15,242	-	15,409	-	191	-	191
Total	$ 5,458	$ 892,342	$ 1,904	$ 899,704	$ 115	$ 9,711	$ -	$ 9,826

(1) Loans acquired with deteriorated credit quality are evaluated on an individual basis. In accordance with U.S. GAAP, at acquisition there was no carryover of the allowance for loan losses.

	December 31, 2015							
	Loan Balances				Allowance for Loan Losses Balances			
	Individually Evaluated For Impairment	Collectively Evaluated For Impairment	Acquired with Deteriorated Credit Quality(1)	Total	Individually Evaluated For Impairment	Collectively Evaluated For Impairment	Acquired with Deteriorated Credit Quality(1)	Total
	(in thousands)							
Commercial and industrial	$ 2,086	$ 97,304	$ 462	$ 99,852	$ 134	$ 1,106	$ -	$ 1,240
Commercial real estate:								
Owner-occupied	987	157,760	192	158,939	-	2,258	-	2,258
Investor	-	273,473	59	273,532	-	2,838	-	2,838
Construction and development	-	44,169	-	44,169	-	375	-	375
Multi-family	-	42,558	-	42,558	-	362	-	362
Residential real estate:								
Residential mortgage and first lien home equity loans	414	32,011	1,266	33,691	-	400	-	400
Home equity—second lien loans and revolving lines of credit	412	21,925	609	22,946	-	232	-	232
Consumer and other	377	15,049	-	15,426	-	235	-	235
Total	$ 4,276	$ 684,249	$ 2,588	$ 691,113	$ 134	$ 7,806	$ -	$ 7,940

(1) Loans acquired with deteriorated credit quality are evaluated on an individual basis. In accordance with U.S. GAAP, at acquisition there was no carryover of the allowance for loan losses.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 4 –Allowance for Loan Losses (Continued)

The recorded investment and unpaid principal balances of impaired loans and the related allowance for loan losses were as follows as of the dates indicated:

	December 31, 2016			December 31, 2015		
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance	Related Allowance
	(in thousands)					
Impaired loans without a valuation allowance:						
Commercial and industrial	$ 902	$ 1,026	$ -	$ 1,815	$ 1,815	$ -
Commercial real estate:						
Owner-occupied	917	935	-	987	987	-
Investor	95	95	-	-	213	-
Residential real estate:						
Residential mortgage and first lien home equity loans	1,025	1,025	-	414	414	-
Home equity—second lien loans and revolving lines of credit	930	1,364	-	412	638	-
Consumer and other	167	167	-	377	429	-
Total	$ 4,036	$ 4,612	$ -	$ 4,005	$ 4,496	$ -
Impaired loans with a valuation allowance:						
Commercial and industrial	$ 855	$ 855	$ 47	$ 271	$ 271	$ 134
Commercial real estate:						
Owner-occupied	567	567	68	-	-	-
Total	$ 1,422	$ 1,422	$ 115	$ 271	$ 271	$ 134
Total impaired loans:						
Commercial and industrial	$ 1,757	$ 1,881	$ 47	$ 2,086	$ 2,086	$ 134
Commercial real estate:						
Owner-occupied	1,484	1,502	68	987	987	-
Investor	95	95	-	-	213	-
Residential real estate:						
Residential mortgage and first lien home equity loans	1,025	1,025	-	414	414	-
Home equity—second lien loans and revolving lines of credit	930	1,364	-	412	638	-
Consumer and other	167	167	-	377	429	-
Total	$ 5,458	$ 6,034	$ 115	$ 4,276	$ 4,767	$ 134

Impaired loans in the preceding table do not include $1.9 million and $2.6 million of loans acquired with deteriorated loan quality, which were recorded at fair value at acquisition, at December 31, 2016 and 2015, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 4 –Allowance for Loan Losses (Continued)

Other information regarding impaired loans is presented below for the periods indicated:

	Year Ended December 31, 2016			Year Ended December 31, 2015		
	Average Recorded Investment	Interest Income Recognized	Interest Income Recognized on a Cash Basis	Average Recorded Investment	Interest Income Recognized	Interest Income Recognized on a Cash Basis
	(in thousands)					
Impaired loans without a valuation allowance:						
Commercial and industrial	$ 925	$ 17	$ -	$ 1,969	$ 19	$ 12
Commercial real estate:						
Owner-occupied	808	-	-	1,852	-	-
Investor	1	-	-	354	-	17
Construction and development	468	-	26	-	-	-
Residential real estate:						
Residential mortgage and first lien home equity loans	316	4	5	276	-	4
Home equity—second lien loans and revolving lines of credit	468	33	-	483	-	-
Consumer and other	321	7	6	297	10	-
Total	$ 3,307	$ 61	$ 37	$ 5,231	$ 29	$ 33
Impaired loans with a valuation allowance:						
Commercial and industrial	$ 936	$ -	$ -	$ 102	$ -	$ -
Commercial real estate:						
Owner-occupied	587	-	-	-	-	-
Total	$ 1,523	$ -	$ -	$ 102	$ -	$ -
Total impaired loans:						
Commercial and industrial	$ 1,861	$ 17	$ -	$ 2,071	$ 19	$ 12
Commercial real estate:						
Owner-occupied	1,395	-	-	1,852	-	-
Investor	1	-	-	354	-	17
Construction and development	468	-	26	-	-	-
Residential real estate:						
Residential mortgage and first lien home equity loans	316	4	5	276	-	4
Home equity—second lien loans and revolving lines of credit	468	33	-	483	-	-
Consumer and other	321	7	6	297	10	-
Total	$ 4,830	$ 61	$ 37	$ 5,333	$ 29	$ 33

The information in the preceding table does not include loans acquired with deteriorated credit quality which were recorded at fair value at acquisition.

Troubled Debt Restructured Loans

Impaired loans generally include nonaccrual loans but also include performing and nonperforming troubled debt restructured loans ("TDRs"). From time to time, the Company may extend, restructure, or otherwise modify the terms of existing loans, on a case-by-case basis, to remain competitive and retain certain borrowers, as well as assist other borrowers who may be experiencing financial difficulties. If a borrower is experiencing financial difficulties and a concession is made by way of a modification of terms the Company would not otherwise consider, the loan is classified as a TDR.

At December 31, 2016, the Company had two TDRs on nonaccrual status totaling $1.4 million and four TDRs totaling $253,000 which were performing according to the terms of their modification. At December 31, 2015, the Company had one TDR on nonaccrual status for $1.0 million and five TDRs totaling $481,000 which were performing according to the terms of their modification.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 4 –Allowance for Loan Losses (Continued)

The following table summarizes by loan class the TDRs that were executed during the years indicated:

	Year Ended December 31,					
	2016			2015		
	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
	(dollars in thousands)					
Commercial and industrial	-	$ -	$ -	1	$ 1,036	$ 1,036
Commercial real estate:						
Owner-occupied	1	586	601	-	-	-
Total	1	$ 586	$ 601	1	$ 1,036	$ 1,036

The commercial real estate owner-occupied loan restructured as a TDR in 2016 was modified to reduce the interest rate. The commercial and industrial loan that was restructured as a TDR in 2015 had an interest rate reduction and an extension of term.

