1ST CONSTITUTION BANCORP
Form 10-Q
August 12, 2015

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

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

For the quarterly period ended June 30, 2015
or

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

For the transition period from _____ to _____
Commission file Number: 000-32891
1ST CONSTITUTION BANCORP
(Exact Name of Registrant as Specified in Its Charter)

New Jersey	22-3665653
(State of Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

2650 Route 130, P.O. Box 634, Cranbury, NJ	08512
(Address of Principal Executive Offices)	(Zip Code)

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

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

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

As of July 31, 2015, there were 7,546,835 shares of the registrant's common stock, no par value, outstanding.

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

	June 30, 2015	December 31, 2014
ASSETS		
CASH AND DUE FROM BANKS	$16,364	$14,545
FEDERAL FUNDS SOLD / SHORT-TERM INVESTMENTS	—	—
Total cash and cash equivalents	16,364	14,545
INVESTMENT SECURITIES:		
Available for sale, at fair value	80,576	80,161
Held to maturity (fair value of $130,257 and $148,476 at June 30, 2015 and December 31, 2014, respectively)	126,651	143,638
Total investment securities	207,227	223,799
LOANS HELD FOR SALE	9,231	8,372
LOANS	758,506	654,297
Less- Allowance for loan losses	(7,351)	(6,925)
Net loans	751,155	647,372
PREMISES AND EQUIPMENT, net	11,475	11,373
ACCRUED INTEREST RECEIVABLE	2,976	3,096
BANK-OWNED LIFE INSURANCE	21,301	21,218
OTHER REAL ESTATE OWNED	5,328	5,710
GOODWILL AND INTANGIBLE ASSETS	13,497	13,711
OTHER ASSETS	8,376	7,583
Total assets	$1,046,930	$956,779
LIABILITIES AND SHAREHOLDERS' EQUITY		
LIABILITIES:		
DEPOSITS		
Non-interest bearing	$161,029	$162,281
Interest bearing	637,059	655,480
Total deposits	798,088	817,761
BORROWINGS	130,728	25,107
REDEEMABLE SUBORDINATED DEBENTURES	18,557	18,557
ACCRUED INTEREST PAYABLE	855	907
ACCRUED EXPENSES AND OTHER LIABILITIES	7,175	7,337
Total liabilities	955,403	869,669
SHAREHOLDERS' EQUITY:		
Preferred stock, no par value; 5,000,000 shares authorized, none issued	—	—
Common Stock, no par value; 30,000,000 shares authorized; 7,543,580 and 7,165,084 shares issued and 7,508,075 and 7,134,174 shares outstanding as of June 30, 2015 and December 31, 2014, respectively	65,792	61,448
Retained earnings	26,311	25,730

Treasury Stock, 35,505 shares and 30,910 shares at June 30, 2015 and December 31, 2014, respectively	(349)	(316)
Accumulated other comprehensive (loss) income	(227)	248
Total shareholders’ equity	91,527	87,110
Total liabilities and shareholders’ equity	$1,046,930	$956,779

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
INTEREST INCOME:				
Loans, including fees	$9,238	$7,870	$17,527	$14,108
Securities:				
Taxable	790	1,059	1,607	2,181
Tax-exempt	530	589	1,086	1,170
Federal funds sold and short-term investments	6	46	31	101
Total interest income	10,564	9,564	20,251	17,560
INTEREST EXPENSE:				
Deposits	912	972	1,844	1,871
Borrowings	153	128	279	243
Redeemable subordinated debentures	88	86	174	171
Total interest expense	1,153	1,186	2,297	2,285
Net interest income	9,411	8,378	17,954	15,275
PROVISION FOR LOAN LOSSES	—	4,100	500	4,600
Net interest income after provision for loan losses	9,411	4,278	17,454	10,675
NON-INTEREST INCOME:				
Service charges on deposit accounts	190	267	429	486
Gain on sales of loans	832	267	1,879	1,007
Income on Bank-owned life insurance	143	149	276	278
Other income	453	577	962	1,126
Total other income	1,618	1,260	3,546	2,897
NON-INTEREST EXPENSES:				
Salaries and employee benefits	4,108	3,685	8,049	7,273
Occupancy expense	859	839	1,800	1,665
Data processing expenses	306	312	625	628
FDIC insurance expense	180	185	370	335
Other real estate owned expenses	416	98	513	140
Merger-related expenses	—	109	—	1,532
Other operating expenses	1,733	1,478	2,901	2,479
Total other expenses	7,602	6,706	14,258	14,052
Income (loss) before income taxes	3,427	(1,168)	6,742	(480)
INCOME TAXES	1,112	(728)	2,167	(682)
Net income (loss)	$2,315	$(440)	$4,575	$202
NET INCOME (LOSS) PER COMMON SHARE:				
Basic	$0.31	$(0.06)	$0.61	$0.03
Diluted	$0.30	$(0.06)	$0.60	$0.03

