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, 2019

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)

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)

(877) 821-2265

(Registrant's telephone number, including area code)

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

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

Securities registered pursuant to Section 12(g) of the Exchange 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 ☒

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 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 ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes ☐ No ☐

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

Large accelerated filer ☐	Accelerated filer ☒	Non-accelerated filer ☐
Smaller reporting company ☒	Emerging growth company ☐	

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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, 2019, the last business day of the registrant's most recently completed second fiscal quarter, was $200.9 million.

There were 20,265,569 shares of common stock outstanding at March 24, 2020.

DOCUMENTS INCORPORATED BY REFERENCE

Certain portions of the registrant's definitive proxy statement for the 2020 Annual Meeting of Shareholders to be held on April 29, 2020 (the "2020 Proxy Statement") are incorporated by reference in Part III of this Annual Report on Form 10-K. The 2020 Proxy Statement will be filed within 120 days of December 31, 2019.

	Form 10-K Item Incorporated from Proxy Statement 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

This Annual Report on Form 10-K contains certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements include statements regarding First Bank's future financial and business performance, business and growth strategy, projected plans, objectives for our business, products and risk management, integration of the acquired businesses and anticipated results related thereto, ability to recognize anticipated operational efficiencies, our market presence and desirability of the market we operate in, competition in our market, our competitive strength, consumers behavior and relative expectations, our share repurchase program, anticipated changes in statutes, regulations or regulatory policies applicable to us and their impacts on our business, our remediation plans and measures to address our existing material weakness, and other projections based on macroeconomic and industry conditions and trends, which are inherently unreliable due to the multiple factors that impact economic trends, and any such variations may be material. Such forward-looking statements are based on various facts and derived utilizing important assumptions, current expectations, estimates and projections about First Bank, any of which may change over time and some of which may be beyond First Bank's control. Statements preceded by, followed by or that otherwise include the words "believes," "expects," "anticipates," "intends," "projects," "estimates," "plans" and similar expressions or future or conditional verbs such as "will," "should," "would," "may" and "could" are generally forward-looking in nature and not historical facts, although not all forward-looking statements include the foregoing.

Further, certain important factors that could affect First Bank's future results and cause actual results to differ materially from those expressed in the forward-looking statements include, but are not limited to whether First Bank can: successfully implement its growth strategy, including identifying acquisition targets and consummating suitable acquisitions, continue to sustain its internal growth rate, and provide competitive products and services that appeal to its customers and target markets; difficult market conditions and unfavorable economic trends in the United States generally, including those trends related to the recent public health crisis across the United States, and particularly in the market areas in which First Bank operates and in which its loans are concentrated, including the effects of declines in housing markets; potential impact of our material weakness in our internal control over financial reporting, the risk that our remediation of this material weakness may not be effective, and the chance that we may experience further material weaknesses or otherwise fail to maintain an effective system of internal controls in the future; an increase in unemployment levels and slowdowns in economic growth; First Bank's level of nonperforming assets and the costs associated with resolving any problem loans including litigation and other costs; changes in market interest rates may increase funding costs and reduce earning asset yields thus reducing margin; the impact of changes in interest rates, both up and down, and the credit quality and strength of underlying collateral and the effect of such changes on the market value of First Bank's investment securities portfolio; the extensive federal and state regulation, supervision and examination governing almost every aspect of First Bank's operations including changes in regulations affecting financial institutions, including the Dodd-Frank Wall Street Reform and Consumer Protection Act and the rules and regulations being issued in accordance with this statute and potential expenses associated with complying with such regulations; First Bank's ability to comply with applicable capital and liquidity requirements, including the ability to generate liquidity internally or raise capital on favorable terms, including continued access to the debt and equity capital markets; possible changes in trade, monetary and fiscal policies, laws and regulations and other activities of governments, agencies, and similar organizations.

For discussion of these and other risks, uncertainties, and assumptions, including the important factors that may cause actual results to differ from expectations, please refer to Item 1A. Risk Factors in this Annual Report on Form 10-K and any updates to those risk factors set forth in First Bank's subsequent Quarterly Reports on Form 10-Q or Current Reports on Form 8-K. If one or more events related to these or other risks or uncertainties materialize, or if First Bank's underlying assumptions prove to be incorrect, actual results may differ materially from what First Bank anticipates. Accordingly, you should not place undue reliance on any such forward-looking statements. Any forward-looking statement speaks only as of the date on which it is made, and First Bank does not undertake any obligation to publicly update or review any forward-looking statement, whether as a result of new information, future developments or otherwise. All forward-looking statements, expressed or implied, included in this communication are expressly qualified in their entirety by this cautionary statement. This cautionary statement should also be considered in connection with any subsequent written or oral forward-looking statements that First Bank or persons acting on First Bank's behalf may issue.

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 eighteen full-service branches located in Cinnaminson, Cranbury, Delanco, Denville, Ewing, Flemington, Hamilton, Hamilton Square, Lawrence, Mercerville, Pennington, Randolph, Somerset and Williamstown, New Jersey, and Doylestown, Trevose, Warminster and West Chester, Pennsylvania. Our primary service regions include Mercer, Hunterdon, Middlesex, Monmouth and Ocean Counties in central New Jersey, Essex, Hudson, Morris, Somerset, Sussex, Union and Warren Counties in northern New Jersey, Bucks, Chester, Delaware, Montgomery and Philadelphia Counties in eastern Pennsylvania and Burlington, Camden and Gloucester counties in southern New Jersey. We target business from individuals, businesses, and governmental entities located in our primary service regions throughout New Jersey and eastern Pennsylvania, 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 September 30, 2019 acquisition of Grand Bank, N.A. ("Grand Bank") which increased our presence in Mercer County, New Jersey and our expansion into Burlington County, New Jersey with our April 30, 2018 acquisition of Delanco Bancorp, Inc. ("Delanco") are expected to enhance the desirability of our market. We added two full-service Mercer County branches from the Grand Bank acquisition, and our full-service branches in Cinnaminson and Delanco, New Jersey are former branches of Delanco.

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 in close proximity to our branches. Most of our lending customers come from the New York City to Philadelphia corridor. By providing a superior customer experience, including access to our decision makers, and by expanding our brand into communities located in our target markets, we can continue to grow our business, increase profitability and create value for our shareholders.

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 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 regions 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 acquisitions of Heritage Community Bank in 2014, Bucks County Bank in 2017, Delanco in 2018 and Grand Bank in 2019 are examples of acquisitions consistent with our strategy.

Lending Activities

We offer a 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 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 one to five years.

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.

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 one to four family residences. These loans tend to have longer terms of fifteen to thirty 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 five, ten or fifteen years. Revolving lines of credit allow customers to borrow and pay back over the life of the loan (five, ten or fifteen 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 4 of the Notes to Consolidated Financial Statements located elsewhere in this document.

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, capital offerings and loan prepayments are significantly influenced by interest rates and economic and market 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. We consistently market various products to grow deposits to fund loan growth and enhance liquidity.

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 communities 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 to ensure we can continue to generate deposits to fund loan growth.

Borrowings. 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 primarily consist 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. We have access to an unsecured line of credit with ACBB and one other correspondent bank.

Capital Markets Activities

On October 23, 2019 we announced that our board of directors had authorized and we had received regulatory approval for the repurchase of up to 1.0 million shares of our common stock (ticker symbol FRBA) in the open market. This program is scheduled to expire on September 30, 2020. At the time of approval we had approximately 20.5 million shares of common stock issued and outstanding. The shares authorized for repurchase under the new program represented approximately 4.9% of our outstanding shares as of the date of announcement of the share repurchase program.

On June 29, 2018, we concluded an at-the-market common stock offering. During the offering the Company sold 74,026 common shares at a price per share of $13.90. As a result, the Company realized $743,000 in proceeds, net of underwriting discounts and offering expenses of $286,000.

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 ours. 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, 2019, we employed 199 full-time employees and 22 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 main corporate office is located at 2465 Kuser Road, Hamilton, New Jersey 08690, and our telephone number is (877) 821-2265. 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 free of 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. We intend to satisfy the disclosure requirements regarding any amendment to, or waiver of, a provision of the code of ethics by posting such information on our website.

SUPERVISION AND REGULATION

Overview

The Bank operates within a 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. As such, it is subject to regulation, supervision and examination by the New Jersey Department of Banking and Insurance and 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 Act, enacted in 2010, has resulted in broad changes to the U.S. financial system where its provisions have resulted in enhanced regulation and supervision of the financial services industry. In May 2018, the Economic Growth, Regulatory Relief, and Consumer Protection Act, ("EGRRCPA") was signed into law. While the EGRRCPA preserves the fundamental elements of the post Dodd-Frank regulatory framework, it includes modifications that are intended to result in meaningful regulatory relief for smaller and certain regional banking organizations. For banks with less than $10 billion in total consolidated assets, such as ourselves, EGRRCPA introduced an alternative capital ratio, known as the "Community Bank Leverage Ratio," which we discuss below under "Capital Adequacy Guidelines," and repealed the Volcker Rule, which prohibited proprietary trading and certain relationships with private equity funds and hedge funds. In addition, as a result of EGRRCPA we are eligible for an 18-month (rather than 12-month) examination cycle and for reduced call report requirements.

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. Federal laws include the Equal Credit Opportunity Act, the Fair Credit Reporting Act, the Truth in Lending Act, the Truth in Savings Act, the Home Mortgage Disclosure Act, the Real Estate Settlement Procedures Act, the Electronic Fund Transfer Act, the Home Mortgage Disclosure Act, the privacy provisions of the Gramm-Leach-Bliley Act and the Consumer Financial Protection Act of 2010, which constitutes part of the Dodd-Frank Act and established the CFPB. Various New Jersey consumer financial protection statutes also apply to us.

The Dodd-Frank Act requires mortgage lenders to make a "reasonable and good faith determination" that borrowers have a "reasonable ability" 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. Mortgage loans that meet the definition of "qualified mortgage" ("QM") are entitled to a presumption that the lender satisfied the ability-to-repay requirements. The presumption is conclusive for prime QM loans, and rebuttable for higher-priced, subprime QM loans. The CFPB regulations (the "QM Rule") implementing the ability to repay and QM provisions, incorporate the statutory requirements, such as not allowing negative amortization, terms longer than thirty years, points and fees above certain ceilings, or balloon loans that do not satisfy several conditions. The QM Rule adds an explicit maximum 43% debt-to-income ratio for borrowers if the loan is to meet the QM definition, although some mortgages that meet GSE, FHA and VA underwriting guidelines may, for a period not to exceed seven years, meet the QM definition without being subject to the 43% debt-to-income limits. This provision is currently set to expire in January 2021. The QM Rule became effective for us in 2015. EGRRCPA provides mortgage lenders of our size with some relief in certain circumstances from the ability-to-repay requirements and the QM Rule, but it is difficult to determine the impact of these reforms on our mortgage lending business.

Insured Deposits

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

The FDIC's risk-based premium system provides for quarterly assessments based on a risk-based calculation that the agency has revised from time to time. The current methodology, which has been in place since the third quarter of 2016, has a range of assessment rates from three basis points to thirty basis points on insured deposits. All insured depository institutions with the exception of large and complex banking organizations are assigned to one of three risk categories based on their composite CAMELS ratings. Each of the three risk categories has a range of rates, and the rate for a particular institution is determined based on seven financial ratios and the weighted average of its component CAMELS ratings. According to the FDIC, the DIF reserve ratio reached 1.36% of total deposits as of September 30, 2018, exceeding the statutorily required minimum reserved ratio of 1.35% ahead of the September 30, 2020 deadline imposed by the Dodd-Frank Act. The FDIC has, in addition, established a higher reserve ratio of 2.0% as a long term goal which goes beyond what is required by statute. There is no implementation deadline for the 2.0% ratio. The FDIC may adjust assessment rates downward as the reserve ratio of the DIF exceeds 2.0% and

higher thresholds. As of June 30, 2019, the DIF reserve ratio reached 1.40%, and the FDIC first applied credits for banks with assets of less than $10 billion ("small bank credits") on the September 30, 2019 assessment invoice (for the second quarter of 2019) and again on the December 31, 2019 assessment invoice (for the third quarter of 2019). As of December 31, 2019, the FDIC will continue to apply small bank credits so long as the DRR is at least 1.35%, and after applying small bank credits for four quarters, the FDIC will remit to banks the value of any remaining small bank credits in the next assessment period in which the DIF reserve ratio is at least 1.35%. The reserve ratio of the DIF was 1.41% as of December 31, 2019.

In addition to deposit insurance assessments, the FDIC was 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. The same assessment rate applied to all FDIC-insured depository institutions. The FICO bonds began to mature in 2017, and the last outstanding bond matured in 2019.

As insurer, the FDIC is authorized to conduct examinations of, and to require reporting by, insured institutions. The agency also may prohibit any insured institution from engaging in any activity determined by regulation or order to pose a serious threat to the FDIC.