TDRs are individually evaluated for impairment and are included in impaired loans. There were no TDRs that subsequently defaulted during 2016 and 2015. There was no related allowance for any TDR included within the allowance for loan losses as of December 31, 2016 and 2015.

Note 5 – Premises and Equipment

The components of premises and equipment, net, were as follows as of the dates indicated:

	December 31,	
	2016	2015
	(in thousands)	
Land	$ 692	$ 707
Buildings	1,090	1,090
Leasehold improvements	3,207	3,145
Furniture and fixtures	764	693
Equipment and software	2,160	2,028
Construction in process	-	82
	7,913	7,745
Accumulated depreciation and amortization	(4,575)	(4,296)
Total premises and equipment, net	$ 3,338	$ 3,449

Depreciation and amortization expense on premises and equipment for the years ended December 31, 2016 and 2015 was $570,000 and $542,000, respectively. Included in both 2016 and 2015 is $4,000 in fair value adjustments related to the HCB acquisition.

In 2016, the Company recorded $291,000 of disposals, mainly related to fully depreciated ATM equipment.

Note 6 – Intangible Assets

In 2014, the Company recorded a core deposit intangible asset in connection with the acquisition of HCB. The intangible asset is being amortized on an accelerated basis over 10 years. The following table summarizes the activity within the core deposit intangible asset for the years indicated:

	Year Ended December 31,	
	2016	2015
	(in thousands)	
Balance – beginning of year	$ 286	$ 356
Accumulated amortization	(62)	(70)
Balance – end of year	$ 224	$ 286

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 6 – Intangible Assets (Continued)

Amortization expense related to the core deposit intangible asset was $62,000 and $70,000 for the years ended December 31, 2016 and 2015, respectively.

The schedule of remaining amortization of the core deposit intangible asset is as follows:

	Remaining Amortization (in thousands)
2017	$ 55
2018	47
2019	39
2020	32
2021	24
Thereafter	27
Total	$ 224

The core deposit intangible asset is evaluated annually for impairment. The Company believes that the fair value of the core deposit intangible asset was in excess of its carrying amount and therefore there was no impairment of intangible assets at December 31, 2016 or 2015.

Note 7 – Deposits

The components of deposits were as follows as of the dates indicated:

	December 31,	
	2016	2015
	(in thousands)	
Non-interest bearing demand	$ 118,569	$ 99,966
Interest bearing demand	114,322	76,866
Money market and savings	225,193	206,506
Time, $100,000 and over	279,065	214,684
Time, other	157,785	140,999
Total deposits	$ 894,934	$ 739,021

The aggregate amount of demand and savings deposit overdrafts that has been reclassified as loans was $13,000 and $5,000 at December 31, 2016 and 2015, respectively. The aggregate amount of time deposit accounts in denominations that meet or exceed the FDIC insurance limit of $250,000 at December 31, 2016 and 2015 was $88.2 million and $52.4 million, respectively. The Company had $18.0 million in brokered money market deposits at December 31, 2016. The Company had no brokered deposits in 2015.

At December 31, 2016, the contractual maturities of time deposits were as follows:

	December 31, 2016 (in thousands)
2017	$ 271,776
2018	70,458
2019	42,641
2020	24,314
2021	27,661
Total	$ 436,850

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 8 – Borrowings and Subordinated Debentures

Borrowings at December 31, 2016 and 2015 consisted of FHLB advances.

At December 31, 2016, there were eleven outstanding advances with fixed interest rates. One of the advances totaling $5.0 million is due in 2017 and had an initial term of 5 years, is collateralized by investment securities and carries an interest rate of 1.07%. Three of the advances totaling $40.0 million are due in 2017 with an initial term of 1 month, are collateralized by commercial real estate loans and carry interest rates ranging from 0.68% to 0.80%. Three of the advances totaling $5.3 million are due in 2017 with an initial term of 1 year, are collateralized by commercial real estate loans and carry interest rates ranging from 0.78% to 0.81%. Two of the advances totaling $7.3 million are due in 2018 with an initial term of 2 years, are collateralized by commercial real estate loans and carry interest rates of 0.97% and 1.42%, respectively. Two of the advances totaling $6.9 million are due in 2019 with an initial term of 3 years, are collateralized by commercial real estate loans and carry interest rates of 1.09% and 1.68%, respectively.

At December 31, 2015, there were four outstanding advances with fixed interest rates. Two of the advances were due in 2016 and 2017 and had initial terms of 5 years, were collateralized by investment securities and carried interest rates of 2.41% and 1.07%, respectively. The other two advances were due in 2016 and had initial terms of 1 month and 3 years, respectively, were collateralized by commercial real estate loans and carried interest rates of 0.53% and 1.04%, respectively.

As a member of the FHLB, the Company is eligible to borrow funds up to 50% of total assets from the FHLB subject to its stock and collateral requirements. Based on available qualified collateral as of December 31, 2016, the Company had the ability to borrow $114.6 million. The Company's borrowing facility at December 31, 2016 included $40.5 million in unpledged securities and $74.1 million in commercial real estate loan collateral. At December 31, 2015, the Company had $46.4 million in unpledged securities and $21.4 million in commercial real estate loans available as collateral for borrowing.

Borrowings totaled $64.5 million with a weighted average rate of 0.93% at December 31, 2016. At December 31, 2015, borrowings totaled $24.0 million with a weighted average rate of 1.13%. Maximum borrowings outstanding were $64.5 million in 2016 and $24.0 million in 2015. Average borrowings and the average cost of borrowings were $21.0 million and 0.99%, respectively, for 2016 and $14.1 million and 1.55%, respectively, for 2015.

The following table presents the contractual maturities of borrowings at December 31, 2016:

	December 31, 2016 (in thousands)
2017	$ 50,257
2018	7,303
2019	6,950
Total	$ 64,510

The Company also had a line of credit for $10.0 million for short-term borrowings with ACBB at December 31, 2016 and 2015. There were no borrowings on this facility at either date.

On April 30, 2015, the Company completed a $22.0 million private placement of fixed-to-floating rate subordinated debentures. The notes have a maturity date of May 1, 2025 and carry a fixed interest rate of 6.75% for the first 5 years. Thereafter, the notes will pay interest at 3-month LIBOR plus 5.30% and reprice quarterly. The notes include a right of prepayment, without penalty, on or after May 1, 2020. Subordinated debentures totaled $21.6 million at December 31, 2016, which includes $359,000 of remaining unamortized debt issuance costs. The debt issuance costs are being amortized over the expected life of the issue. The effective interest rate of the subordinated debentures is 7.24%. Average subordinated debentures and the average cost of subordinated debentures were $21.6 million and 7.38%, respectively, in 2016.

Note 9 – Lease Commitments

The Company presently has lease agreements for nine of its branches and corporate office space. The lease agreements generally include costs related to real estate taxes, insurance, utilities and maintenance costs in addition to the base rent.

Future minimum lease payments by year and in the aggregate, required under the Company's operating lease agreements, are as follows:

	December 31, 2016
	(in thousands)
2017	$ 1,137
2018	1,144
2019	1,113
2020	1,006
2021	958
Thereafter	4,875
Total	$ 10,233

Total lease rental expense was $1.4 million and $1.1 million for the years ended December 31, 2016 and 2015, respectively.