WEIGHTED AVERAGE SHARES OUTSTANDING				
Basic	7,506,310	7,469,403	7,505,019	7,306,846
Diluted	7,684,980	7,469,403	7,674,859	7,433,154

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Net Income (loss)	$2,315	$(440)	$4,575	$202
Other comprehensive (loss) income:				
Unrealized holding (loss) gains on securities available for sale	(765)	1,066	(619)	2,282
Tax effect	278	(388)	182	(759)
Net of tax amount	(487)	678	(437)	1,523
Reclassification adjustment for loss included in income on securities available for sale (1)	—	3	—	3
Tax effect (2)	—	(1)	—	(1)
Net of tax amount	—	2	—	2
Pension liability	93	95	93	158
Tax effect	(38)	(38)	(38)	(63)
Net of tax amount	55	57	55	95
Reclassification adjustment for actuarial (gains) loss included in Income (3)	(110)	—	(155)	—
Tax effect (2)	44	—	62	—
Net of tax amount	(66)	—	(93)	—
Total other comprehensive (loss) income	(498)	737	(475)	1,620
Comprehensive income	$1,817	$297	$4,100	$1,822

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

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

(Dollars in thousands)	Common Stock	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive (Loss) Income	Total Shareholders' Equity
Balance, January 1, 2014	$49,403	$21,374	$(172)	$(2,248)	$68,357
Exercise of stock options	—	—	—	—	—
Share-based compensation	373	—	—	—	373
Treasury stock purchased (3,891 shares)	—	—	(40)	—	(40)
Acquisition of Rumson Fair Haven Bank (1,019,223 shares)	11,161	—	—	—	11,161
Net Income for the six months ended June 30, 2014	—	202	—	—	202
Other comprehensive income (loss)	—	—	—	1,620	1,620
Balance, June 30, 2014	$60,937	$21,576	$(212)	$(628)	$81,673
Balance, January 1, 2015	$61,448	$25,730	$(316)	$248	$87,110
Exercise of stock options (3,313 shares)	24	—	—	—	24
Share-based compensation (16,332 shares)	326	—	—	—	326
Treasury stock purchased (2,947 shares)	—	—	(33)	—	(33)
5% Stock dividend declared March 2015 (358,851 shares)	3,994	(3,994)	—	—	—
Net income for the six months ended June 30, 2015	—	4,575	—	—	4,575
Other comprehensive income (loss)	—	—	—	(475)	(475)
Balance, June 30, 2015	$65,792	$26,311	$(349)	$(227)	$91,527

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

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

	Six Months Ended June 30, 2015	2014
OPERATING ACTIVITIES:		
Net income	$4,575	$202
Adjustments to reconcile net income to net cash provided by operating activities-		
Provision for loan losses	500	4,600
Provision for loss on other real estate owned	382	—
Depreciation and amortization	777	881
Net amortization of premiums and discounts on securities	460	547
Loss on sales of securities held for sale	—	3
Gains on sales of other real estate owned	—	(21)
Gains on sales of loans held for sale	(1,879)	(1,007)
Originations of loans held for sale	(78,539)	(39,761)
Proceeds from sales of loans held for sale	77,680	41,813
Income on Bank – owned life insurance	(276)	(278)
Share-based compensation expense	326	373
Decrease (Increase) in accrued interest receivable	120	(23)
(Increase) Decrease in other assets	1,338	1,196
Decrease in accrued interest payable	(52)	(126)
Decrease in accrued expenses and other liabilities	(163)	(1,415)
Net cash provided by operating activities	5,249	6,984
INVESTING ACTIVITIES:		
Purchases of securities -		
Available for sale	(7,071)	—
Held to maturity	(7,578)	(14,229)
Proceeds from maturities and prepayments of securities -		
Available for sale	5,732	14,316
Held to maturity	24,411	11,534
Proceeds from sales of securities available for sale	—	5,957
Net increase in loans	(104,209)	(122,887)
Capital expenditures	(655)	(112)
Net cash received in the acquisition	—	21,375
Proceeds from sales of other real estate owned	—	231
Net cash used in investing activities	(89,370)	(83,815)
FINANCING ACTIVITIES:		
Exercise of stock options	24	—
Purchase of treasury stock	(33)	(40)
Net decrease in deposits	(19,672)	(8,169)
Net increase in borrowings	105,621	38,910
Net cash provided by financing activities	85,940	30,701
Increase (Decrease) in cash and cash equivalents	1,819	(46,130)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	14,545	69,279
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$16,364	$23,149
SUPPLEMENTAL DISCLOSURES OF CASHFLOW INFORMATION		