The FDIC also 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 six months to two 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

The bank regulators view capital levels as important indicators of an institution's financial soundness. FDIC-insured depository institutions are required to maintain minimum capital relative to the amount and types of assets they hold. The final supervisory determination on an institution's capital adequacy is based on the regulator's assessment of numerous factors. The Bank is subject to several regulatory capital requirements, which may change as a result of EGRRCPA. The current regulations applicable to all banks took effect on January 1, 2015, with phase-in periods for certain requirements, but all phase-ins were completed as of January 1, 2019. The requirements are based on a set of international standards popularly known as Basel III. The Bank is required to maintain the following minimum capital ratios, expressed as a percentage of risk-weighted assets: (i) Common Equity Tier 1 capital ratio ("CET1") of 4.5%; (ii) Tier 1 capital ratio (CET1 capital plus "Additional Tier 1 capital") of 6.0%; and (iii) Total capital ratio (Tier 1 capital plus Tier 2 capital) of 8.0%. In addition, the Company is subject to a Tier 1 leverage ratio of 4.0% (calculated as Tier 1 capital divided by average consolidated assets).

Under the rules, the components of common equity Tier 1 capital include common stock instruments (including related surplus), retained earnings, and certain minority interests in the equity accounts of fully consolidated subsidiaries (subject to certain limitations). A bank must make certain deductions from and adjustments to the sum of these components to determine common equity Tier 1 capital. The required deductions for banks include, among other items, goodwill (net of associated deferred tax liabilities), certain other intangible assets (net of deferred tax liabilities), certain deferred tax assets, gains on sale in connection with securitization exposures and investments in and extensions of credit to certain subsidiaries engaged in activities not permissible for national banks. Additional Tier 1 capital includes noncumulative perpetual preferred stock and related surplus, and certain minority interests in the equity accounts of fully consolidated subsidiaries not included in common equity Tier 1 capital (subject to certain limitations). Tier 2 capital includes subordinated debt with a minimum original maturity of five years, related surplus, certain minority interests in the equity accounts of fully consolidated subsidiaries not included in Tier 1 capital (subject to certain limitations), and limited amounts of a bank's allowance for loan and lease losses ("ALLL"). Certain deductions and adjustments are necessary for both additional Tier 1 capital and Tier 2 capital. Tangible capital has the same definition as Tier 1 capital.

The risk weights used for the risk-based capital calculations range from 0% for cash, U.S. government securities, and certain other assets, 20% for federal funds sold, and certain investment securities, 50% for qualifying residential mortgage exposures, 100% for corporate exposures and non-qualifying mortgage loans and certain other assets, to 600% for certain equity exposures. Loans that are past due by 90 days or more that are not covered by qualifying collateral or eligible guarantees must be risk-weighted at 150%. Mortgage servicing assets and deferred tax assets that are not deducted from common equity Tier 1 capital in accordance with the adjustment stated above are risk-weighted at 250%. The capital rules also required that commercial real estate loans be risk-weighted at 150% if they failed to meet certain requirements; EGRRCPA has relaxed some of these requirements. The capital treatment of commercial real estate loans is discussed in further detail below under *"Commercial Loans."*

The capital rules also require a "capital conservation buffer." The purpose of the capital conservation buffer is to absorb losses during periods of economic stress. Banks that do not maintain the necessary 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 buffer requirement fully phased in on January 1, 2019. The Company is 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: (i) CET1 of 7%; Tier 1 capital ratio of 8.5%; and Total capital ratio of 10.5%. The capital conservation buffer does not apply to the leverage ratio.

At December 31, 2019, the Bank was in compliance with the minimum common equity Tier 1 capital, Tier 1 capital, total capital, and leverage capital requirements. The Bank also exceeded the fully phased-in capital conservation buffer.

As an alternative to the risk-based and leverage capital requirements and the capital conservation buffer, EGRRCPA provided that banks with less than $10 billion in total consolidated assets (and that meet certain other prerequisites) may maintain a single leverage ratio, known as the community bank leverage ratio ("CBLR"). The CBLR is the ratio of tangible equity relative to average total consolidated assets. The federal bank agencies have set the CBLR at 9.0%. At this time, we do not anticipate that we will opt in to the new CBLR standard.

Prompt Corrective Action

In addition to the minimum capital requirements, each insured depository institution such as the Bank is assigned to one of five capital categories: "well capitalized," "adequately capitalized," "undercapitalized," "significantly undercapitalized," or "critically undercapitalized," depending on the institution's risk-based and leverage capital ratios. Each institution's primary federal regulator, in our case the FDIC, must take certain mandatory actions and has discretion to take other supervisory actions when an institution falls into any of the undercapitalized categories. A well-capitalized institution is not subject to any restrictions on its activities and enjoys certain regulatory advantages such as eligibility to engage in financial activities under the Gramm-Leach-Bliley and (in most cases) streamlined application reviews. Adequately-capitalized status is necessary to undertake a variety of regulated activities. An institution that is adequately capitalized but not well capitalized may be restricted in its ability to rely on brokered deposits. An undercapitalized institution must, among other things, submit a plan to its primary federal regulatory to restore its capital adequacy, may not pay dividends, and may not accept, renew, or roll over brokered deposits. More onerous conditions apply to significantly undercapitalized institutions, and critically undercapitalized institutions typically must find a merger partner or be placed in receivership. 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 common equity tier 1 risk-based capital ratio of at least 4.5%, (iv) has a leverage ratio of at least 5.0%, and (v) is not subject to any supervisory action. At December 31, 2019, we were well capitalized. The requirements for adequately capitalized status are (i) a total risk-based capital ratio of 8.0% or greater, (ii) a tier 1 risked based capital ratio of 6.0% or greater, (iii) a common equity tier 1 capital ratio of 4.5% or greater, and (iv) a leverage ratio of 4.0% or greater. An institution is undercapitalized if it fails to meet any of these standards. An institution is significantly undercapitalized if it has (i) a total risk-based capital ratio of less than 6.0%, (ii) a tier 1 risk-based capital ratio of less than 4.0%, (iii) a common equity tier 1 risk-based capital ratio of less than 3.0%, or (iv) a leverage ratio of less than 3.0%. If an institution's ratio of tangible capital to total assets falls to 2.0% or less, the institution is critically undercapitalized. For

supervisory reasons, including an unsatisfactory examination rating, an institution's primary federal regulator may downgrade the institution to a lower category.

We are well capitalized under the prompt corrective action regulation.

Liquidity

We are required to maintain a sufficient amount of liquid assets to ensure our safe and sound operation and to satisfy our obligations, but the FDIC does not impose specific, quantitative requirements on banks of our size.

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. The FDIC has stated that dividends should be reasonable and paid out of earnings and should be paid only after we have eliminated any losses and established necessary reserves and prudent capital levels.

Community Reinvestment Act

The Community Reinvestment Act of 1977, as amended (the "CRA"), directs the federal banking agencies to assess each insured depository institution's record of meeting the credit needs of its entire community, including low- and moderate income neighborhoods, consistent with the safe and sound operation of the institution. Each agency must then take this record into account in evaluating the institution's application for a "deposit facility," a term that includes bank mergers. 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. As part of a CRA assessment the appropriate federal banking agency assigns an institution one of four ratings: "Outstanding," "Satisfactory," "Needs to Improve," or "Substantial Non-Compliance." Evidence of discriminatory or other illegal credit practices will have an adverse effect. The CRA requires public disclosure of an institution's CRA rating and the underlying written assessment. The Bank received a "Satisfactory" rating on its most recent CRA Performance Evaluation as of September 4, 2018.

CRA performance may affect merger and other applications in at least two ways. The federal banking regulators may discourage insured depository institutions with unsatisfactory CRA performance from filing applications and often will deny an application from such an institution. Separately, any interested party may comment on an applicant's CRA performance, regardless of the applicant's CRA rating, and such comments typically lengthen the agency's review of the application.

USA PATRIOT Act

Under the USA PATRIOT Act of 2001, all financial institutions are required to take certain measures to identify their customers, prevent money laundering and terrorist financing, monitor customer transactions and report suspicious activity to law enforcement agencies. Financial institutions also are required to respond to requests for information from federal banking agencies and law enforcement agencies. 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.

Privacy and Cybersecurity

Several federal statutes and regulations require insured depository institutions to take steps to protect nonpublic consumer financial information. The Bank has prepared a privacy policy, which it must disclose to consumers annually. In some cases, the Bank must obtain a consumer's consent before sharing information with an unaffiliated third party, and the Bank must allow a consumer to opt out of the Bank's sharing of information with its affiliates for marketing and certain other purposes. Additional conditions come into play in the Bank's information exchanges with credit reporting agencies. The Bank's privacy practices and the effectiveness of its systems to protect consumer privacy are one of the subjects covered in the FDIC's periodic compliance examinations.

The Federal banking agencies pay close attention to the cybersecurity practices of insured depository institutions, their holding companies and affiliates. The interagency council of the agencies, the Federal Financial Institutions Examination Council (the "FFIEC"), has issued several policy statements and other guidance for banks as new cybersecurity threats arise. The FFIEC has recently focused on such matters as compromised customer credentials and business continuity planning. Examinations by the banking agencies now include review of an institution's information technology and its ability to thwart cyberattacks.

Commercial Loans

The federal banking agencies have promulgated guidance governing banks with concentrations in commercial real estate lending. The guidance provides that a bank has a concentration in commercial real estate lending if (i) total reported loans for construction, land development and other land represent 100% or more of total risk-based capital or (ii) total commercial real estate loans represent 300% or more of total risk-based capital and the bank's commercial real estate loan portfolio has increased 50% or more during the prior thirty-six months. Owner-occupied commercial real estate loans are excluded from this second category. The Bank's commercial real estate loan concentration is above the 300% threshold and has increased by more than 50% during the prior thirty-six months, and therefore, management has employed 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. In addition, by law, our total loans to any one borrower may not exceed 15% of our unimpaired capital and surplus, including capital notes. The limit increases by 10% for loans that are fully secured by readily marketable collateral.

The risk-based capital rules that took effect in 2015 presumptively risk weight commercial real estate loans at 100% but impose a 150% risk weight on loans deemed to be highly volatile, a determination based on several factors. Among other things, the capital rules require that a borrower contribute 15% of the equity

of a financed project in order for the loan to qualify for the lower risk weight, and the contribution cannot take the form of the borrower's interest in the financed property. In the absence of such a contribution (or other conditions), the 150% risk weight applies. EGRRCPA narrowed the types of loans potentially subject to the higher risk weight and allowed a borrower's interest in the financed property to count toward the 15% contribution, but it did not eliminate the 150% risk weight entirely. As of December 31, 2019 we had $33.5 million in loans with a risk weighting of 150%. If we chose to opt into the recently finalized CBLR standard, these risk weights and the differentiation between types of commercial real estate loans would no longer apply to us. However, at this time, we do not anticipate that we will opt in to the new CBLR standard.

Transactions with Affiliates and Insiders

Insured depository institutions are subject to restrictions on their ability to conduct transactions with affiliates and other related parties. Section 23A of the Federal Reserve Act imposes quantitative limits, qualitative requirements, and collateral standards on certain transactions by an insured depository institution with, or for the benefit of, its affiliates. Transactions covered by Section 23A include loans, extensions of credit, investment in securities issued by an affiliate, and acquisitions of assets from an affiliate. Section 23B of the Federal Reserve Act requires that most types of transactions by an insured depository institution with, or for the benefit of, an affiliate be on terms substantially the same or at least as favorable to the insured depository institution as if the transaction were conducted with an unaffiliated third party. The Dodd-Frank Act amended certain of these provisions.

The Federal Reserve's Regulation O imposes restrictions and procedural requirements in connection with the extension of credit by an insured depository institution to its directors, executive officers, principal shareholders and their related interests. Section 18(z) of the Federal Deposit Insurance Act limits purchases and sales of assets between an insured depository institution and its executive officers, directors and principal shareholders.

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 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:

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, 2019, we had $1.29 billion of commercial real estate loans, which represented 75.1% 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, 2019, we had $239.1 million of commercial and industrial loans, which represented 13.9% 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. 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.

As discussed above in "*Item 1. Business — Supervision and Regulation*," federal banking agencies have issued guidance regarding high concentrations of commercial real estate loans within bank loan portfolios. 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 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, 2019 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.

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

Our net income depends primarily upon our net interest income. Net interest income is the difference between interest income earned on loans, investments and other interest-earning assets and the interest expense incurred on deposits and borrowed funds. 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 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.

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 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. 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 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. Accordingly, we may be required 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.

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.

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

We continue to actively pursue an acquisition strategy. 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. 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 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.

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.

Failure to maintain effective internal controls in accordance with Section 404 of the Sarbanes-Oxley Act could have a material adverse effect on our business and stock price.

As a public company, we are required to have, and periodically evaluate, procedures with respect to our internal control over financial reporting. In addition, as a public company, we are required to document and test our internal control over financial reporting pursuant to Section 404 of the Sarbanes-Oxley Act so that our management can certify as to the effectiveness of our internal control over financial reporting. Furthermore, pursuant to reporting requirements under the rules of the FDIC, management is required to prepare a report that contains an assessment by management of the effectiveness of our internal control over financial reporting (including the Call Report that is submitted to the FDIC) as of the end of each fiscal year. Similarly, our independent public accounting firm is required to examine, attest to and report on the effectiveness of our internal control over financial reporting.

The rules that must be met for management to assess our 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 causes us to incur increased expenses, and is likely to continue to place a considerable strain on our financial and management systems, processes and controls, as well as on our personnel 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 our internal control over financial reporting. In addition, in connection with the attestation process, we 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 we cannot favorably assess the effectiveness of our 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 over financial reporting, investor confidence and the price of our common stock could be adversely affected and we may be subject to additional regulatory scrutiny.