The Company has a lease agreement for its corporate office and main office branch with North Buffalo Advisors II, LLC, an entity in which certain members of the Board of Directors have a significant ownership interest. The lease has a term of 10 years, expiring in 2025 with options to extend. Minimum lease payments are $360,000 for 2017 through 2019, $367,000 for 2020, $374,000 in 2021 and $1,309,000 thereafter.

The Company has a lease agreement with Serenity Point, LLC, an entity in which a member of the Board of Directors is President. The lease was entered into before the member became a Director and is for our branch facility in Ewing, New Jersey. The lease has a term of 5 years expiring in 2019, and has options to extend. Minimum lease payments are $55,000 for 2017 and 2018, $14,000 for 2019 and $0 thereafter.

Note 10 – Stockholders' Equity

On June 30, 2016, the Bank sold 1,890,000 shares of the Bank's common stock in a private placement at a price of $7.25 per share to certain institutional investors. As a result, the Bank realized $13.4 million in proceeds, net of offering expenses of $294,000.

In its initial stock offering in 2007, the Company issued warrants of which 96,620 warrants are issued and outstanding with a fair value of $205,250. These warrants are immediately exercisable at $10.00 per share and expire in 2017. None of these warrants have been exercised as of December 31, 2016.

Note 11 – Income Taxes

The components of income tax expense consisted of the following for the years ended December 31, 2016 and 2015:

	Year Ended December 31,	
	2016	2015
	(in thousands)	
Federal income tax:		
Current	$ 3,428	$ 2,074
Deferred	(533)	(590)
Total	2,895	1,484
State income tax:		
Current	38	4
Deferred	165	(303)
Total	203	(299)
Total income tax expense	$ 3,098	$ 1,185

The Company recognizes interest and/or penalties related to income tax matters in income tax expense. There was no interest or penalty recorded in income tax expense for the years ended December 31, 2016 and 2015.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 11 – Income Taxes (Continued)

The components of the net deferred tax asset were as follows as of the dates indicated:

	December 31, 2016	December 31, 2015
	(in thousands)	
Deferred tax asset:		
Allowance for loan losses	$ 3,608	$ 2,722
Organization costs	7	8
Net deferred loan fees	474	471
Nonaccrual interest	197	266
Net operating losses	750	895
Purchase accounting	2,290	2,681
Depreciation	174	132
Restricted stock	28	18
Unrealized losses on investment securities available for sale	312	265
Other	612	629
Total deferred tax asset	8,452	8,087
Deferred tax liability:		
Prepaid expenses	(84)	(130)
Other	(18)	(22)
Total deferred tax liability	(102)	(152)
Net deferred tax asset	$ 8,350	$ 7,935

The Company had federal net operating loss carryforwards of $2.2 million and $2.4 million for the years ended December 31, 2016 and 2015, respectively, that were originated by HCB. These net operating losses are subject to an annual limitation of $195,000 under IRC Section 382 that will begin to expire in 2031. At December 31, 2016 and 2015, the Company had $89,000 and $1.4 million, respectively, of state net operating loss carryforwards that will begin to expire in 2035.

The Company's federal income tax returns are open for examination from 2013 and from 2012 for state income tax returns.

Reconciliations of the statutory federal income tax at a rate of 34% to the income tax expense reported in the consolidated statements of income are as follows as of the dates indicated:

	Year Ended December 31, 2016	Year Ended December 31, 2015
Federal income tax at statutory rate	34.0%	34.0%
State income tax, net of federal benefit	1.4%	-3.9%
Changes in taxes resulting from:		
Net tax-exempt income	-1.6%	-2.8%
Bank-owned life insurance income	-1.8%	-2.9%
Incentive stock options	0.5%	0.7%
Non-deductible expenses	0.1%	0.2%
Other	0.0%	-2.0%
Total	32.6%	23.3%

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 12 – Earnings Per Share

The Company's calculation of earnings per share in accordance with ASC Topic 260, *Earnings per Share*, is as follows:

	Year Ended December 31,	
	2016	2015
	(in thousands, except per share data)	
Net income available to common stockholders	$ 6,406	$ 3,887
Basic weighted average common shares outstanding	10,421	9,423
Effect of dilutive common stock equivalents	159	69
Diluted weighted average common shares outstanding	10,580	9,492
Earnings per share:		
Basic	$ 0.61	$ 0.41
Diluted	$ 0.61	$ 0.41
Number of common stock equivalents excluded from the calculation of earnings per share as the exercise prices were greater than the average price of the common stock	241	344

Note 13 – Stock-Based Compensation

The Company has adopted various stock-based compensation plans (the "Plans"). The First Bank 2009 Stock Option Plan–A authorizes the Board of Directors to grant options to purchase up to an aggregate of 409,640 shares of common stock, up to 170,547 of which may be non-qualified options ("NQOs"). Under the First Bank 2009 Stock Option Plan–B (the "B Plan"), the Company may grant options to purchase up to an aggregate of 102,000 shares of common stock to officers, other employees and directors. Shares granted under the B Plan to directors are NQOs. The shares granted under the B Plan to officers and other employees can be NQOs or incentive stock options ("ISOs"). The First Bank 2015 Equity Compensation Plan–C authorizes a maximum of 342,833 shares of common stock to be issued as ISOs, NQOs or restricted stock awards ("RSAs") to officers or directors, of which the maximum number of shares which may be purchased pursuant to NQOs or issued as RSAs is 157,327. The First Bank 2015 Equity Compensation Plan–D authorizes a maximum of 426,146 shares of common stock to be issued which may be purchased pursuant to NQOs or granted as RSAs to officers or directors.

The following presents the number of shares authorized to be awarded under the Plans and the number of remaining shares available for grant at December 31, 2016:

Awards authorized	1,280,619
Cumulative granted awards, net of cancellations	918,640
Awards available for grant	361,979

All options granted under the Plans have a term that shall not exceed 10 years and all options granted to date have a vesting period of 3 years. The exercise price of the options granted under the Plans must be at least 100% of the fair market value of the Company's common stock on the date of grant. Fair market value is to be determined by the Board of Directors in good faith. Terms and conditions of restricted stock awards are determined by the Board of Directors at the time of grant.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 13 – Stock-Based Compensation (Continued)

The tables below reflect stock option activity in the Company's stock-based compensation plans for the periods indicated.

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (years)	Aggregate Intrinsic Value
Outstanding - December 31, 2015	616,500	$ 5.48		
Granted	260,941	6.61		
Exercised	(34,498)	5.91		
Expired	(1,333)	6.26		
Forfeited	(47,752)	6.35		
Outstanding - December 31, 2016	793,858	$ 5.78	6.7	$ 4,620,123
Exercisable - December 31, 2016	470,322	$ 5.30		
Weighted average fair value of options granted during the period	$ 1.77			

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (years)	Aggregate Intrinsic Value
Outstanding - December 31, 2014	538,500	$ 5.34		
Granted	132,000	6.01		
Exercised	(35,166)	5.02		
Expired	(833)	6.01		
Forfeited	(18,001)	6.01		
Outstanding - December 31, 2015	616,500	$ 5.48	6.7	$ 695,000
Exercisable - December 31, 2015	439,653	$ 5.24		
Weighted average fair value of options granted during the period	$ 1.65			

The aggregate intrinsic values in the preceding tables represent the pre-tax intrinsic values calculated by multiplying the number of in-the-money shares by the difference between the Company's closing price on the last trading day of the period and the exercise price.