Cash paid during the period for -		
Interest	$2,349	$2,411
Income taxes	2,275	596
Non-cash activities .		
Acquisition of Rumson		
Noncash assets acquired :		
Investment securities available for sale		$30,024
Loans		143,714
Accrued interest receivable		597
Premises and equipment, net		2,552
Goodwill		7,698
Core deposit intangible		1,189
Bank-owned life insurance		4,471
Other assets		886
		191,131
Liabilities assumed :		
Deposits		189,490
Advances from FHLB		11,030
Other liabilities		825
		201,345
Common stock issued as consideration		11,161

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

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

(1) Summary of Significant Accounting Policies

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

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

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

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

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

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

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

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

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

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

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

(3) Net Income Per Common Share

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

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

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

(Dollars in thousands, except per share data)	Three Months Ended June 30, 2015		
	Net Income	Weighted-average shares	Per share amount
Basic earnings per common share:			
Net income	$2,315	7,506,310	$0.31
Effect of dilutive securities:			
Stock options and warrants		178,670	
Diluted EPS:			
Net income plus assumed conversion	$2,315	7,684,980	$0.30

(Dollars in thousands, except per share data)	Three Months Ended June 30, 2014		
	Net Loss	Weighted-average shares	Per share amount
Basic earnings per common share:			
Net loss	$(440)	7,469,403	$(0.06)
Effect of dilutive securities:			
Stock options and warrants		—	
Diluted EPS:			
Net loss plus assumed conversion	$(440)	7,469,403	$(0.06)

(Dollars in thousands, except per share data)	Six Months Ended June 30, 2015		
	Net Income	Weighted-average shares	Per share amount
Basic earnings per common share:			
Net income	$4,575	7,505,019	$0.61
Effect of dilutive securities:			
Stock options and warrants		169,840	
Diluted EPS:			
Net income plus assumed conversion	$4,575	7,674,859	$0.60

(Dollars in thousands, except per share data)	Six Months Ended June 30, 2014		
	Net Income	Weighted-average shares	Per share amount
Basic earnings per common share:			
Net income	$202	7,306,846	$0.03
Effect of dilutive securities:			
Stock options, warrants and unvested restricted stock awards		126,308	
Diluted EPS:			
Net income plus assumed conversion	$202	7,433,154	$0.03

For the three months ended June 30, 2015 and 2014, 32,049 and 259,663 options, respectively, were anti-dilutive and were not included in the computation of diluted earnings per common share. For the six months ended June 30, 2015 and 2014, 44,192 and 259,663 options, respectively, were anti-dilutive and were not included in the computation of diluted earnings per share.

(4) Investment Securities

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

(Dollars in thousands)

June 30, 2015	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale				
U. S. Treasury securities and obligations of U.S. Government sponsored corporations (“GSE”) and agencies	$1,533	$—	$(2)	$1,531
Residential collateralized mortgage obligations- GSE	3,752	101	(2)	3,851
Residential mortgage backed securities – GSE	25,064	710	(94)	25,680
Obligations of State and Political subdivisions	21,174	242	(841)	20,575
Trust preferred debt securities – single issuer	2,473	—	(340)	2,133
Corporate debt securities	19,188	111	(60)	19,239
Other debt securities	1,058	—	(17)	1,041
Restricted stock	6,526	—	—	6,526
	$80,768	$1,164	$(1,356)	$80,576

June 30, 2015	Amortized Cost	Other-Than-Temporary Impairment Recognized In Accumulated Other Comprehensive Loss	Carrying Value	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
(Dollars in thousands)						
Held to maturity-						
Residential collateralized mortgage obligations – GSE	16,403	—	16,403	614	—	17,017
Residential mortgage backed securities – GSE	51,940	—	51,940	1,253	(58)	53,135
Obligations of State and Political subdivisions	57,445	—	57,445	1,787	(382)	58,850
Trust preferred debt securities-pooled	657	(501)	156	392	—	548
Other debt securities	707	—	707	—	—	707
	$127,152	$(501)	$126,651	$4,046	$(440)	$130,257

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

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

Restricted stock at June 30, 2015 and December 31, 2014 consisted of approximately $6.5 million and $1.7 million, respectively, of Federal Home Loan Bank of New York stock and $65,000 of Atlantic Community Bankers Bank stock at each period end.