A material weakness in our internal control over financial reporting has been identified, which could have a significant adverse effect on our business and the price of our common stock.

In connection with the preparation of our financial statements and the audit of our financial results for 2019, a material weakness in our internal controls has been identified relating to the misapplication of accounting guidance related to certain merger-related expenses that were recorded by Grand Bank prior to the closing of our acquisition of Grand Bank that should have been recorded by the combined Company. This material weakness and related information is described further in Part II, Item 9A of this Form 10-K. As a result, management concluded that our internal control over financial reporting as of December 31, 2019 was

not effective. This material weakness has caused us to restate our previously issued consolidated financial statements as of and for the three and nine months ended September 30, 2019. As described in Part II, Item 9A of this Form 10-K, management is taking steps to remediate the material weakness in our internal controls. There can be no assurance that any measures we take will remediate the material weakness identified, nor can there be any assurance as to how quickly we will be able to remediate this material weakness.

In future periods, if our senior management is unable to remediate the material weakness such that they cannot conclude that we have effective internal control over financial reporting, or to certify the effectiveness of such controls, or if our independent registered public accounting firm cannot render an unqualified opinion on management's assessment and the effectiveness of our internal control over financial reporting, or if additional material weaknesses in our internal control over financial reporting are identified, we may be required to again restate our financial statements and could be subject to regulatory scrutiny, a loss of public and investor confidence, and to litigation from investors and stockholders, which could have a material adverse effect on our business and the price of our common stock.

Furthermore, the steps to remediate any such material weakness, including the one noted above, could require additional remedial measures including additional personnel which could be costly and time-consuming. In addition, should other events occur that are not prevented or detected by our internal controls, or if such other events are uninsured or in excess of applicable insurance limits, they could have further adverse effect on our business, results of operations, financial condition or prospects.

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 Tax Laws:

We may be adversely affected by changes in U.S. tax laws.

The U.S. Tax Cuts and Jobs Act ("Tax Act") was enacted on December 22, 2017, which substantially revised the Internal Revenue Code of 1986, as amended, and introduced significant changes to U.S. income tax laws. Effective January 1, 2018, the Tax Act reduced the U.S. statutory corporate income tax rate from 35% to 21%. While this decline in the federal corporate tax rate lowered our income tax expense as a percent of our taxable income in 2019 and 2018, other provisions of the Tax Act or future tax reform could negatively impact us. The Tax Act, among other things, contains other significant changes to the taxation of corporations, including limiting the tax deduction for interest expense to 30% of adjusted earnings (except for certain small businesses), limiting the deduction for net operating losses to 80% of current year taxable income and eliminating net operating loss carrybacks, allowing immediate deductions for certain new investments instead of deductions for depreciation expense over time, and modifying or repealing many business deductions and credits which may, as applicable, have an adverse effect on our profitability. The changes brought forth by the Tax Act may also have created, and may continue to create, an additional tax burden for many borrowers, particularly in high tax jurisdictions such as the State of New Jersey where we operate. This may result in our customers' inability to repay loans or maintain deposits at the Bank,

decrease of demand for mortgage loans and overall adverse effect on the market for residential properties. Notwithstanding the reduction in the corporate income tax rate, the overall impact of any of the foregoing and other changes in federal tax laws is uncertain and could have a material adverse effect on our business, financial condition and results of operations.

Recent New Jersey legislative changes may increase our tax expense.

On July 1, 2018, New Jersey enacted into law changes to the New Jersey corporate business tax laws, which, together with the related clarifying technical bulletin issued in December 2019 by the State of New Jersey, have increased our state income tax liability and overall tax expenses. The legislation imposed a temporary surtax on corporations earning New Jersey allocated income in excess of $1 million of 2.5% for tax years beginning on or after January 1, 2018 through December 31, 2019, and 1.5% for tax years beginning on or after January 1, 2020 through December 31, 2021. The legislation also requires combined filing for members of an affiliated group for tax years beginning on or after January 1, 2019, changing New Jersey's current status as a separate return state, and limits the deductibility of dividends received. Accordingly, this required a revaluation of some of the Bank's deferred tax assets. As a result, in the fourth quarter of 2019, the Company recorded state deferred tax expense in the amount of approximately $730,000. The ultimate impact of the foregoing changes in the state tax laws, along with the continued uncertainty around state tax laws, could increase our total tax expenses and have a material adverse effect on our business, financial condition and results of operations.

Risks Related to the Financial Services Industry Generally:

The financial services industry is subject to market uncertainty.

In addition to the impact on the economy generally, changes in interest rates, changes in the shape of the yield curve, changes in valuations in the debt or equity markets, or disruptions in the liquidity or other functioning of financial markets, including those recently experienced as a result of the public health crisis facing the United States, 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. Increases or 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. 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.

Also, more generally, our business and operations, which primarily consist of lending money to clients in the form of loans, borrowing money from clients in the form of deposits and investing in securities, are sensitive to general business and economic conditions in the United States. In addition, economic and other conditions in foreign countries could affect the stability of global financial markets, which could hinder United States economic growth. As an example, the recent outbreak of a novel coronavirus in Wuhan, China may result in the extended shutdown of certain businesses in the region. Depending on future developments (including the extent of the virus's spread and the measures, such as quarantines and travel restrictions, taken to contain such spread), the outbreak may adversely affect economic conditions in the United States generally and our markets in particular.

If the U.S. and global economy weakens, our growth and profitability from our lending, deposit and investment operations could be constrained. Weak economic conditions are characterized by numerous factors; such as deflation, fluctuations in debt and equity capital markets, a lack of liquidity and/or depressed prices in the secondary market for mortgage loans, increased delinquencies on mortgage, consumer and commercial loans, residential and commercial real estate price declines and lower home sales and commercial activity. All of these factors can individually or in the aggregate be detrimental to our business, and the interplay between these factors can be complex and unpredictable. Adverse economic conditions could have a material adverse effect on our financial condition and results of operations.

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.

Provisions of the Dodd-Frank Act as well as any other aspects of current or proposed regulatory or legislative changes to laws applicable to the financial industry, such as EGRRCPA, 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.

Changes in accounting standards or changes in how the accounting standards are interpreted or applied could materially impact the Company's financial statements.

From time to time, the Financial Accounting Standards Board ("FASB") or the SEC may change the financial accounting and reporting standards that govern the preparation of the Company's financial statements. In addition, the FASB, SEC, banking regulators and our independent registered public accounting firm may also amend or even reverse their previous interpretations or positions on how various standards should be applied. These changes may be difficult to predict and could impact how we prepare and report our financial statements. In some cases, we could be required to apply a new or revised standard retroactively, potentially resulting in restating a prior period's financial statements.

For example, in June 2016, the FASB issued a new accounting standard, ASU 2016-13, Financial Instruments — Credit Losses (Topic 326), that will require the 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. The new guidance will become effective for us on January 1, 2023. This new accounting standard could, at the time of adoption and during any period of loan growth after adoption: result in a significant increase in the allowance for credit losses; through the increased provision, impact retained earnings negatively and, correspondingly, our regulatory capital levels; and enhance volatility in loan loss provision and allowance levels from period to period especially during times when the economy is in transition. For more information related to ASU 2016-13, see Note 1 of the Notes to Consolidated Financial Statements located elsewhere in this document.

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;
- payment systems;
- 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 cash management services, Internet banking, mobile banking and electronic bill payment, as well as banking by phone. We also offer ATM and debit cards, wire transfers, ACH transfers and remote deposit capture. 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 also contract with third parties that provide sophisticated technology that may present additional operational risk. 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, 2019, our properties consisted of our corporate office location, which included a full-service branch office, two administrative office locations, and seventeen additional full-service branch offices. Fifteen properties are leased and five are owned.

The following table summarizes our properties by county and state as of December 31, 2019:

	Number of Properties	Percent of Total
New Jersey		
Burlington County	2	10%
Gloucester County	1	5%
Hunterdon County	1	5%
Mercer County	8	40%
Middlesex County	1	5%
Morris County	2	10%
Somerset County	1	5%
Total New Jersey	16	80%
Pennsylvania		
Bucks County	3	15%
Chester County	1	5%
Total Pennsylvania	4	20%
Total	20	100%

We believe that all of our properties are well maintained, in good operating condition and adequate for all of our present and anticipated 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

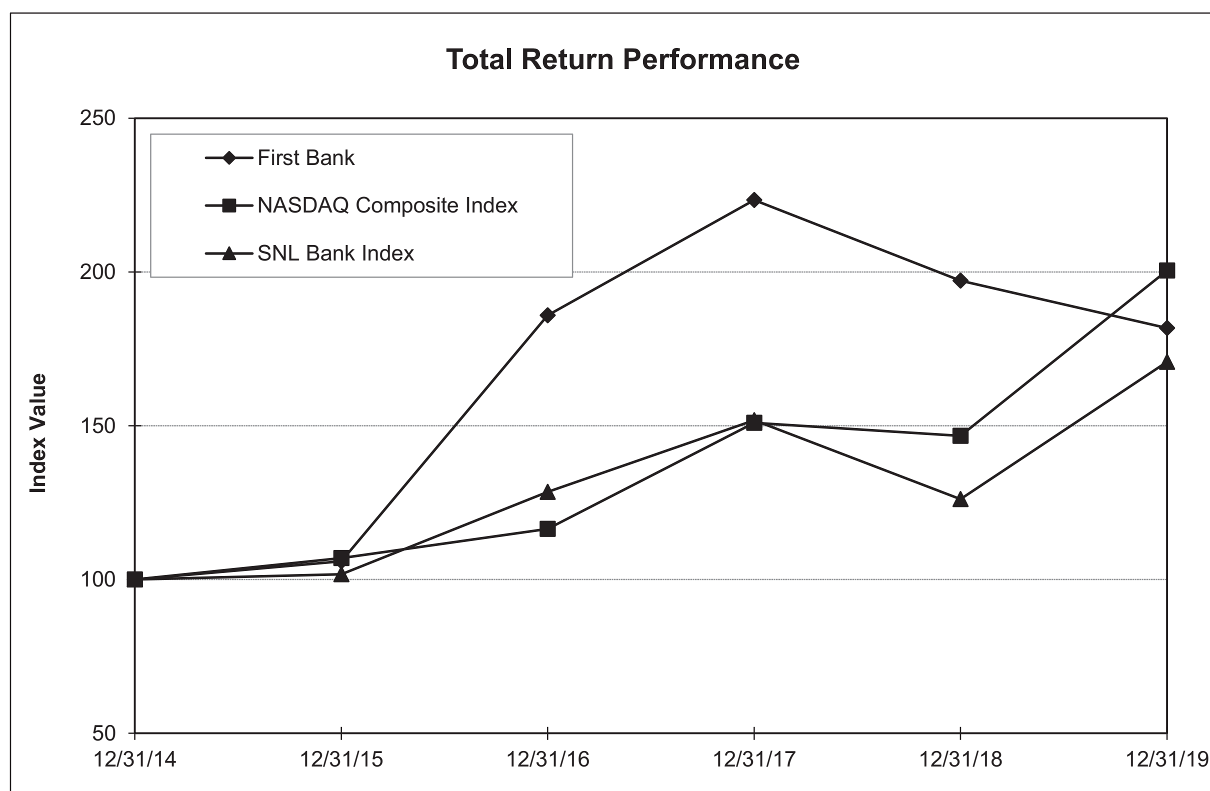
Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Market Information for Common Stock

First Bank's common stock is traded on the Nasdaq Global Market exchange under the ticker symbol "FRBA". As of March 24, 2020, there were approximately 660 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.

Dividends on the Company's common stock are within the discretion of the Board of Directors of the Company and are dependent upon various factors. The timing and amount of cash dividends paid depend on the Company's earnings, capital requirements, financial condition and other relevant factors and may be restricted by law or regulation. See Note 18 of the Notes to Consolidated Financial Statements located elsewhere in this document for further information on dividend restrictions. Investors should not purchase shares of common stock with a view for a current return on their investment in the form of cash dividends.

The following chart compares the Company's cumulative total shareholder return, on a dividend reinvested basis, over the past five years commencing December 31, 2014 and ending December 31, 2019, with the NASDAQ Composite Index and the SNL Bank Index.



Index	Period Ending 12/31/14	12/31/15	12/31/16	12/31/17	12/31/18	12/31/19
First Bank	100.00	105.93	185.90	223.36	197.21	181.77
NASDAQ Composite Index	100.00	106.96	116.45	150.96	146.67	200.49
SNL Bank Index	100.00	101.71	128.51	151.75	126.12	170.79

Source: S&P Global Market Intelligence

Share Repurchases

On October 23, 2019, we announced that our board of directors had authorized and we had received regulatory approval for the repurchase of up to 1.0 million shares of our common stock (ticker symbol FRBA) in the open market. This program is scheduled to expire on September 30, 2020. At the time of approval, we had approximately 20.5 million shares of common stock issued and outstanding. The shares authorized for repurchase under the new program represented approximately 4.9% of our outstanding shares as of the date of announcement of the share repurchase program.

The timing, price and volume of the share repurchases will be determined by management based on relevant securities laws, our evaluation of market conditions and other factors. The share repurchase program does not require the Bank to repurchase any specific number of shares and may be suspended, terminated or modified for any reason including market conditions, the cost of repurchasing shares or other factors deemed by management to be appropriate.