The fair values of stock options granted in 2016 and 2015 were estimated at the date of grant using the Black-Scholes option pricing model with the following assumptions:

	Year Ended December 31, 2016	Year Ended December 31, 2015
Expected volatility	24.12% - 27.45%	23.39% - 25.63%
Dividend yield	0% - 0.74%	0.00%
Expected life	6.0 years	6.0 years
Risk-free rate	1.43% - 2.01%	1.44% - 1.63%
Fair value	$1.74 - $3.03	$1.64 - $1.71

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 13 – Stock-Based Compensation (Continued)

The following table summarizes information about stock options outstanding and exercisable at December 31, 2016:

Range of Exercise Prices	Number of Options Outstanding	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price	Number of Options Exercisable	Weighted Average Exercise Price
$ 0.00 - 5.00	262,500	3.9	$ 5.00	262,500	$ 5.00
5.01 - 5.25	95,500	5.8	5.23	95,500	5.23
5.26 - 6.49	187,167	7.7	6.05	112,322	6.06
6.50 - 10.85	248,691	9.2	6.61	-	-
Total	793,858	6.7	$ 5.78	470,322	$ 5.30

Stock-based compensation expense related to outstanding stock options was $237,000 and $156,000 for the years ended December 31, 2016 and 2015, respectively. As of December 31, 2016, there was $380,000 of unrecognized compensation cost related to unvested stock options which is expected to be recognized over a weighted average period of 2.0 years. As of December 31, 2015, there was $206,000 of unrecognized compensation cost related to unvested stock options which was expected to be recognized over a weighted average period of 1.4 years.

Restricted stock activity for 2016 and 2015 under the Company's Plans is presented in the following tables.

	Restricted Shares	Weighted Average Grant Date Fair Value	Weighted Average Remaining Contractual Life (years)
Outstanding - December 31, 2015	26,500	$ 6.00	
Granted	16,953	6.50	
Vested	(8,819)	6.00	
Forfeited	(1,334)	6.00	
Outstanding - December 31, 2016	33,300	$ 6.25	1.7

	Restricted Shares	Weighted Average Grant Date Fair Value	Weighted Average Remaining Contractual Life (years)
Outstanding - December 31, 2014		$ -	
Granted	28,750	6.00	
Vested	-	-	
Forfeited	(2,250)	6.00	
Outstanding - December 31, 2015	26,500	$ 6.00	2.2

Restricted stock awarded to date has a 3-year vesting schedule.

Stock-based compensation expense related to restricted stock awards was $80,000 and $45,000 for the years ended December 31, 2016 and 2015, respectively. Unrecognized compensation expense related to restricted stock was $151,000 as of December 31, 2016 and is expected to be recognized over a weighted average period of 1.9 years. Unrecognized compensation expense related to restricted stock was $111,000 as of December 31, 2015 and was expected to be recognized over a weighted average period of 1.5 years.

The Company issues shares from its authorized but unissued common stock to satisfy stock option exercises and restricted stock awards.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 14 – Benefit Plans

Employee 401(k) Plan

The Company has a 401(k) savings plan covering substantially all employees. Under the plan, in 2016 and 2015 the Company matched 50% of employee contributions for all participants, not to exceed 3% of their salary. The Company's 401(k) savings plan expense was $91,000 and $87,000 for the years ended December 31, 2016 and 2015, respectively.

Director Deferred Fee Plan

The Company's Director Deferred Fee Plan ("DDFP") is a non-qualified deferred compensation benefit plan designed to provide participating non-employee directors with the ability to defer a certain portion of their fees to be earned in the future in the form of a deferred compensation benefit. A participating director can defer up to 100% of his or her monthly fees. Interest is credited on each director's deferral account at the Prime Rate, adjusted annually. The minimum interest rate is 4% per annum with a maximum of 10% per annum. At benefit eligibility date, the DDFP will pay the accrued benefits over a 10-year period, with interest, or as a lump sum at the discretion of each Director. For the years ended December 31, 2016 and 2015, $17,000 and $13,000, respectively, was contributed to the DDFP by the Company and charged to operations.

Note 15 – Transactions with Executive Officers, Directors and Principal Stockholders

The Company has had, and may be expected to have in the future, banking transactions, including the extension of credit, in the ordinary course of business with its executive officers, directors, principal stockholders, their immediate families and affiliated companies (commonly referred to as "related parties"). These transactions are on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other customers of the Company.

The following table summarizes activity with respect to related party loans for the periods indicated:

	Year Ended December 31,	
	2016	2015
	(in thousands)	
Balance - beginning of year	$ 21,087	$ 19,063
New loans and advances	10,186	5,871
Repayments	(2,714)	(2,370)
Other changes [1]	3,236	(1,477)
Balance - end of year	$ 31,795	$ 21,087

(1) For the year ended December 31, 2016, other changes consisted of new Directors with existing loans at the Bank. For the year ended December 31, 2015, other changes consisted of the removal of loans related to a deceased Director.

There were no related party loans past due or on nonaccrual status as of December 31, 2016 and 2015.

The Company has a lease agreement with North Buffalo Advisors II, LLC, an entity in which certain members of our Board of Directors have a significant ownership interest. The lease has a term of 10 years, expiring in 2025 with options to extend. Under the terms of the lease, the Company is currently obligated to pay $29,967 per month. The lease agreement includes costs related to real estate taxes, insurance, utilities and maintenance costs in addition to the base rent, and is subject to escalation increases.

The Company has a lease agreement with Serenity Point, LLC, an entity in which a member of our Board of Directors is President. The lease has a term of 5 years, expiring in 2019 with options to extend. Under the terms of the lease, the Company is currently obligated to pay $4,592 per month. The lease agreement includes costs related to real estate taxes, insurance, utilities and maintenance costs in addition to the base rent.

Note 16 – Other Commitments and Contingencies

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

The Company's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and letters of credit is represented by the contractual amount of those instruments.

Note 16 – Other Commitments and Contingencies (Continued)

The credit risk associated with these financial instruments is essentially the same as that involved in extending loans to customers. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Since many of the commitments are expected to expire without being fully drawn upon, the total commitment amounts do not necessarily represent future cash requirements. Commitments generally have fixed expiration dates up to two years or other termination clauses and may require payment of a fee. The Company evaluates each customer's creditworthiness on a case-by-case basis. The majority of the Company's commitments are collateralized. The amount of collateral obtained is based on management's credit evaluation. Collateral held varies but may include personal or commercial real estate, accounts receivable, inventory and equipment.

At December 31, 2016 and 2015, total commitments to extend credit amounted to $122.3 million and $123.9 million, respectively. At December 31, 2016 and 2015, the Company had performance standby letters of credit of $4.4 million and $2.8 million, respectively. These letters of credit are primarily related to performance guarantees on real estate development.