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

June 30, 2015		Less than 12 months		12 months or longer		Total	
(Dollars in thousands)	Number of Securities	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Treasury securities and obligations of U.S. Government sponsored corporations (GSE) and agencies	1	$1,531	$(2)	$—	$—	$1,531	$(2)
Residential collateralized mortgage obligations –GSE	1	907	(2)	—	—	907	(2)
Residential mortgage backed securities GSE	16	12,199	(115)	4,094	(37)	16,293	(152)
Obligations of State and Political Subdivisions	78	18,115	(732)	8,368	(491)	26,483	(1,223)
Trust preferred debt securities- single issuer	4	—	—	2,133	(340)	2,133	(340)
Corporate debt securities	6	11,435	(60)	—	—	11,435	(60)
Other debt securities	3	682	—	1,041	(17)	1,723	(17)
Total temporarily impaired securities	109	$44,869	$(911)	$15,636	$(885)	$60,505	$(1,796)

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

Other debt securities	2	985	(6)	86	(5)	1,071	(11)
Total temporarily impaired securities	88	$13,039	$(71)	$34,234	$(1,008)	$47,273	$(1,079)

The following table sets forth certain information regarding the amortized cost, estimated fair value, weighted average yields and contractual maturities of the Company's investment portfolio as of June 30, 2015. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. Federal Home Loan Bank stock is included in "Available for Sale-Due in one year or less."

(Dollars in thousands)	June 30, 2015		
	Amortized Cost	Estimated Fair Value	Yield
Available for sale			
Due in one year or less	$12,054	$12,068	2.51%
Due after one year through five years	18,059	18,154	1.97%
Due after five years through ten years	16,295	16,443	2.48%
Due after ten years	34,360	33,911	3.47%
Total	$80,768	$80,576	2.79%
	Carrying Value	Estimated Fair Value	Yield
Held to maturity			
Due in one year or less	$10,187	$10,187	0.63%
Due after one year through five years	15,678	16,153	3.79%
Due after five years through ten years	31,512	32,477	3.37%
Due after ten years	69,274	71,440	3.46%
Total	$126,651	$130,257	3.26%

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

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

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

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

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

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

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

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

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(5) Allowance for Loan Losses and Credit Quality Disclosure

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

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

(Dollars in thousands)	30-59 Days	60-89 Days	Greater than 90 Days	Total Past Due	Current	Total Loans Receivable	Recorded Investment > 90 Days Accruing	Nonaccrual Loans
Commercial								
Construction	$—	$—	$—	$—	$98,307	$98,307	$—	$—
Commercial Business	118	—	263	381	107,148	107,529	—	368
Commercial Real Estate	4,103	26	2,788	6,917	198,570	205,487	—	2,638
Mortgage Warehouse Lines	—	—	—	—	279,664	279,664	—	—
Residential Real Estate	954	—	1,361	2,315	40,511	42,826	—	1,361
Consumer								
Loans to Individuals	1	—	263	264	23,065	23,329	—	263
Other	—	—	—	—	215	215	—	—
Deferred Loan Costs	—	—	—	—	1,149	1,149	—	—
Total	$5,176	$26	$4,675	$9,877	$748,629	$758,506	$—	$4,630

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

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

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

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

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

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

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

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

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

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

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

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

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

Commercial Credit Exposure - By Internally Assigned Grade	Construction	Commercial Business	Commercial Real Estate	Mortgage Warehouse Lines	Residential Real Estate
Grade:					
Pass	$96,035	$99,262	$187,304	$279,664	$41,154
Special Mention	2,272	7,473	10,745	—	95
Substandard	—	648	7,438	—	1,577
Doubtful	—	146	—	—	—
Total	$98,307	$107,529	$205,487	$279,664	$42,826

Consumer Credit Exposure - By Payment Activity	Loans To Individuals	Other
Performing	$23,066	$215
Nonperforming	263	—
Total	$23,329	$215

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

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

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

Impaired Loans Disclosures

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

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

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

(Dollars in thousands)	Construction	Commercial Business	Commercial Real Estate	Mortgage Warehouse	Residential Real Estate	Loans to Individuals	Other	Unallocated	Deferred Loan Fees	Total
Allowance for loan losses:										
Ending Balance	$ 1,090	$ 1,659	$ 2,445	$ 1,119	$ 202	$ 121	$ 1	$ 714	$ —	$ 7,351
Individually evaluated for impairment	—	144	738	—	—	26	—	—	—	908
Loans acquired with deteriorated credit quality	—	—	38	—	—	—	—	—	—	38
Collectively evaluated for impairment	$ 1,090	$ 1,515	$ 1,669	$ 1,119	$ 202	$ 95	$ 1	$ 714	$ —	$ 6,405
Loans receivables:										
Ending Balance	$ 98,307	$ 107,529	$ 205,487	$ 279,664	$ 42,826	$ 23,329	$ 215	$ —	$ 1,149	$ 758,506
Individually evaluated for impairment	479	525	5,748	—	1,361	263	—	—	—	8,376
Loans acquired with deteriorated credit quality	—	300	1,699	—	—	—	—	—	—	1,999
Collectively evaluated for impairment	$ 97,828	$ 106,704	$ 198,040	$ 279,664	$ 41,465	$ 23,066	$ 215	$ —	$ 1,149	$ 748,131

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

(Dollars in thousands)

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