There were no shares repurchased during the fourth quarter of 2019. For additional information on share repurchases that have occurred subsequent to December 31, 2019, see Note 20 of the Notes to Consolidated Financial Statements located elsewhere in this document.

Unregistered Sales of Equity Securities and Use of Proceeds

None.

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, 2019, 2018 and 2017 and the consolidated statements of financial condition data at December 31, 2019 and 2018 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, 2016 and 2015 and the consolidated statements of financial condition data at December 31, 2017, 2016 and 2015 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,				
	2019[1]	2018[1]	2017[1]	2016	2015
			(in thousands)		
SELECTED BALANCE SHEET DATA					
Total assets	$2,011,587	$1,711,159	$1,452,327	$1,073,294	$856,106
Total loans	1,723,574	1,462,516	1,227,413	898,429	689,887
Allowance for loan losses	17,245	15,135	11,697	9,826	7,940
Total deposits	1,640,867	1,393,204	1,167,098	894,934	739,021
Total borrowings	105,476	93,351	94,863	64,510	24,000
Total subordinated debentures	21,964	21,856	21,748	21,641	21,533
Total stockholders' equity	226,393	194,836	163,250	88,806	68,763
Average total assets	1,858,291	1,617,614	1,218,699	963,448	764,400
Average stockholders' equity	207,338	181,273	124,879	79,317	67,708

	At or For the Year Ended December 31,				
	2019[1]	2018[1]	2017[1]	2016	2015
	(in thousands, except share data)				
SELECTED INCOME STATEMENT DATA					
Interest and dividend income	$ 84,170	$ 72,738	$ 51,198	$ 38,327	$ 30,764
Interest expense	25,804	17,794	11,535	9,424	6,941
Net interest income	58,366	54,944	39,663	28,903	23,823
Provision for loan losses	3,984	3,447	2,675	2,697	2,669
Net interest income after provision for loan losses	54,382	51,497	36,988	26,206	21,154
Non-interest income	3,995	3,452	2,116	1,630	1,643
Non-interest expense	39,364	33,314	24,684	18,332	17,725
Income before income taxes	19,013	21,635	14,420	9,504	5,072
Income tax expense	5,568	4,046	7,427	3,098	1,185
Net income	$ 13,445	$ 17,589	$ 6,993	$ 6,406	$ 3,887
COMMON SHARE DATA					
Basic earnings per share	$ 0.70	$ 0.97	$ 0.49	$ 0.61	$ 0.41
Diluted earnings per share	$ 0.69	0.95	0.48	0.61	0.41
Cash dividends per share	$ 0.12	0.12	0.08	—	—
Basic weighted average common shares outstanding	19,098,464	18,212,875	14,221,506	10,420,622	9,423,029
Diluted weighted average common shares outstanding	19,392,429	18,571,537	14,577,664	10,580,040	9,492,289
Book value per common share	$ 11.07	$ 10.43	$ 9.36	$ 7.78	$ 7.26
Common shares outstanding	20,458,665	18,676,056	17,443,173	11,410,274	9,470,157

	At or For the Year Ended December 31,				
	2019[1]	2018[1]	2017[1]	2016	2015
SELECTED PERFORMANCE RATIOS					
Return on average assets	0.72%	1.09%	0.57%	0.66%	0.51%
Return on average equity	6.48%	9.70%	5.60%	8.08%	5.74%
Net interest margin[2]	3.32%	3.57%	3.39%	3.11%	3.27%
SELECTED ASSET QUALITY RATIOS					
Nonaccrual loans to total loans	1.25%	0.41%	0.37%	0.58%	0.55%
Nonperforming loans to total loans[3]	1.32%	0.44%	0.43%	0.66%	0.57%
Nonperforming assets to total assets[4]	1.20%	0.46%	0.45%	0.68%	0.64%
Allowance for loan losses to total loans	1.00%	1.03%	0.95%	1.09%	1.15%
Allowance for loan losses to nonperforming loans	75.81%	237.90%	220.78%	164.67%	203.43%
Net loan charge offs to average loans	0.12%	0.00%	0.08%	0.10%	0.14%
CAPITAL RATIOS					
Stockholders' equity to assets	11.25%	11.39%	11.24%	8.27%	8.03%
Tier 1 leverage capital	10.27%	10.40%	10.54%	8.56%	8.22%
Common equity tier 1 capital	10.74%	10.85%	11.05%	8.78%	8.58%
Tier 1 risk-based capital	10.74%	10.85%	11.05%	8.78%	8.58%
Total risk-based capital	12.79%	13.12%	13.49%	11.91%	12.29%

(1) Includes effects of the acquisitions of Grand Bank in 2019, Delanco in 2018 and Bucks County Bank in 2017.

(2) Tax equivalent using a federal income tax rate of 21% in 2019 and 2018, and 34% in previous years presented.

(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.

Non-U.S. GAAP Financial Measures

The Company reports certain financial measures that are not recognized under generally accepted accounting principles in the United States of America ("U.S. GAAP"). To supplement our consolidated financial statements, which are prepared and presented in accordance with U.S. GAAP, we use the following non-U.S. GAAP financial measures in this Annual Report on Form 10-K: efficiency ratio, adjusted non-interest expense, adjusted total revenue, tangible stockholders' equity ratio, tangible stockholders' equity, adjusted total assets, adjusted net income, adjusted diluted earnings per share, adjusted return on average assets and adjusted return on average equity. We believe that these non-U.S. GAAP financial measures, when used in conjunction with GAAP financial measures, provide useful information about operating results, enhance the overall understanding of past financial performance and future prospects, and allow for greater transparency with respect to the key metrics we use in our financial and operational decision making. These non-U.S. GAAP measures are also frequently used and widely followed by analysts, investors and other interested parties to evaluate companies in our industry. The presentation of this financial information is not intended to be considered in isolation or as a substitute for, or superior to, the financial information prepared and presented in accordance with U.S. GAAP, and they should not be construed as an inference that our future results will be unaffected by any items adjusted for in these non-U.S. GAAP measures. In evaluating these non-U.S. GAAP measures, you should be aware that, in the future, we may incur expenses that are the same as or similar to some of those adjusted in this presentation. The non-U.S.

GAAP financial measures that we use are not always necessarily comparable to similarly titled measures used by other companies due to different methods of calculation.

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,	
	2019[(1)]	2018[(1)]
	(dollars in thousands)	
Non-interest expense	$39,364	$33,314
Less: Merger-related expenses	3,646	988
Adjusted non-interest expense (numerator)	$35,718	$32,326
Net interest income	$58,366	$54,944
Non-interest income	3,995	3,452
Total revenue	62,361	58,396
Less:		
Gains on sale of investment securities	—	3
Gains on recovery of acquired loans	776	804
Adjusted total revenue (denominator)	$61,585	$57,589
Efficiency ratio	58.00%	56.13%

(1) Includes effects of the acquisitions of Grand Bank in 2019 and Delanco in 2018.

The tangible stockholders' equity ratio measures stockholders' equity as a percentage of total assets after deducting goodwill and other 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,	
	2019[(1)]	2018[(1)]
	(dollars in thousands)	
Stockholder's equity	$ 226,393	$ 194,836
Less: Goodwill and other intangible assets	18,336	17,549
Tangible stockholders' equity (numerator)	$ 208,057	$ 177,287
Total assets	$2,011,587	$1,711,159
Less: Goodwill and other intangible assets	18,336	17,549
Adjusted total assets (denominator)	$1,993,251	$1,693,610
Tangible stockholders' equity ratio	10.44%	10.47%

(1) Includes effects of the acquisitions of Grand Bank in 2019 and Delanco in 2018.

The following table provides the derivation and reconciliation of the non-U.S. GAAP financial measures adjusted net income and the corresponding adjusted diluted earnings per share, adjusted return on average assets and adjusted return on average equity. Adjusted net income excludes the impact of one-time tax rate changes, merger-related expenses, gains on sale of investment securities, net, and gains on the recovery of acquired loans.

	Year Ended December 31,	
	2019	2018
	(dollars in thousands)	
Net income	$ 13,445	$ 17,589
Add: Merger-related expenses[1]	2,880	781
Add: Impact of tax rate change	730	—
Less: Gains on sale of investment securities, net[1]	—	2
Less: Gains on recovery of acquired loans[1]	613	635
Adjusted net income	$ 16,442	$ 17,733
Diluted weighted average common shares outstanding	19,392,429	18,571,537
Average assets	$ 1,858,291	$ 1,617,614
Average stockholders' equity	$ 207,338	$ 181,273
Adjusted diluted earnings per share	$ 0.85	$ 0.95
Adjusted return on average assets	0.88%	1.10%
Adjusted return on average equity	7.93%	9.78%

(1) Tax-effected using a Federal income tax rate of 21%.

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 results of operations and financial condition for each of the past two years. The discussion and analysis should be read in conjunction with the consolidated financial statements and accompanying notes included elsewhere in this document. For discussion of the results of operations for the fiscal years 2018 versus 2017, please refer to our Annual Report on Form 10-K for the year ended December 31, 2018 as filed with the FDIC on March 18, 2019.

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 target markets are located in the corridor between New York City and Philadelphia. As of December 31, 2019, we operated eighteen full-service branches, including six branches and our corporate and administrative offices in our primary market of Mercer County, New Jersey. Our other New Jersey branches are located in Williamstown, Gloucester County, Somerset, Somerset County, Cranbury, Middlesex County, Flemington, Hunterdon County, two branches in Burlington County and two branches in Morris County. We also have three branches in Bucks County and one in Chester County, Pennsylvania.

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 six active wholly-owned subsidiaries which were formed to 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 are 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.

Acquisitions

On September 30, 2019, at the close of business, we completed our acquisition of Grand Bank, N.A. ("Grand Bank"). Each shareholder of Grand Bank received 3,262.956 shares of our common stock for each Grand Bank stock owned by such shareholder on the effective date of the acquisition. We issued approximately 1.7 million shares of our common stock. As a result of the acquisition we added two branch offices in Hamilton Square and Mercerville, Mercer County, New Jersey, and after business combination accounting adjustments, acquired $190.2 million in assets, $146.3 million in loans and assumed $170.9 million in deposits at September 30, 2019.

On April 30, 2018, we completed our acquisition of Delanco Bancorp, Inc. ("Delanco"), the holding company for Delanco Federal Savings Bank. Each shareholder of Delanco received 1.11 shares of our common stock from the transaction for each share of Delanco stock owned by such shareholder on the effective date of the acquisition. As a result, we issued approximately 1.0 million shares of our common stock. As a result of the acquisition we added branches in Cinnaminson and Delanco, in Burlington County, New Jersey, and after business combination accounting adjustments, acquired $118.2 million in assets, $78.7 million in loans and $108.2 million in deposits as of the closing date.

Capital

On June 29, 2018, we concluded an at-the-market common stock offering. During the offering the Company sold 74,026 common shares at a price per share of $13.90. As a result, the Company realized $743,000 in proceeds, net of underwriting discounts and offering expenses of $286,000.

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 acquisition opportunities that would help us achieve additional economies of scale and enhanced shareholder value.

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 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. 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 Topic 310-30, *Accounting for Purchased Loans with Deteriorated Credit Quality*, or purchased credit impaired ("PCI") loans, 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 Topic 310-30 are accounted for under ASC Topic 310-20, *Nonrefundable Fees and Other Costs*.

For PCI loans, 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 Topic 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 PCI loans. To the extent that we cannot reasonably estimate cash flows, interest income recognition is discontinued.

Principal and interest payments on PCI 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 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 PCI loans, our allowance for loan losses is estimated based upon expected cash flows of those acquired loans. To the extent that we experience a deterioration in borrower credit quality resulting in a decrease in 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 Topic 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, 2019, we determined that all unrealized losses on such items were temporary in nature.

Intangible Assets. Our intangible assets consist of goodwill and core deposit intangibles. The initial recording of goodwill and other intangible assets requires subjective judgments concerning estimates of the fair value of the acquired assets and assumed liabilities. Goodwill is not amortized but is subject to annual tests for impairment, or more often if events or circumstances indicate it may be impaired. The goodwill impairment analysis is generally a two-step test. However, we may first assess qualitative factors to determine whether it is necessary to perform the two-step quantitative goodwill impairment test. We are not required to calculate the fair value of the reporting unit if, based on a qualitative assessment, it is determined that it was more likely than not that the unit's fair value was not less than its carrying amount. The first step compares the fair value of the reporting unit with its carrying amount, including goodwill. If the fair value of the reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not impaired; however, if the carrying amount of the reporting unit exceeds its fair value, an additional step must be performed. That additional step compares the implied fair value of the reporting unit's goodwill with the carrying amount of that goodwill. The implied fair value of goodwill is determined in a manner similar to the amount of goodwill calculated in a business combination, i.e., by measuring the excess of the estimated fair value of the reporting unit, as determined in the first step above, over the aggregate estimated fair values of the individual assets, liabilities, and identifiable intangibles, as if the reporting unit was being acquired in a business combination at the impairment test date. An impairment loss is recorded to the extent that the carrying amount of goodwill exceeds its implied fair value. The loss establishes a new basis in the goodwill and subsequent reversal of goodwill impairment losses are not permitted.

Core deposit intangibles are amortized on an accelerated basis using an estimated life of ten years. The core deposit intangibles are 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 values of our intangible assets were in excess of their carrying amounts and therefore there was no impairment of intangible assets at December 31, 2019.