The Company is party, in the ordinary course of business, to litigation involving collection matters, contract claims and other miscellaneous causes of action arising from its business. Management does not consider that any such proceedings depart from usual routine litigation.

Note 17 – Capital and Regulatory Matters

The Company is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet the 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 Company's consolidated financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company must meet specific capital guidelines that involve quantitative measures of the Company's assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices.

Effective January 1, 2015 (with some changes transitioned into full effectiveness over two to four years), the Company became subject to new capital requirements due to substantial amendments to the previous capital regulations. These amended regulations implemented the Basel III regulatory capital reforms and changes required by the Dodd-Frank Act. The new requirements created a required ratio for common equity Tier 1 ("CET1") capital, increased the leverage and Tier 1 capital ratios, changed the risk weight of certain assets for purposes of the risk-based capital ratios, created an additional capital conservation buffer over the required capital ratios and changed what qualifies as capital for purposes of meeting these various capital requirements.

Under the new capital regulations, the minimum capital ratios are: (i) a Tier 1 leverage ratio of 4.0%; (ii) CET1 capital of 4.5% of risk-weighted assets; (iii) Tier 1 capital of 6.0% of risk-weighted assets; and (iv) total capital of 8.0% of risk-weighted assets. CET1 generally consists of common stock and retained earnings, subject to applicable regulatory adjustments and deductions.

The required capital conservation buffer consists of additional CET1 capital greater than 2.5% of risk-weighted assets above the required minimum levels. The Company must maintain such buffer in order to avoid limitations on paying dividends, engaging in share repurchases, and paying discretionary bonuses based on percentages of eligible retained income that could be utilized for such actions. This new capital conservation buffer requirement is being phased in over three years. It began January 1, 2016 at 0.625% of risk-weighted assets and increases 0.625% on January 1 of each year until fully implemented in January 2019.

The regulatory prompt corrective action standards also changed effective January 1, 2015. Under the new standards, in order to be considered well capitalized, the Company must have: (i) a Tier 1 leverage ratio of 5.0%; (ii) CET1 capital of 6.5% of risk-weighted assets, (iii) Tier 1 capital of 8.0% of risk-weighted assets and (iv) total risk-based ratio of 10.0% of risk-weighted assets.

The Company's capital amounts and classification are subject to qualitative judgments by the regulators about components, risk weightings and other factors.

Note 17 – Capital and Regulatory Matters (Continued)

The Company's capital amounts, ratios and regulatory minimums are presented below as of the dates indicated:

	Actual		Minimum For Capital Adequacy Purposes		Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(dollars in thousands)			
December 31, 2016:						
Tier 1 leverage capital	$ 88,392	8.56%	$ 41,308	4.00%	$ 51,634	5.00%
Common equity tier 1 capital	88,392	8.78%	45,292	4.50%	65,421	6.50%
Tier 1 risk-based capital	88,392	8.78%	60,389	6.00%	80,519	8.00%
Total risk-based capital	119,859	11.91%	80,519	8.00%	100,648	10.00%

	Actual		Minimum For Capital Adequacy Purposes		Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(dollars in thousands)			
December 31, 2015:						
Tier 1 leverage capital	$ 68,224	8.22%	$ 33,186	4.00%	$ 41,483	5.00%
Common equity tier 1 capital	68,224	8.58%	35,777	4.50%	51,678	6.50%
Tier 1 risk-based capital	68,224	8.58%	47,703	6.00%	63,604	8.00%
Total risk-based capital	97,697	12.29%	63,604	8.00%	79,505	10.00%

Management believes, as of December 31, 2016 and 2015, that the Company met all capital adequacy requirements to which it is subject. First Bank is considered "well capitalized" under the FDIC's prompt corrective action capital provisions.

The Company is subject to certain restrictions on the amount of dividends that it may declare due to regulatory considerations. The New Jersey Banking Act of 1948 provides that cash dividends may be declared and paid out of accumulated net earnings or out of surplus, provided that following the payment of each such dividend (i) the capital stock of the Company will be unimpaired and (ii) if the dividend is paid out of surplus, the Company's surplus will not be less than 50% of the Company's capital stock. The Company believes that all regulatory requirements have been met and declared its first cash dividend on November 15, 2016 payable on February 28, 2017. A $228,000 dividend payable was recorded and included in other liabilities in the Consolidated Statements of Financial Condition as of December 31, 2016.

Note 18 – Fair Value Measurements and Fair Values of Financial Instruments

Management uses its best judgment in estimating the fair value of the Company's 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 the Company could have realized in a sale transaction on the dates indicated. The fair value amounts have been measured as of their respective year-ends and have not been re-evaluated or updated for purposes of these financial statements subsequent to those respective dates. As such, the fair values of these financial instruments subsequent to the respective reporting dates may be different than the amounts reported at each year-end.

The Company follows ASC Topic 820, *Fair Value Measurement*, which 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).

Note 18 – Fair Value Measurements and Fair Values of Financial Instruments (Continued)

The three levels of the fair value hierarchy are as follows:

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

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

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

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

For financial assets measured at fair value on a recurring basis, the fair value measurements by level within the fair value hierarchy are as follows as of the dates indicated:

	December 31, 2016			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(in thousands)			
Investment securities available for sale:				
Residential mortgage-backed securities:				
Issued by FNMA and FHLMC	$ 20,584	$ -	$ 20,584	$ -
Issued by GNMA	7,264	-	7,264	-
U.S. Treasury securities	11,894	11,894	-	-
Asset-backed securities	3,233	-	3,233	-
Corporate obligations	4,102	-	4,102	-
Total	$ 47,077	$ 11,894	$ 35,183	$ -

	December 31, 2015			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(in thousands)			
Investment securities available for sale:				
Residential mortgage-backed securities:				
Issued by FNMA and FHLMC	$ 32,687	$ -	$ 32,687	$ -
Issued by GNMA	3,285	-	3,285	-
Asset-backed securities	3,328	-	3,328	-
Corporate obligations	6,041	-	6,041	-
Total	$ 45,341	$ -	$ 45,341	$ -

For financial assets measured at fair value on a nonrecurring basis, the fair value measurements by level within the fair value hierarchy are as follows as of the dates indicated:

	December 31, 2016			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(in thousands)			
Impaired loans, collateral dependent	$ 5,153	$ -	$ -	$ 5,153
Other real estate owned	822	-	-	822
Total	$ 5,975	$ -	$ -	$ 5,975

Note 18 – Fair Value Measurements and Fair Values of Financial Instruments (Continued)

	December 31, 2015			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(in thousands)			
Impaired loans, collateral dependent	$ 2,757	$ -	$ -	$ 2,757
Other real estate owned	1,376	-	-	1,376
Total	$ 4,133	$ -	$ -	$ 4,133

The tables below present additional information about Level 3 assets measured at fair value on a nonrecurring basis as of the dates indicated:

Quantitative Information about Level 3 Fair Value Measurements
December 31, 2016

	Fair Value	Valuation Method	Unobservable Input	Range of Discount (3)	Weighted Average (3)
			(dollars in thousands)		
Impaired loans	$ 5,153	Fair value of collateral (1)	Appraised Value (2)	0% - 13%	10%
Other real estate owned	822	Fair value of collateral (1)	Appraised Value (2) Sales Price	5% - 14%	8%

(1) Fair value is generally determined through independent appraisals of the underlying collateral, which include level 3 inputs that are not identifiable.
(2) Appraisals may be adjusted by management for qualitative factors such as economic conditions and estimated liquidation expenses.
(3) The range and weighted average of qualitative factors such as economic conditions and estimated liquidation expenses are presented as a percent of the appraised value.