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.

On July 1, 2018, New Jersey adopted legislation requiring a combined group to file combined unitary returns for tax years beginning in 2019 and thereafter. The New Jersey Division of Taxation issued a technical bulletin to provide clarification related to certain members of the unitary group. Accordingly, this required a revaluation of some of the Bank's deferred tax assets. In the fourth quarter of 2019, the Company recorded state deferred tax expense in the amount of approximately $730,000.

The U.S. Tax Cuts and Jobs Act ("Tax Act") was enacted on December 22, 2017, which introduced significant changes to U.S. income tax law. Effective January 1, 2018, the Tax Act reduced the U.S. statutory corporate income tax rate from 35% to 21%.

As of December 31, 2019, we had net deferred tax assets of $10.4 million. Our net deferred tax asset position at year-end 2019 reflects the revaluation of our deferred tax assets to account for the future impact of lower corporate federal income tax rates as well as the impact of the aforementioned New Jersey state tax legislation. These deferred tax assets can only be realized if we generate taxable income in the future. We regularly evaluate the feasibility of our 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, 2019. 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 12 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, 2019 and 2018

Net Income

Net income for the years ended December 31, 2019 and 2018 was $13.4 million and $17.6 million, respectively, or $0.69 and $0.95 per diluted share, respectively. Diluted earnings per share for 2019 includes the partial impact of approximately 1.7 million shares of our common stock issued related to our acquisition of Grand Bank at the end of September 2019 in addition to the full impact of shares issued from our at-the-market common stock offering completed in June 2018 and our acquisition of Delanco completed in April 2018. Diluted earnings per share for 2018 included the partial impact of 74,026 common shares issued resulting from the completion of our at-the-market common stock offering on June 29, 2018 and the partial impact of the approximately 1.0 million common shares issued in connection with our acquisition of Delanco. Diluted earnings per share for 2018 also included the full impact of common shares issued from the completion of our public offering in June 2017 and the additional common shares issued from our acquisition of BCB.

Our 2019 return on average assets and return on average equity were 0.72% and 6.48%, respectively, compared to 1.09% and 9.70%, respectively, for 2018.

The decrease in net income for the comparative periods was due primarily to higher non-interest expense in 2019 due, in part, to our growth, including the full year's impact of expenses from the acquisition of Delanco in April 2018 as well as merger-related costs and other non-interest expenses associated with the Grand Bank acquisition and higher income tax expense, partially offset by a 6.2% increase in net interest

income. Higher income tax expense was driven by the New Jersey state tax law changes, including a revaluation of our deferred tax asset during the fourth quarter of 2019.

During the fourth quarter of 2019 we recognized a one-time charge to income tax expense of approximately $730,000, or $0.04 per diluted share, as a result of clarifications made to the New Jersey state tax legislation enacted in July 2018. For 2019, excluding the impact of this charge to income tax expenses, merger related expenses and gains on the recovery of acquired loans, adjusted net income would have been $16.4 million, adjusted diluted earnings per share would have been $0.85, adjusted return on average assets would have been 0.88% and adjusted return on average equity would have been 7.93%. For 2018, our adjusted net income was $17.7 million, adjusted diluted earnings per share was $0.95, adjusted return on average assets was 1.10% and adjusted return on average equity was 9.78%.

The following table provides the derivation and reconciliation of the non-U.S. GAAP financial measures adjusted net income, adjusted diluted earnings per share, adjusted return on average assets and adjusted return on average equity. We believe these measures are useful to management and investors in monitoring our results of operations.

	Year Ended December 31,	
	2019	2018
	(dollars in thousands)	
Net income	$ 13,445	$ 17,589
Add: Merger-related expenses[1]	2,880	781
Add: Impact of tax rate change	730	—
Less: Gains on sale of investment securities, net[1]	—	2
Less: Gains on recovery of acquired loans[1]	613	635
Adjusted net income	$ 16,442	$ 17,733
Diluted weighted average common shares outstanding	19,392,429	18,571,537
Average assets	$ 1,858,291	$ 1,617,614
Average stockholders' equity	$ 207,338	$ 181,273
Adjusted diluted earnings per share	$ 0.85	$ 0.95
Adjusted return on average assets	0.88%	1.10%
Adjusted return on average equity	7.93%	9.78%

(1) Tax-effected using a federal income tax rate of 21%.

Please see "*Item 6. Selected Financial Data — Non-U.S. GAAP Financial Measures*" in Part II of this Annual Report on Form 10-K for more information on these Non-U.S. GAAP Financial Measures.

Pre-tax income was $19.0 million for 2019 compared to $21.6 million for 2018, a decrease of $2.6 million or 12.1%. The decline in pre-tax income for 2019 compared to 2018 was primarily due to higher non-interest expense, previously discussed, partially offset by the increase in net interest income. Higher expenses were primarily reflected in salaries and employee benefits, merger-related expenses, and to a lesser extent, other expenses and occupancy and equipment costs, partially offset by lower other professional fees. The increase in net interest income was driven by growth in average loans, primarily commercial loans, both organic and acquired, partially offset by a lower net interest margin due to higher deposit costs for the comparative period. Deposit growth, both organic and acquired, primarily funded our loan growth.

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, 2019 and 2018. 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. Interest income and interest expense include fees, costs, premiums and discounts, which are considered adjustments to the respective average rates.

	Year Ended December 31,					
	2019			2018		
	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate
Interest earning assets						
Investment securities[1][2]	$ 94,185	$ 2,596	2.76%	$ 108,816	$ 2,692	2.47%
Loans[3]	1,578,174	79,469	5.04%	1,366,385	68,530	5.02%
Interest bearing deposits with banks, Federal funds sold and other	73,544	1,575	2.14%	52,762	1,054	2.00%
Restricted investment in bank stocks	6,848	421	6.15%	6,361	406	6.38%
Other investments	6,303	185	2.94%	6,130	149	2.43%
Total interest earning assets[2]	1,759,054	84,246	4.79%	1,540,454	72,831	4.73%
Allowance for loan losses	(16,458)			(13,282)		
Non-interest earning assets	115,695			90,442		
Total assets	$1,858,291			$1,617,614		
Interest bearing liabilities						
Interest bearing demand deposits	$ 148,234	$ 877	0.59%	$ 163,240	$ 979	0.60%
Money market deposits	355,046	5,619	1.58%	267,965	3,158	1.18%
Savings deposits	91,293	763	0.84%	84,336	458	0.54%
Time deposits	658,741	14,491	2.20%	572,411	9,575	1.67%
Total interest bearing deposits	1,253,314	21,750	1.74%	1,087,952	14,170	1.30%
Borrowings	113,740	2,461	2.16%	109,419	2,031	1.86%
Subordinated debentures	21,906	1,593	7.27%	21,800	1,593	7.31%
Total interest bearing liabilities	1,388,960	25,804	1.86%	1,219,171	17,794	1.46%
Non-interest bearing deposits	244,820			209,876		
Other liabilities	17,173			7,294		
Stockholders' equity	207,338			181,273		
Total liabilities and stockholders' equity	$1,858,291			$1,617,614		
Net interest income/interest rate spread[2]		58,442	2.93%		55,037	3.27%
Net interest margin[2][4]			3.32%			3.57%
Tax equivalent adjustment[2]		(76)			(93)	
Net interest income		$58,366			$54,944	

(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 21%.

(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 year ended December 31, 2019 as compared to the year ended December 31, 2018.

	Year Ended December 31, 2019 versus 2018 Increase (Decrease) Due to Change in[1]		
	Average Volume	Average Rate	Net Change
		(in thousands)	
Interest income			
Investment securities[2]	$ (384)	$ 288	$ (96)
Loans	10,664	275	10,939
Interest bearing deposits with banks, Federal funds sold and other	440	81	521
Restricted investment in bank stocks	30	(15)	15
Other investments	4	32	36
Total interest income[2]	10,754	661	11,415
Interest expense			
Interest bearing demand deposits	(89)	(13)	(102)
Money market deposits	1,197	1,264	2,461
Savings deposits	40	265	305
Time deposits	1,591	3,325	4,916
Total interest bearing deposits	2,739	4,841	7,580
Borrowings	83	347	430
Subordinated debentures	8	(8)	—
Total interest expense	2,830	5,180	8,010
Net interest income[2]	$ 7,924	$(4,519)	$ 3,405

(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 21%.

Our tax equivalent net interest margin for 2019 was 3.32% compared to 3.57% for 2018. The net interest margin is calculated by dividing net interest income by average interest earning assets. The decrease in our net interest margin was primarily driven by increased average balances for money market and time deposits as well as a 44 basis point increase in the average rate on interest bearing deposits. The increase in the average rate on interest bearing deposits resulted from the combination of a higher interest rate environment in the first half of 2019 coupled with strong competition for deposits. In the third quarter of 2019 the Federal Reserve lowered the targeted federal funds rate by a total of 50 basis points and another 25 basis points in the fourth quarter of 2019. As a result, we immediately took actions to lower deposit costs

to help improve margin performance in the second half of 2019. Our margin benefited from higher non-interest bearing deposit balances and higher average stockholders' equity balances. Our net interest margin over the last several years has been positively impacted by the level of prepayment penalty fees on paid off loans and business combination accounting accretion from our acquisitions. Prepayment penalty fees contributed to the margin 5 basis points for 2019 and 2018. Business combination accounting accretion contributed to the margin 8 basis points and 11 basis points, respectively, for 2019 and 2018.

The actions taken by the Federal Reserve in the second half of 2019 to lower the target federal funds rates suggests rates are not likely to move higher in the near term. We continue to experience lower treasury yields with a relatively flat to at times inverted treasury yield curve which puts pressure on loan pricing and our margin. To protect the margin our focus remains adding non-interest bearing deposits and lower cost commercial deposits. Reducing higher cost time deposits continues to be a priority. Our margin is anticipated to benefit from the impact of time deposits repricing in a lower rate environment during 2020. Approximately $556.3 million of our $672.9 million time deposit portfolio at December 31, 2019 should reprice lower during 2020. We expect our margin to be relatively stable in a lower interest rate environment.

Net Interest Income

Net interest income on a tax equivalent basis increased $3.4 million, or 6.2%, to $58.4 million for 2019, compared to $55.0 million for 2018. The increase for the comparative years is attributed primarily to higher average loan growth and the resulting increased level of interest income. Partially offsetting the increased level of loan interest income was a lower net interest margin due primarily to the higher volume and cost of interest bearing deposits. For the comparative years presented, interest income on a tax equivalent basis rose primarily due to higher interest income on loans. For 2019, interest income on a tax equivalent basis rose $11.4 million, or 15.7%, to $84.2 million from $72.8 million in 2018. Average loans for the comparative annual periods increased $211.8 million or 15.5%. Average interest earning assets increased $218.6 million, or 14.2%, to $1.76 billion in 2019 from $1.54 billion in 2018.

Interest Income

Interest and fees on loans increased 16.0% to $79.5 million for 2019 compared to $68.5 million for 2018 primarily due to significant average loan volume growth, both organic and acquired. Average loans increased $211.8 million, or 15.5%, to $1.58 billion in 2019, compared to $1.37 billion in 2018 partially due to the acquisitions of Delanco and Grand Bank, as well as organic loan growth. The average loan yield increased 2 basis points to 5.04% for 2019 compared to 5.02% for 2018. Our loan yield is affected by market rates, the level of variable and adjustable rate loans, repricing and refinancing activity, the level of nonaccrual loans, the level of fees paid, including prepayment penalty fees, and other factors. The modestly higher loan yield reflects the positive impact of the Federal Reserve increasing the federal funds rate by 100 basis points during 2018 partially offset by the 75 basis point reduction to the federal funds rate in the second half of 2019.

Average investment securities decreased $14.6 million, or 13.4%, to $94.2 million in 2019, compared to $108.8 million in 2018, while the average portfolio yield increased 29 basis points to 2.76% compared to 2.47% for 2018. As a result, interest income on investment securities on a tax equivalent basis for 2019 decreased $96,000 to $2.6 million compared to $2.7 million for 2018. The decrease in average investment securities in 2019 was due primarily to principal pay-downs on mortgage-backed securities and maturities/calls of municipal bonds partially offset by the purchase of subordinated debentures of other banks.

Interest Expense

Average interest bearing liabilities increased $169.8 million, or 13.9%, to $1.39 billion for 2019 compared to $1.22 billion for 2018 partially due to the acquisitions of Delanco and Grand Bank, as well as organic deposit growth. Interest expense on average interest bearing liabilities increased $8.0 million, or 45.0%, for the year ended December 31, 2019 compared to the same period in 2018. The increase was due primarily to an increase in average interest bearing deposits of $165.4 million coupled with an increase of 40 basis points in the average cost of interest bearing liabilities, from 1.46% in 2018 to 1.86% in 2019.

Average interest bearing deposit growth in 2019 was fueled primarily by organic and acquired increases in money market and time deposits. Average money market and time deposits grew $87.1 million and $86.3 million, respectively, from 2018 to 2019. Average deposit balances for 2019 include the full year's impact of the Delanco acquisition and the partial year impact of the Grand Bank acquisition completed at the end of September 2019. Deposit costs rose in the first half of 2019 as money market deposits and certain certificates of deposit were priced to be retained as well as to attract new funds to support loan growth and enhance liquidity. Our average cost of interest bearing deposits for 2019 was 1.74%, compared to 1.30% for 2018.

Average non-interest bearing demand deposits increased $34.9 million, or 16.6%, to $244.8 million in 2019 compared to $209.9 million in 2018. The increase was due primarily to growth in commercial and business accounts, which remains our focus in 2020.

Average borrowed funds, consisting of FHLB advances, were $113.7 million for 2019 and $109.4 million for 2018. The average rate paid on borrowings was 2.16 % and 1.86% for 2019 and 2018, respectively. Higher average outstanding balances during the first half of 2019 combined with increased interest rates resulted in higher interest expense. Interest expense on borrowings was $2.5 million for 2019 compared to $2.0 million for 2018. In 2019 we utilized FHLB advances as an alternative source of funds to support loan growth and to manage liquidity and interest rate risk.

Average subordinated debentures were $21.9 million in 2019 compared to $21.8 million in 2018. 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 2019 was 7.27%, compared to 7.31% for 2018.

Our key strategic objective in 2020 remains focused on attracting lower cost retail and commercial deposits. By continuing to add and expand new deposit relationships our goal is to effectively lower our cost of funds to support a stable net interest margin. We believe moderate asset growth and further growth in lower cost core deposits will help us achieve this goal. We expect that effective management of the level of non-interest expense growth while maintaining a sound asset quality profile will lead to improved profitability in 2020 as well.

Provision for Loan Losses

We provide for loan losses by a charge to current income to maintain the allowance for loan losses ("ALLL") 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 was $4.0 million for the year ended December 31, 2019, compared to $3.4 million for the year ended December 31, 2018. The increase in the provision for 2019 compared to 2018 was primarily the result of continued organic growth in our commercial loan portfolio and elevated levels of charge-offs in 2019 compared to the prior year. Net loan charge-offs were $1.9 million or 0.12% of average loans for the year ended December 31, 2019 compared to $9,000 or 0.0% of average loans for the year ended December 31, 2018. At December 31, 2019 and 2018, the ALLL to total loans ratio was 1.00% and 1.03%, respectively. The allowance for loan losses to nonperforming loans ratio was 75.82% at December 31, 2019, compared to 237.90% at December 31, 2018. The decrease in the allowance for loan losses to nonperforming loans ratio is mainly due to an increase in nonperforming loans driven by two commercial loan relationships in which we believe we are adequately collateralized and no specific reserve was required. Our allowance for 2019 reflects the impact of the Grand Bank acquisition, whereby acquired loans were recorded at fair value with no carryover of the related allowance for loan losses at the time of acquisition.

It was our assessment, based on our ALLL methodology, judgment and analysis, that the allowance for loan losses was adequate in relation to losses inherent in the portfolio at December 31, 2019 and 2018.

Non-Interest Income

The two largest components of our non-interest income in 2019 were income from bank-owned life insurance ("BOLI") and gains on recovery of acquired loans. We also earned non-interest income from loan fees, service fees on deposit accounts, gains on sale of loans and other non-interest income. For the year ended December 31, 2019, non-interest income, excluding gains on recovery of acquired loans, represented 5.2% of our net revenue. We define net revenue as net interest income plus non-interest income excluding gains on recovery of acquired loans.

Non-interest income totaled $4.0 million in 2019 and $3.5 million in 2018. The elevated level of non-interest income in 2019 compared to 2018 was due primarily to higher loan fees, service fees on deposit accounts and income from BOLI.

Loan fee income for 2019 was $660,000, an increase of $380,000, or 135.7%, from $280,000 in 2018. The largest source of fees in this revenue category is interest rate loan swap fees. Loan swap fees totaled $457,000 in 2019 compared to $117,000 in 2018. The greater level of swap fee income was generally due to a lower interest rate environment during the second half of 2019 that increased borrower preference for the types of loan transactions that generate interest rate swap referral fees.

Service fees on deposit accounts totaled $515,000 in 2019, an increase of $151,000 compared to $364,000 in 2018. Service fees on deposit accounts and other non-interest income have benefited from the addition of new customers.

Income from BOLI was $1.2 million in 2019, an increase of $121,000, or 11.6%, from $1.0 million in 2018. The increase was due to the addition of $9.2 million in BOLI during 2019. $6.0 million of the increase was due to new BOLI purchased with an additional $2.1 million assumed with the acquisition of Grand Bank in the third quarter of 2019. The remaining increase in BOLI was from income on the BOLI investments. 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.

Over the last several years we have benefited from gains on recovery of acquired loans. Gains on recovery of acquired loans totaled $776,000 in 2019, a modest decrease of $28,000 or 3.4% from $804,000 in 2018.

Gains on sale of loans, primarily from the sale of the guaranteed portion of Small Business Administration ("SBA") loans, totaled $227,000 in 2019 compared to $335,000 in 2018. Other non-interest income totaled $652,000 in 2019, an increase of $30,000 or 4.8% compared to 2018. Additional growth, both organic and acquired, is reflected in increased fee income.

While our primary objective remains the increased generation of net interest income, we are also focused in 2020 on incrementally increasing non-interest income through the generation of loan interest rate swap fees in this lower interest rate environment, as well as increasing gains on the sale of SBA loans, a business which we have strengthened with the acquisition of Grand Bank. We also expect to increase service fees on deposit accounts with the recent addition of Grand Bank customers and normal growth. At this time, non-interest income is expected to remain a minor portion of our gross revenue.

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.

For 2019, non-interest expense totaled $39.4 million, a $6.1 million or 18.2% increase from $33.3 million in 2018. Excluding merger-related expenses, non-interest expense would have increased 10.5% for the comparable periods. During 2019, we continued to make investments in people, technology and infrastructure to support our growing franchise. In March 2019 we completed a data processing conversion with a new

core service provider. As a result, we have improved data processing functionality with enhanced product capabilities while realizing some cost savings. Our 2019 non-interest expense increase was due primarily to higher salaries and employee benefits, occupancy and equipment expense, data processing costs and other expense. Included in these categories is the full year's expense impact of the Delanco acquisition completed on April 30, 2018 as well as the partial impact of the September 30, 2019 Grand Bank acquisition. Partially offsetting these higher expenses were decreases in other professional and regulatory fees in 2019 compared to 2018.

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 in 2019 as we have employed more personnel due to our growth. Salaries and employee benefits increased $2.9 million, or 16.4%, to $20.5 million in 2019 compared to $17.6 million for 2018. The increase was due primarily to an increase in base annual salaries related to additional employees hired during 2018 and 2019 from the Delanco and Grand Bank acquisitions and the corresponding increase in employer taxes and other employee benefit costs including higher health insurance costs. The number of full-time equivalent employees increased to 216 at December 31, 2019 from 186 at December 31, 2018.

Occupancy and equipment expense increased $360,000, or 7.4%, to $5.2 million for 2019 compared to $4.9 million in 2018. Occupancy and equipment expense consists primarily of expenses tied to rent, real estate taxes, depreciation, and maintenance and expenses associated with equipment. Contributing to the increase in occupancy and equipment expense in 2019 includes the full year impact of two new branches from the Delanco acquisition and two new branches and additional administrative space from the Grand Bank acquisition. In addition to the impact from the acquisitions, occupancy and equipment expense increased due to the full year impact of the new administrative office space opened in August 2018, higher building repairs and maintenance costs and higher costs associated with equipment maintenance contracts. These increases were partially offset by the closing of our Levittown and Bensalem branches during 2019.

Data processing costs increased $119,000 to $1.9 million for 2019 compared to $1.7 million for 2018. The additional data processing costs were primarily a result of the Delanco and Grand Bank acquisitions.

Other expense increased $376,000, or 14.4%, to $3.0 million for 2019 compared to $2.6 million for 2018. Other expense includes certain loan origination expenses and other costs associated with a growing bank.

Conversely, other professional fees and regulatory fees declined $319,000 and $193,000 or 16.3% and 33.3%, respectively, for 2019 compared to 2018. During 2019 we benefited from an FDIC assessment credit which reduced regulatory fees. Other professional fees declined due to our efforts to reduce fees in this area including personnel placement fees and other miscellaneous consulting services.

With a continued flat to slightly inverted yield curve we expect continued net interest margin pressure in 2020. With this potential strain on earnings we remain focused on effectively managing the level of non-interest expense growth in the coming year. Non-interest expense is expected to increase in 2020 due to organic growth and the full year's impact of our 2019 Grand Bank acquisition. Our goal remains to consistently maintain or improve operating efficiency.

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. Non-interest expense growth outpaced net interest income growth in 2019 compared to 2018. As a result, our efficiency ratio for 2019 was 58.00% compared to 56.13% in 2018.

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,	
	2019	2018
	(dollars in thousands)	
Non-interest expense (numerator)	$39,364	$33,314
Less: Merger-related expenses	3,646	988
Adjusted non-interest expense (numerator)	$35,718	$32,326
Net interest income	$58,366	$54,944
Non-interest income	3,995	3,452
Total revenue	62,361	58,396
Less:		
Gains on sale of investment securities	—	3
Gains on recovery of acquired loans	776	804
Adjusted total revenue (denominator)	$61,585	$57,589
Efficiency ratio	58.00%	56.13%

Please see "*Item 6. Selected Financial Data — Non-U.S. GAAP Financial Measures*" in Part II of this Annual Report on Form 10-K for more information on the efficiency ratio measure.

Income Taxes

In 2019, we recorded income tax expense of $5.6 million compared to $4.0 million for the year ended December 31, 2018. The increase was principally due to a higher effective tax rate in 2019 principally due to the impact of the New Jersey tax legislation enacted in July 2018.

With the enactment of the Tax Reform Act on December 22, 2017, the federal corporate income tax rate was reduced from 35% to 21% effective January 1, 2018. This tax law change greatly reduced our tax expense in 2018.

On July 1, 2018, New Jersey enacted into law changes to the New Jersey corporate business tax laws. This legislation required a combined group to file combined returns for tax years beginning in 2019 and thereafter and added a temporary surtax to the state's 9% Corporation Business Tax rate of 2.5% in 2018 and 2019 and a 1.5% surtax from 2020 and 2021. However, due to technical issues and inconsistencies with existing tax law, it was preliminarily determined that the tax law change regarding the combined group filing did not have an impact on deferred taxes. In December 2019, the State of New Jersey issued a clarifying technical bulletin related to the impact of the new tax legislation enacted in July 2018. This technical bulletin provided clarification to the combined income tax reporting for certain members of a unitary business group. Accordingly, this required a revaluation of some of the Bank's deferred tax assets. In the fourth quarter, the Company recorded state deferred tax expense in the amount of approximately $730,000.

Our effective tax rate for 2019 was 29.29% compared to 18.70% for 2018. Our effective tax rates for 2019 and 2018 reflect the ownership of tax-exempt bank-owned life insurance ("BOLI") and tax-free municipal securities and the effect of our real estate investment trust. During 2019 and 2018, our effective tax rate was also impacted by certain non-deductible merger-related costs associated with the Grand Bank and Delanco acquisitions. Absent these tax advantages and adjustments, our effective tax rate would have been 30.09% for 2019 and 2018, which are the combined federal and state statutory tax rates for a New Jersey corporation including the 2.5% New Jersey surtax.

Years Ended December 31, 2018 and 2017

Discussion of the results of operations for the fiscal years ended December 31, 2018 and 2017 are included in our Annual Report on Form 10-K for the year ended December 31, 2018, as filed with the FDIC on March 18, 2019.

FINANCIAL CONDITION

As of December 31, 2019 and 2018

Assets

Total assets increased from $1.71 billion at December 31, 2018 to $2.01 billion at December 31, 2019, an increase of $300.4 million or 17.6%. The increase was primarily attributable to the acquisition of Grand Bank and organic commercial loan growth. Also contributing to our asset growth in 2019 was the strengthening of excess liquidity levels reflected in higher federal funds sold and interest bearing deposits with banks. Organic commercial loan growth and higher levels of excess liquidity were funded primarily by an increase in deposits, primarily interest bearing deposits and, to a lesser extent, non-interest bearing deposits.

We expect moderate, consistent asset growth in 2020 as we continue to grow our loan portfolio, primarily commercial, in our expanded marketplace. In 2019 we added two additional branches in Mercer County, New Jersey as a result of the Grand Bank acquisition. Our relatively recent entry into the Burlington County, New Jersey and West Chester, Pennsylvania markets in 2018 are also expected to contribute to organic growth in 2020. We will continue to assess new acquisition opportunities when they fit into our strategic framework and enhance shareholder value.

Investment Securities

At December 31, 2019, the investment securities portfolio was comprised of U.S. Treasury securities, 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 residential mortgage-backed securities ("MBS") 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, excluding unrated subordinated debt of $5.0 million assumed from the Grand Bank acquisition, 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 except for the aforementioned subordinated debt assumed from the Grand Bank acquisition.

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, 2019 or 2018. 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, 2019, the investment securities portfolio totaled $94.1 million or 4.7% of assets, compared to $101.1 million or 5.9% of assets at December 31, 2018. The decrease was due primarily to the maturities and calls of municipal bonds, principal paydowns on residential MBS and the maturity of a government sponsored agency security, partially offset by the purchase of corporate obligations, specifically subordinated debentures of other banks. Agency MBS represented 46.1% of the total investment portfolio at year-end 2019 compared to 48.6% at year-end 2018.