Quantitative Information about Level 3 Fair Value Measurements
December 31, 2015

	Fair Value	Valuation Method	Unobservable Input	Range of Discount (3)	Weighted Average (3)
			(dollars in thousands)		
Impaired loans	$ 2,757	Fair value of collateral (1)	Appraised Value (2)	0% - 13%	10%
Other real estate owned	1,376	Fair value of collateral (1)	Appraised Value (2) Sales Price	5% - 14%	8%

(1) Fair value is generally determined through independent appraisals of the underlying collateral, which include level 3 inputs that are not identifiable.
(2) Appraisals may be adjusted by management for qualitative factors such as economic conditions and estimated liquidation expenses.
(3) The range and weighted average of qualitative factors such as economic conditions and estimated liquidation expenses are presented as a percent of the appraised value.

The significant unobservable inputs for impaired loans and other real estate owned are the appraised value or an agreed upon sales price. These values are adjusted for estimated costs to sell which are incremental direct costs to transact a sale such as broker commissions, legal fees and title transfer fees. The costs must be considered essential to the sale and would not have been incurred if the decision to sell had not been made.

Fair Value of Financial Instruments

ASC 825, *Financial Instruments*, requires the disclosure of the estimated fair value of certain financial instruments, including those financial instruments for which the Company did not elect the fair value option. Estimated fair values have been determined using available market information and appropriate valuation methodologies. Considerable

Note 18 – Fair Value Measurements and Fair Values of Financial Instruments (Continued)

judgment is required to interpret market data to develop estimates of fair value. The estimates presented are not necessarily indicative of amounts the Company could realize in a current market exchange. The use of alternative market assumptions and estimation methodologies could have a material effect on these estimates of fair value.

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

The following methods and assumptions were used to estimate the fair value of financial instruments for which it is practicable to estimate that value at December 31, 2016 and 2015:

Cash and Cash Equivalents (Carried at Cost)

The carrying amounts for cash and cash equivalents approximate those assets' fair values.

Interest Bearing Time Deposits in Other Banks (Carried at Cost)

The fair value of interest bearing time deposits in other banks is estimated using a discounted cash flow analysis and rate that approximates certificates of deposit with comparable remaining terms.

Investment Securities

The fair value of investment securities available for sale (carried at fair value) and held to maturity (carried at amortized cost) are determined by obtaining quoted market prices on nationally recognized securities exchanges (Level 1), or matrix pricing (Level 2), which is a mathematical technique used widely in the industry to value debt securities without relying exclusively on quoted market prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted prices. For certain securities which are not traded in active markets or are subject to transfer restrictions, valuations are adjusted to reflect illiquidity or non-transferability, and such adjustments are based on available market evidence (Level 3). In the absence of such evidence, management's best estimate is used. Management's best estimate consists of both internal and external support on certain Level 3 investments. Internal cash flow models using a present value formula that includes assumptions market participants would use along with indicative exit pricing obtained from broker/dealers, where available, are used to support the fair values of certain Level 3 investments.

Restricted Investment in Bank Stocks (Carried at Cost)

The carrying amount of restricted investment in FHLB and ACBI stock approximates fair value and considers the limited marketability of such securities.

Other Investments (Carried at Cost)

The Solomon Hess SBA Loan Fund operates as a private fund. Shares in the Fund are not publicly traded and therefore have no readily determinable market value. Therefore, this investment's carrying value approximates fair value.

Loans (Carried at Cost)

The fair value of loans is estimated using discounted cash flow analyses, using market rates at the balance sheet date that reflect the credit and interest rate risk inherent in the loans. Projected future cash flows are calculated based upon contractual maturity or call dates, projected repayments and prepayments of principal. Generally, for variable rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying values.

Impaired Loans (Generally Carried at Fair Value)

Impaired loans are generally measured based on the fair value of the loan's collateral. Fair value is generally determined based upon independent third-party appraisals of the properties, or discounted cash flows based upon the expected proceeds. Impaired loans excluding accruing TDRs are included as Level 3 fair values, based upon the lowest level of input that is significant to the fair value measurements.

Loans Acquired with Deteriorated Credit Quality (Carried at Fair Value)

Acquired loans are recorded at their fair values which are determined by estimating the cash flows expected to result from those loans and discounting them at appropriate market rates. Acquired loans accounted for under ASC 310-30 are included as Level 3 fair values.

Note 18 – Fair Value Measurements and Fair Values of Financial Instruments (Continued)

Other Real Estate Owned (Carried at Fair Value)

Other real estate owned and other repossessed assets are measured at fair value less costs to sell. Fair value is determined by sales agreements or appraisals by qualified licensed appraisers, adjusted by management as necessary to reflect current market conditions. Costs to sell are based on estimation per the terms and conditions of the sales agreements or appraisals. These are included as Level 3 fair values.

Accrued Interest Receivable and Payable (Carried at Cost)

The carrying amounts of accrued interest receivable and accrued interest payable approximate their fair values.

Deposits (Carried at Cost)

The fair values of nonmaturity deposits (e.g., interest and non-interest checking, savings and money market accounts) are, by definition, equal to the amounts payable on demand at the reporting date (i.e., their carrying amounts). The fair value of time deposits is estimated using a discounted cash flow calculation that uses FHLB interest rates (which approximate time deposit rates) to discount the monthly maturities of time deposits.

Borrowings (Carried at Cost)

Borrowings consist of FHLB advances. The fair value of FHLB advances is estimated using a discounted cash flow analysis, based on quoted prices for new FHLB advances with similar terms and remaining maturities offered by the FHLB of New York. The prices obtained from this active market represent a market value that is deemed to represent the transfer price if the liability were assumed by a third party.

Subordinated Debentures (Carried at Cost)

The fair value of subordinated debentures is estimated by using a discounted cash flow calculation that applies a 5.90% credit spread plus the U.S. Treasury rate (all-in issue spread) to the time remaining until the issue's call option date.

Off-Balance Sheet Financial Instruments (Disclosed at Cost)

The fair value of off-balance sheet financial instruments (loan commitments and letters of credit are disclosed in Note 16) is based on fees currently charged in the market to enter into similar agreements, taking into account the remaining terms of the agreements and the counterparties' credit standing. The fair value of these instruments was considered immaterial at December 31, 2016 and 2015.