Our objective in 2020 is to grow the size of the investment portfolio to build on-balance sheet liquidity. 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.

The following table presents the maturity distribution and weighted average yields of our investment securities portfolio on a contractual maturity basis at December 31, 2019:

	December 31, 2019					
	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	$ 6,463	$ 6,492	1.56%	$ 3,587	$ 3,598	3.51%
Due after one year through five years	8,462	8,486	2.51%	11,013	11,157	3.67%
Due after five years through ten years	704	701	2.20%	20,118	20,497	5.61%
Due after ten years	—	—	—	277	282	2.87%
Residential mortgage-backed securities:						
Issued by FNMA and FHLMC	27,948	27,975	2.71%	10,182	10,131	2.53%
Issued by GNMA	3,848	3,808	2.64%	1,435	1,435	3.50%
Total	$47,425	$47,462		$46,612	$47,100	

(1) Tax equivalent using a federal income tax rate of 21 percent.

We evaluate all securities with unrealized losses quarterly to determine whether the losses are other than temporary. At December 31, 2019 and 2018, 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. Unrealized gains and losses in the AFS and HTM portfolios are presented below.

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, 2019 and 2018.

	December 31, 2019			
	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	$27,948	$103	$ (76)	$27,975
Issued by GNMA	3,848	—	(40)	3,808
U.S. Treasury securities	8,960	26	(2)	8,984
Asset-backed securities	2,130	—	(44)	2,086
Corporate obligations	4,539	70	—	4,609
Total	$47,425	$199	$(162)	$47,462

	December 31, 2018			
	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	$31,487	$16	$ (902)	$30,601
Issued by GNMA	4,844	1	(196)	4,649
U.S. Treasury securities	8,997	14	(75)	8,936
Asset-backed securities	2,615	3	(30)	2,588
Corporate obligations	4,552	5	(71)	4,486
Total	$52,495	$39	$(1,274)	$51,260

As of December 31, 2019, our AFS investment securities at fair value totaled $47.5 million, a decrease of $3.8 million from $51.3 million at December 31, 2018. The AFS portfolio represented 50.5% of the total investment portfolio at December 31, 2019 compared to 50.7% at December 31, 2018. The decrease in the AFS portfolio in 2019 compared to 2018 was primarily due to principal paydowns on residential MBS. There was a net unrealized gain on AFS securities of $37,000 at December 31, 2019 compared to a net unrealized loss of $1.2 million at December 31, 2018.

Investment Securities Held to Maturity

The following tables present the amortized cost and estimated fair values of our held to maturity ("HTM") securities at December 31, 2019 and 2018:

	December 31, 2019			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(in thousands)			
Investment securities held to maturity				
Residential mortgage-backed securities:				
Issued by FNMA and FHLMC	$10,182	$ 27	$(78)	$10,131
Issued by GNMA	1,435	—	—	1,435
Obligations of state and political subdivisions	15,995	209	—	16,204
Corporate obligations	19,000	330	—	19,330
Total	$46,612	$566	$(78)	$47,100

	December 31, 2018			
	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	$ 9	$ —	$ 2,009
Residential mortgage-backed securities:				
Issued by FNMA and FHLMC	12,408	—	(436)	11,972
Issued by GNMA	1,479	—	(65)	1,414
Obligations of state and political subdivisions	22,174	30	(101)	22,103
Corporate obligations	11,750	163	—	11,913
Total	$49,811	$202	$(602)	$49,411

HTM investment securities, carried at amortized cost, totaled $46.6 million at December 31, 2019 compared to $49.8 million at December 31, 2018. The modest decrease in the HTM portfolio in 2019 was due to lower obligations of state and political subdivision balances due to maturities and calls, principal paydowns on the MBS portfolio and the maturity of a U.S. government agency security, partially offset by the purchase of corporate obligations, specifically subordinated debt of other banks. The HTM portfolio is composed primarily of corporate obligations, specifically subordinated debt of other banks, municipal bonds and residential MBS. At December 31, 2019 subordinated debt (corporate obligations) totaled $19.0 million, which includes $5.0 million from the Grand Bank acquisition, or 40.8% of the HTM portfolio compared to $11.8 million at December 31, 2018 or 23.6% of the HTM portfolio. Our municipal bond portfolio totaled $16.0 million or 34.3% of the HTM portfolio at December 31, 2019 compared to $22.2 million or 44.5% at December 31, 2018. 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 our holding of tax-free municipal bonds reduces our effective tax rate and enhances the tax equivalent yield of our investment portfolio. At December 31, 2019, the HTM residential MBS portfolio totaled $11.6 million or 24.9% of total HTM securities compared to $13.9 million or 27.9% at December 31, 2018.

Mortgage-Backed Securities

We held $43.4 million and $50.2 million in residential MBS (at amortized cost) at December 31, 2019 and 2018, respectively, in our AFS and HTM securities portfolios. All of these MBS were issued by FNMA, FHLMC or GNMA. We generally purchase MBS with average lives of less than five years in the base case with limited extension risk in a +300 basis point scenario. 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. Principal paydowns from the MBS portfolio totaled $9.6 million and $9.5 million in 2019 and 2018, respectively. Included in our MBS portfolio at December 31, 2019 and 2018 were $13.9 million and $18.0 million, respectively, of U.S. agency collateralized mortgage obligations.

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.

See Note 3 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 sixty days' notice. The investment in this Fund is recorded on the equity method and dividends are credited to the principal investment balance. At December 31, 2019 and 2018, our balance in the Fund was $6.4 million and $6.2 million, respectively.

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, 2019 were $1.72 billion, an increase of $261.1 million, or 17.8%, compared to $1.46 billion at year-end 2018. Excluding the impact of Grand Bank acquired loans of approximately $146.3 million at the close of business on September 30, 2019, organic loan growth, primarily in commercial real estate loans, provided an increase of $114.8 million in loans for 2019. Growth in average loans for 2019 was $211.8 million.

As reflected in our loan origination results in 2019, we have continued to effectively grow in increasingly competitive markets during a period of higher than expected loan payoffs. We continue to focus our efforts

on building new relationships with creditworthy borrowers in our expanded marketplace and providing quality service to our established borrowers who value our relationship banking philosophy.

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

	December 31,				
	2019	2018	2017	2016	2015
			(in thousands)		
Commercial and industrial	$ 239,090	$ 195,786	$ 159,516	$112,576	$ 99,852
Commercial real estate:					
Owner-occupied	395,995	355,062	308,004	203,245	158,939
Investor	673,300	567,407	502,833	373,013	273,532
Construction and development	105,709	85,064	80,445	81,103	44,169
Multi-family	119,005	87,930	64,056	50,826	42,558
Residential real estate:					
Residential mortgage and first lien home equity loans	123,917	101,341	67,876	40,367	33,691
Home equity – second lien loans and revolving lines of credit	32,555	28,563	26,038	23,165	22,946
Consumer and other	35,810	43,070	20,191	15,409	15,426
	1,725,381	1,464,223	1,228,959	899,704	691,113
Net deferred loan fees and costs	(1,807)	(1,707)	(1,546)	(1,275)	(1,226)
Total loans	$1,723,574	$1,462,516	$1,227,413	$898,429	$689,887

At December 31, 2019, commercial loans represented 88.9% 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 ("C&I") loans consist of lines of credit, term loans and demand loans. C&I loans typically consist of loans to finance equipment, inventory, receivables, and other working capital needs for small to mid-sized businesses. C&I loans increased $43.3 million, or 22.1%, to $239.1 million in 2019 from $195.8 million in 2018. Our C&I 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 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 $198.5 million, or 18.1%, to $1.29 billion in 2019 from $1.10 billion in 2018. 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 $105.9 million and $40.9 million, respectively, or 18.7% and 11.5%, respectively. CREI and CREO loans are generally offered on a fixed and variable rate basis with a five-year repricing and a term of five to fifteen years.

CREI loans grew to $673.3 million in 2019. 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 segment, comprising $196.4 million of CREI loans. Our

retail segment is further broken down into three categories: single tenant/credit rated, single tenant/non-credit rated and multiple tenant strip malls. Loans secured by industrial properties make up our next largest segment totaling $126.6 million. Loans secured by office buildings totaled $126.1 million. Mixed use properties totaled 77.9 million. Other types of investor loans include hotels, medical buildings and restaurants.

CREO loans grew to $396.0 million in 2019. 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 one to two years, are interest only, and have floating rates of interest indexed to the prime rate. Construction and development loans increased $20.6 million in 2019 and represented 6.1% of the loan portfolio or $105.7 million at December 31, 2019.

Multi-family loans consist primarily of loans secured by apartment buildings and are generally originated on a fixed rate basis for five to ten year terms. Multi-family loans grew $31.1 million, or 35.3%, to $119.0 million in 2019 from $87.9 million in 2018.

The following provides information concerning the maturities and interest rate sensitivity of our C&I and construction and development portfolios at December 31, 2019.

	December 31, 2019			
	Due Under 1 Year	Due 1 to 5 Years	Due Over 5 Years	Total
	(in thousands)			
Maturities by Portfolio Type				
Commercial and industrial	$ 75,128	$ 97,082	$66,880	$239,090
Construction and development	74,856	27,352	3,501	105,709
Total	$149,984	$124,434	$70,381	$344,799
Maturities by Interest Rate Type				
Fixed rate	$ 10,490	$ 79,120	$23,960	$113,570
Floating rate	139,494	45,314	46,421	231,229
Total	$149,984	$124,434	$70,381	$344,799

Residential real estate loans are composed of loans secured by one to four 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, one to four 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 $156.5 million at December 31, 2019, an increase of $26.6 million in 2019 compared to 2018. Residential mortgage and first lien home equity loans increased $22.6 million to $123.9 million at December 31, 2019. Second lien home equity loans and revolving lines of credit increased $4.0 million during 2019. At December 31, 2019, residential real estate loans represented 9.1% of total loans.

Consumer and other loans include auto loans, personal loans, traditional installment loans and other loans. At December 31, 2019 and 2018 consumer and other loans totaled $35.8 million and $43.1 million, respectively. Consumer and other loans represented 2.1% and 2.9% of total loans at December 31, 2019 and 2018, respectively.

The loan portfolio acquired in connection with the Grand Bank acquisition was primarily composed of commercial loans, and, to a lesser extent, residential real estate loans. Commercial loans made up

$136.5 million of Grand Bank's contribution while residential real estate loans made up $12.7 million. For further information about our loan portfolio, see Note 4 of the Notes to Consolidated Financial Statements located elsewhere in this document.

Loan growth in 2019 was again led by commercial loans, both organic and acquired. Our growth levels were impacted by a higher level of loan payoffs consistent with a growing bank. As we look to 2020 our pipeline remains strong. We remain focused on further diversifying the commercial loan segment by adding CREO and C&I loans. Even with a more competitive landscape we believe that our strength as a commercial and business lender, our expanded markets and a higher legal lending limit, which was $36.8 million at December 31, 2019, will help us achieve our lending goals in 2020. Commercial loan growth remains an important contributor to increasing profitability and enhancing shareholder value.

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 1.20% at the end of 2019 compared to 0.46% at the end of 2018. Our allowance for loan losses as a percentage of nonperforming loans decreased to 75.82% at the end of 2019 compared to 237.90% at the end of 2018. Net charge offs as a percentage of average loans were 0.12% for 2019 and 0.00% for 2018.

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 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, 2019 and 2018.

	December 31, 2019			
	Pass	Special Mention	Substandard	Total
	(in thousands)			
Commercial and industrial	$ 216,490	$ 7,983	$14,617	$ 239,090
Commercial real estate:				
Owner-occupied	378,918	11,080	5,997	395,995
Investor	670,554	399	2,347	673,300
Construction and development	105,235	—	474	105,709
Multi-family	116,051	—	2,954	119,005
Residential real estate:				
Residential mortgage and first lien home equity loans	118,706	312	4,899	123,917
Home equity – second lien loans and revolving lines of credit	31,243	768	544	32,555
Consumer and other	35,748	—	62	35,810
Total	$1,672,945	$20,542	$31,894	$1,725,381

	December 31, 2018			
	Pass	Special Mention	Substandard	Total
	(in thousands)			
Commercial and industrial	$ 192,604	$1,689	$ 1,493	$ 195,786
Commercial real estate:				
Owner-occupied	349,023	1,344	4,695	355,062
Investor	564,415	926	2,066	567,407
Construction and development	85,064	—	—	85,064
Multi-family	83,258	—	4,672	87,930
Residential real estate:				
Residential mortgage and first lien home equity loans	97,731	332	3,278	101,341
Home equity – second lien loans and revolving lines of credit	27,383	753	427	28,563
Consumer and other	42,839	—	231	43,070
Total	$1,442,317	$5,044	$16,862	$1,464,223

Past Due Loans

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

	December 31, 2019						
	30 – 59 Days Past Due	60 – 89 Days Past Due	90 Days or More Past Due and Still Accruing	Nonaccrual	Total Past Due	Total Current	Total
	(in thousands)						
Commercial and industrial	$1,493	$ —	$1,122	$12,985	$15,600	$ 223,278	$ 238,878
Commercial real estate:							
Owner-occupied	2,540	361	—	5,693	8,594	386,212	394,806
Investor	—	399	—	662	1,061	671,950	673,011
Construction and development	—	—	—	—	—	105,235	105,235
Multi-family	208	—	73	730	1,011	117,994	119,005
Residential real estate:							
Residential mortgage and first lien home equity loans	596	28	—	928	1,552	118,549	120,101
Home equity – second lien loans and revolving lines of credit	670	—	—	494	1,164	31,374	32,538
Consumer and other	—	—	—	61	61	35,749	35,810
Total	$5,507	$788	$1,195	$21,553	$29,043	$1,690,341	$1,719,384

	December 31, 2018						
	30 – 59 Days Past Due	60 – 89 Days Past Due	90 Days or More Past Due and Still Accruing	Nonaccrual	Total Past Due	Total Current	Total
	(in thousands)						
Commercial and industrial	$2,538	$1,944	$ —	$1,307	$ 5,789	$ 189,811	$ 195,600
Commercial real estate:							
Owner-occupied	545	685	—	1,071	2,301	351,651	353,952
Investor	504	428	12	121	1,065	565,948	567,013
Construction and development	—	—	—	—	—	85,064	85,064
Multi-family	198	—	323	2,146	2,667	85,263	87,930
Residential real estate:							
Residential mortgage and first lien home equity loans	1,991	308	99	854	3,252	95,665	98,917
Home equity – second lien loans and revolving lines of credit	609	261	—	246	1,116	27,266	28,382
Consumer and other	115	46	—	183	344	42,726	43,070
Total	$6,500	$3,672	$434	$5,928	$16,534	$1,443,394	$1,459,928

Nonaccrual loans in the preceding tables do not include $6.0 million and $4.3 million of PCI loans, which were recorded at fair value at acquisition, at December 31, 2019 and 2018, respectively.