The carrying amounts and estimated fair values of the Company's financial instruments are provided in the following tables as of the dates indicated:

	December 31, 2016				
			Fair Value Measurements Using:		
	Carrying Amount	Estimated Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
			(in thousands)		
Financial Assets:					
Cash and cash equivalents	$ 30,289	$ 30,289	$ 30,289	$ -	$ -
Interest bearing time deposits in other banks	7,440	7,445	-	7,445	-
Investment securities available for sale	47,077	47,077	11,894	35,183	-
Investment securities held to maturity	53,473	53,358	-	53,358	-
Restricted investment in bank stocks	3,890	3,890	-	3,890	-
Other investments	5,000	5,000	-	5,000	-
Net loans (1)	888,603	890,653	-	883,659	6,994
Accrued interest receivable	2,573	2,573	-	2,573	-
Financial Liabilities:					
Demand, savings and money market deposits	458,084	458,084	-	458,084	-
Time deposits	436,850	439,345	-	439,345	-
Borrowings	64,510	64,374	-	64,374	-
Subordinated debentures	21,641	21,409	-	21,409	-
Accrued interest payable	636	636	-	636	-

(1) Level 2 for non-impaired loans and accruing TDRs; Level 3 for acquired ASC 310-30 loans and impaired loans excluding accruing TDRs.

Note 18 – Fair Value Measurements and Fair Values of Financial Instruments (Continued)

	December 31, 2015				
			Fair Value Measurements Using:		
	Carrying Amount	Estimated Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
			(in thousands)		
Financial Assets:					
Cash and cash equivalents	$ 33,331	$ 33,331	$ 33,331	$ -	$ -
Interest bearing time deposits in other banks	4,125	4,128	-	4,128	-
Investment securities available for sale	45,341	45,341	-	45,341	-
Investment securities held to maturity	53,262	53,793	-	53,793	-
Restricted investment in bank stocks	1,862	1,862	-	1,862	-
Other investments	5,000	5,000	-	5,000	-
Net loans (1)	681,947	689,127	-	683,149	5,978
Accrued interest receivable	2,056	2,056	-	2,056	-
Financial Liabilities:					
Demand, savings and money market deposits	383,338	383,338	-	383,338	-
Time deposits	355,683	355,931	-	355,931	-
Borrowings	24,000	23,992	-	23,992	-
Subordinated debentures	21,533	21,412	-	21,412	-
Accrued interest payable	612	612	-	612	-

(1) Level 2 for non-impaired loans and accruing TDRs; Level 3 for acquired ASC 310-30 loans and impaired loans excluding accruing TDRs.

Note 19 – Subsequent Events

Management has evaluated subsequent events through the date of issuance of the consolidated financial statements and does not believe any such events warrant recording or disclosure in these consolidated financial statements except as following.

On March 28, 2017, the Company entered into an Agreement and Plan of Merger with Bucks County Bank ("BCB") pursuant to which BCB will merge with and into First Bank. The merger agreement provides that shareholders of BCB will receive 0.98 shares of First Bank common stock for each share of BCB common stock that they own at the effective date of the merger. First Bank expects to issue an aggregate of approximately 2.4 million shares of its common stock in the merger and will cash out BCB options that remain outstanding at the effective time of the merger. The closing of the merger is subject to receipt of approvals from regulators, approval of the merger by First Bank and BCB's shareholders and other customary conditions. BCB is a Pennsylvania state-chartered commercial bank headquartered in Doylestown, Bucks County, Pennsylvania. As of December 31, 2016, BCB had total assets, total loans, total deposits and total stockholders' equity of $197.8 million, $178.6 million, $145.3 million and $21.8 million, respectively. Pending the approval of regulators and First Bank and BCB's shareholders, the Company expects the merger transaction to close in the third quarter of 2017.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

Not applicable.

Item 9A. Controls and Procedures.

(a) Evaluation of disclosure controls and procedures.

First Bank's Chief Executive Officer and Chief Financial Officer (collectively, the "Certifying Officers"), have evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) of the Securities Exchange Act of 1934). Based on that evaluation, management concluded that the Company's disclosure controls and procedures were effective as of December 31, 2016.

(b) Management's report on internal control over financial reporting.

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rule 13a-15(f) of the Exchange Act. Because of their inherent limitations, systems of internal control over financial reporting may not prevent or detect misstatements. Therefore, even those systems determined to be effective can only provide reasonable assurance with respect to financial statement preparation and presentation.

Our control over financial reporting includes policies and procedures that pertain to the maintenance of records that accurately and fairly reflect, in reasonable detail, transactions and dispositions of assets, and provide reasonable assurances that: (i) transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States; (ii) receipts and expenditures are being made only in accordance with authorizations of management and the Directors of the Company; and (iii) unauthorized use or disposition of the Company's assets that could have a material effect on the Company's financial statements are prevented or timely detected.

Management conducted a review and assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2016 utilizing the framework established in *Internal Control—Integrated Framework (2013)*, issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Based on this assessment, management determined that, as of December 31, 2016, the Company's internal control over financial reporting was effective to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U. S. generally accepted accounting principles.

This Annual Report on Form 10-K does not include an attestation report of the Company's independent registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's registered public accounting firm pursuant to rules of the FDIC.

(c) Changes in internal control over financial reporting.

There have been no changes in the Company's internal control over financial reporting during the quarter ended December 31, 2016 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Item 9B. Other Information.

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance.

Information required by this Item is included in the definitive Proxy Statement for the Company's 2017 Annual Meeting under the captions "ELECTION OF DIRECTORS" and "SECTION 16(A) BENEFICIAL OWNERSHIP REPORTS COMPLIANCE," each of which is incorporated herein by reference. It is expected that such Proxy Statement will be filed with the FDIC within 120 days of December 31, 2016.

Item 11. Executive Compensation.

Information required by this Item is included in the definitive Proxy Statement for the Company's 2017 Annual Meeting under the captions "EXECUTIVE COMPENSATION" and "DIRECTOR COMPENSATION", which is incorporated by reference herein. It is expected that such Proxy Statement will be filed with the FDIC within 120 days of December 31, 2016.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

Information required by this Item is included in the definitive Proxy Statement for the Company's 2017 Annual Meeting under the caption "SECURITY OWNERSHIP OF MANAGEMENT", which is incorporated herein by reference. It is expected that such Proxy Statement will be filed with the FDIC within 120 days of December 31, 2016.

Item 13. Certain Relationships and Related Transactions, and Director Independence.

Information required by this Item is included in the definitive Proxy Statement for the Company's 2017 Annual Meeting under the caption "INTEREST OF MANAGEMENT AND OTHERS IN CERTAIN TRANSACTIONS", which is incorporated herein by reference. It is expected that such Proxy Statement will be filed with the FDIC within 120 days of December 31, 2016.

Item 14. Principal Accountant Fees and Services.

Information required by this Item as well as related pre-approval policies under the caption "RATIFICATION OF INDEPENDENT AUDITORS" in the Proxy Statement for the Company's 2017 Annual Meeting of Shareholders is incorporated by reference herein. It is expected that such Proxy Statement will be filed with the FDIC within 120 days of December 31, 2016.

PART IV

Item 15. Exhibits, Financial Statement Schedules

(a) The following portions of the Company's audited consolidated financial statements are set forth in Part II, Item 8. of this Annual Report on Form 10-K:

i. Consolidated Statements of Financial Condition as of December 31, 2016 and 2015

ii. Consolidated Statements of Income for the Years Ended December 31, 2016 and 2015

iii. Consolidated Statements of Comprehensive Income for the Years Ended December 31, 2016 and 2015

iv. Consolidated Statements of Changes in Stockholders' Equity for the Years Ended December 31, 2016 and 2015

v. Consolidated Statements of Cash Flows for the Years Ended December 31, 2016 and 2015

vi. Notes to Consolidated Financial Statements

(b) Financial Statement Schedules

All financial statement schedules are omitted as the information, if applicable, is presented in the consolidated financial statements and notes thereto in Part II, Item 8. Financial Statements and Supplementary Data.

(c) Exhibits

Exhibit No.	Description
2.1	Agreement and Plan of Merger dated March 28, 2017 between the Registrant and Bucks County Bank (9)
3(i)	Certificate of Incorporation, as amended on July 20, 2011 and August 7, 2013 (1)
3(ii)	Bylaws, as amended on March 17, 2015 and February 21, 2017 (2)
10.1	Amended and Restated Employment Agreement by and between the Registrant and Patrick L. Ryan dated February 21, 2017 (3) (4)
10.2	Employment Agreement with Stephen F. Carman dated March 1, 2016 (3) (5)
10.3	Employment Agreement with Peter J. Cahill dated March 1, 2016 (3) (5)
10.4	First Bank 2009 Stock Option Plan-A (1) (3)
10.5	First Bank 2009 Stock Option Plan-B (1) (3)
10.6	First Bank 2015 Equity Compensation Plan-C (3) (6)
10.7	First Bank 2015 Equity Compensation Plan-D (3) (6)
10.8	Subordinated Note Purchase Agreement (7)
10.9	Form of 6.75% Fixed to Floating Rate Subordinated Note (7)
10.10	Form of Securities Purchase Agreement dated June 30, 2016 by and among the Registrant and the Buyers identified therein (8)
21	Subsidiaries of the Registrant
31.1	Certification of Chief Executive Officer Pursuant to Rule 13a-14(a) or Rule 15d-14(a) and Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer Pursuant to Rule 13a-14(a) or Rule 15d-14(a) and Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Chief Executive Officer and Chief Financial Officer Pursuant to Rule 13a-14(b) or Rule 15d-14(b) and Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350

(1) Filed as a part of the registrant's Registration Statement on Form 10 filed on October 1, 2013.
(2) Incorporated by reference from Exhibits 3.1 to the registrant's Current Report on Form 8-K filed on February 22, 2017.
(3) Management contract or compensatory plan, contract or arrangement.
(4) Incorporated by reference from Exhibits 10.1 to the registrant's Current Report on Form 8-K filed on February 22, 2017.
(5) Incorporated by reference from Exhibits 10.2 and 10.3 to the registrant's Current Report on Form 8-K filed on March 7, 2016.
(6) Incorporated by reference to Annex E and Annex F of the registrant's Proxy Statement filed on February 7, 2014.
(7) Incorporated by reference from Exhibits 10.1 and 10.2 to the registrant's Current Report on Form 8-K filed on May 4, 2015.
(8) Incorporated by reference from Exhibits 10.1 to the registrant's Current Report on Form 8-K filed on July 5, 2016.
(9) Incorporated by reference from Exhibit 2.1 to the registrant's Current Report on Form 8-K filed on March 29, 2017.

Item 16. Form 10-K Summary.

None.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized on March 30, 2017.

FIRST BANK
(Registrant)

/s/ Patrick L. Ryan
Patrick L. Ryan
President & Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed by the following persons on behalf of the registrant and in the capacities indicated below on March 30, 2017.

Signature	Title
/s/ Patrick M. Ryan Patrick M. Ryan	Chairman
/s/ Patrick L. Ryan Patrick L. Ryan	Director, President and Chief Executive Officer (Principal Executive Officer)
/s/ Stephen F. Carman Stephen F. Carman	Executive Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)
/s/ Leslie E. Goodman Leslie E. Goodman	Vice Chairman
/s/ Elbert G. Basolis, Jr. Elbert G. Basolis, Jr.	Director
/s/ Anthony J. Cimino Anthony J. Cimino	Director
/s/ Peter D. Halstead Peter D. Halstead	Director
/s/ Gary S. Hofing Gary S. Hofing	Director
/s/ Deborah Hanson Imperatore Deborah Hanson Imperatore	Director
/s/ Maria K. Jinks, D.C. Maria K. Jinks, D.C.	Director
/s/ Glenn M. Josephs Glenn M. Josephs	Director
/s/ Samuel D. Marrazzo Samuel D. Marrazzo	Director
/s/ Raymond F. Nisivoccia Raymond F. Nisivoccia	Director
/s/ John E. Strydesky John E. Strydesky	Director

Exhibit 21

SUBSIDIARIES OF THE REGISTRANT

Name of Subsidiary	Jurisdiction of Incorporation or Formation
BC1, LLC	New Jersey
BC2, LLC	New Jersey
BC3, LLC	New Jersey
FB Delaware Investment Company, Inc.	Delaware
FB Preferred Capital, Inc.	New Jersey
HCBOREO 1, LLC	New Jersey
HCBOREO 2, LLC	New Jersey

Exhibit 31.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO RULE 13A-14(A) OR RULE 15D-14(A) AND SECTION 302
OF THE SARBANES-OXLEY ACT OF 2002

I, Patrick L. Ryan, Chief Executive Officer of First Bank, certify that:

1. I have reviewed this Annual Report on Form 10-K of First Bank;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15-d-15(f)) for the registrant and we have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 30, 2017

/s/ Patrick L. Ryan
Patrick L. Ryan
President and Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO RULE 13A-14(A) OR RULE 15D-14(A) AND SECTION 302
OF THE SARBANES-OXLEY ACT OF 2002

I, Stephen F. Carman, Chief Financial Officer of First Bank, certify that:

1. I have reviewed this Annual Report on Form 10-K of First Bank;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15-d-15(f)) for the registrant and we have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 30, 2017

/s/ Stephen F. Carman
Stephen F. Carman
Executive Vice President, Treasurer and Chief Financial Officer
(Principal Financial and Accounting Officer)

Exhibit 32.1

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF SARBANES-OXLEY ACT OF 2002

Pursuant to 18 U.S.C. Section 1350, in connection with the Annual Report on Form 10-K of First Bank for the period ended December 31, 2016, as filed with the Federal Deposit Insurance Corporation on the date hereof (the "Report"), each of the undersigned officers of the Company, certifies, to the best knowledge and belief of the signatory, that the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as applicable; and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of First Bank.

The foregoing certification is being furnished solely pursuant to 18 U.S.C. Section 1350 and is not being filed as part of the Report or as a separate disclosure document.

Date: March 30, 2017

/s/ Patrick L. Ryan
Patrick L. Ryan
President and Chief Executive Officer
(Principal Executive Officer)

/s/ Stephen F. Carman
Stephen F. Carman
Executive Vice President, Treasurer and Chief Financial Officer
(Principal Financial and Accounting Officer)

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FIRSTBANK

2465 KUSER ROAD   HAMILTON, NEW JERSEY 08690   877.821.BANK
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