Nonperforming Assets and Troubled Debt Restructured Loans

Nonperforming assets include nonperforming loans, other real estate owned ("OREO") and other repossessed assets. Nonperforming assets totaled $24.1 million or 1.20% as a percentage of total assets at December 31, 2019, compared to $7.8 million or 0.46% as a percentage of total assets at December 31, 2018.

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

	December 31,				
	2019	2018	2017	2016	2015
	(dollars in thousands)				
Nonaccrual loans:					
Commercial and industrial	$12,985	$1,307	$ 991	$1,594	$1,759
Commercial real estate:					
Owner-occupied	5,693	1,071	1,603	1,484	987
Investor	662	121	717	95	—
Multi-family	730	2,146	—	—	—
Residential real estate:					
Residential mortgage and first lien home equity loans	928	854	933	1,025	414
Home equity – second lien loans and revolving lines of credit	494	246	203	931	412
Consumer and other	61	183	112	76	223
Total nonaccrual loans	21,553	5,928	4,559	5,205	3,795
Loans past due 90 days or more and still accruing	1,195	434	739	762	108
Total nonperforming loans	22,748	6,362	5,298	5,967	3,903
Other real estate owned, net	1,363	1,455	1,183	1,292	1,557
Other repossessed assets	—	—	—	30	30
Total nonperforming assets	$24,111	$7,817	$6,481	$7,289	$5,490
Performing troubled debt restructured loans	$ 526	$ 56	$ 75	$ 253	$ 481
Nonaccrual loans to total loans	1.25%	0.41%	0.37%	0.58%	0.55%
Nonperforming loans to total loans	1.32%	0.44%	0.43%	0.66%	0.57%
Nonperforming assets to total assets	1.20%	0.46%	0.45%	0.68%	0.64%

Nonaccrual loans in the preceding table does not include PCI loans.

Nonperforming loans consist of loans on a nonaccrual basis and loans past due 90 days or more and still accruing. Nonperforming loans totaled $22.7 million, or 1.32% of total loans, at December 31, 2019, compared to $6.4 million, or 0.44% of total loans, at December 31, 2018. The increase in nonperforming loans was primarily due to an increase in commercial and industrial and commercial real estate owner-occupied nonaccrual loans at December 31, 2019 compared to December 31, 2018. This increase was primarily related to two borrower relationships that became nonperforming in the second and fourth quarter 2019, respectively. The largest of these relationships, which became nonperforming in the second quarter of 2019, is an $8.2 million commercial relationship with multiple loans. The primary collateral for this relationship is under contract to be sold and we anticipate the loans being paid off during the first quarter of 2020. Nonperforming loans at December 31, 2019 and 2018 exclude $6.0 million and $4.3 million, respectively, of PCI loans which were recorded at their fair value at acquisition.

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 2019, 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 $564,000 in interest income. Interest income on these loans recognized in 2019 was $19,000.

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 writedowns that may be required to the carrying value of the property are recorded in non-interest expense. At December 31, 2019, OREO totaled $1.4 million compared to $1.5 million at December 31, 2018.

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, 2019, we had one TDR on nonaccrual status with a balance of $5.9 million and two performing TDRs totaling $526,000. During 2019 one TDR loan was paid off, one TDR loan previously on nonaccrual status became performing in accordance with the terms of their modification and one new TDR was executed. At December 31, 2018, we had one TDR on nonaccrual status with a balance of $475,000 and two performing TDRs totaling $56,000.

Impaired loans include nonaccrual loans and 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 an individual 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 $22.1 million and $6.0 million at December 31, 2019 and 2018, respectively.

During 2019 we experienced increased levels of net loan charge-offs and nonperforming assets. With continued economic uncertainty we are closely monitoring credit trends, particularly within our commercial and industrial portfolio. As a result of strong credit risk management and disciplined underwriting standards we remain confident that the credit risk in our loan portfolio is well managed. We continue to actively work to reduce nonaccrual loans to maximize our collection of principal and interest. We believe the level of delinquencies and level of problem loans remain at manageable levels, although we can provide no assurances that these trends will continue.

Allowance for Loan Losses

The allowance for loan losses ("ALLL") 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 ALLL 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 ALLL 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 Asset Quality Review ("AQR") Committee, which includes the President and CEO, Chief Lending Officer, Chief Credit 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 ALLL allocations for all impaired loans and ASC Topic 310-30 loans each quarter. The ALLL 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 Topic 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. For additional information on the accounting of acquired loans under ASC Topic 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 ALLL 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 ALLL methodology. For additional information on the allowance for loan losses, see Notes 1 and 5 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,				
	2019	2018	2017	2016	2015
	(in thousands)				
Balance – beginning of year	$15,135	$11,697	$ 9,826	$ 7,940	$ 6,104
Loans charged off:					
Commercial and industrial	(1,564)	(281)	(246)	(342)	(30)
Commercial real estate:					
Owner-occupied	(94)	—	(359)	(96)	(728)
Investor	(98)	(125)	—	—	(103)
Multi-family	(377)	—	—	—	—
Residential real estate:					
Residential mortgage and first lien home equity loans	(4)	(21)	(63)	—	(41)
Home equity – second lien loans and revolving lines of credit	—	(113)	(173)	(458)	(226)
Consumer and other	(18)	(2)	(31)	(1)	(19)
Total charge offs	(2,155)	(542)	(872)	(897)	(1,147)
Recoveries of loans previously charged off:					
Commercial and industrial	70	131	12	59	32
Commercial real estate:					
Owner-occupied	201	86	4	8	55
Investor	—	125	—	12	175
Residential real estate:					
Residential mortgage and first lien home equity loans	—	2	—	—	39
Home equity – second lien loans and revolving lines of credit	10	188	46	3	10
Consumer and other	—	1	6	4	3
Total recoveries	281	533	68	86	314
Net charge offs	(1,874)	(9)	(804)	(811)	(833)
Provision for loan losses	3,984	3,447	2,675	2,697	2,669
Balance – end of year	$17,245	$15,135	$11,697	$ 9,826	$ 7,940
Net charge offs to average loans	0.12%	0.00%	0.08%	0.10%	0.14%
Allowance for loan losses to loans	1.00%	1.03%	0.95%	1.09%	1.15%
Allowance for loan losses to nonperforming loans	75.81%	237.90%	220.78%	164.67%	203.43%

The ALLL is increased by provisions charged to expense. Loans or portions of loans deemed uncollectible are charged off and deducted from the ALLL, while recoveries of amounts previously charged off, if any, are added to the ALLL. Recoveries on ASC Topic 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 the ALLL at acquisition. Net loan charge offs were $1.9 million for the year ended December 31, 2019, $9,000 for the year ended December 31, 2018 and $804,000 for the year ended December 31, 2017. The ratio of net charge offs to average loans was 0.12% for 2019, 0.00% for 2018 and 0.08% for 2017. We recorded a provision for loan losses of $4.0 million in 2019, $3.4 million in 2018 and $2.7 million in 2017. Our allowance for loan losses as a percentage of nonperforming loans was 75.82% at December 31, 2019, 237.90% at

December 31, 2018 and 220.78% at December 31, 2017. The decline in this coverage ratio in 2019 compared to 2018 was due primarily to a higher level of nonperforming loans.

At December 31, 2019, the ALLL totaled $17.2 million, reflecting an increase of $2.1 million, or 13.9%, from $15.1 million at December 31, 2018. The ratio of the allowance for loan losses to total loans was 1.00% and 1.03% at December 31, 2019 and December 31, 2018, respectively. The decrease in the allowance for loan losses as a percentage of total loans was primarily due to loans acquired as a result of the Grand Bank acquisition on September 30, 2019. All Grand Bank loans were recorded at their fair value and there was no corresponding allowance for loan losses transferred to First Bank based on business combination accounting rules. It is our assessment, based on our ALLL methodology, judgment and analysis, that the allowance for loan losses was adequate in relation to losses inherent in the portfolio at December 31, 2019 and 2018.

Allocation of the Allowance for Loan Losses

The general allocation of the ALLL 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 ALLL is available to absorb losses from any class of loans.

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

	December 31, 2019			December 31, 2018		
	ALL Amount	% of Total ALL	% of Total Loans	ALL Amount	% of Total ALL	% of Total Loans
	(dollars in thousands)					
Commercial and industrial	$ 4,437	25.73%	0.26%	$ 2,456	16.23%	0.17%
Commercial real estate:						
Owner-occupied	3,142	18.22%	0.18%	3,249	21.47%	0.22%
Investor	6,631	38.45%	0.38%	6,152	40.65%	0.42%
Construction and development	975	5.65%	0.06%	782	5.17%	0.05%
Multi-family	1,123	6.51%	0.06%	1,473	9.73%	0.10%
Residential real estate:						
Residential mortgage and first lien home equity loans	488	2.83%	0.03%	482	3.18%	0.03%
Home equity – second lien loans and revolving lines of credit	140	0.81%	0.01%	186	1.23%	0.01%
Consumer and other	309	1.80%	0.02%	355	2.34%	0.03%
Total	$17,245	100.00%	1.00%	$15,135	100.00%	1.03%

Deposits

Deposits are our primary source of funds to support growth in earning assets. Total deposits amounted to $1.64 billion at December 31, 2019, an increase of $247.7 million, or 17.8%, from $1.39 billion at December 31, 2018. Approximately $170.9 million in deposits were added to our balances at September 30, 2019 from the Grand Bank acquisition. Non-interest bearing demand deposits increased $41.0 million and interest bearing deposits increased by $129.9 million as a result of the acquisition. Overall non-interest bearing deposit growth was $56.7 million or 25.9% in 2019 compared to 2018 while interest bearing deposit growth was $190.9 million or 16.3%. We had $70.7 million in brokered deposits at December 31, 2019, or 4.3% of total deposits, compared with $60.1 million, or 4.3% of total deposits, at December 31, 2018.

The acquisition of Grand Bank in the third quarter of 2019 added two more branches to our network and strengthened our presence in Mercer County, New Jersey. During 2019 we continued to build our presence in the attractive West Chester, Pennsylvania market place which serves Chester, Delaware and

Philadelphia counties as well as our Burlington County New Jersey market. We believe the expansion of our geographic footprint and our quality customer service brand will help further build lower cost core deposits to fund loan growth, while enhancing profitability and franchise value.

The cost of interest bearing deposits was 1.74% for 2019 and 1.30% for 2018. Our increased cost of interest bearing deposits was primarily due to a higher interest rate environment in the first half of 2019 and competitive market factors. During the latter part of 2018 and into 2019 we competitively priced money markets and certain time deposits to enhance liquidity and provide funding for loan growth, which increased our cost of deposits. The impact of lower interest rates in the second half of 2019 and reduced deposit product pricing was not fully reflected in our cost of deposits for the year ended December 31, 2019.

The following table sets forth the average balances and average interest rates of deposits by deposit category for the years indicated.

	Year Ended December 31,					
	2019		2018		2017	
	Average Balance	Average Rate	Average Balance	Average Rate	Average Balance	Average Rate
	(dollars in thousands)					
Non-interest bearing demand deposits	$ 244,820	—	$ 209,876	—	$150,986	—
Interest bearing demand deposits	148,234	0.59%	163,240	0.60%	125,300	0.58%
Money market deposits	355,046	1.58%	267,965	1.18%	170,465	0.73%
Savings deposits	91,293	0.84%	84,336	0.54%	71,648	0.49%
Time deposits	658,741	2.20%	572,411	1.67%	480,231	1.38%
Total deposits	$1,498,134	1.45%	$1,297,828	1.09%	$998,630	0.90%

Average total deposits increased $200.3 million, or 15.4%, to $1.50 billion for 2019 from $1.30 billion in 2018. The average interest rate paid on total deposits for 2019 was 1.45% compared to 1.09% for 2018. From an average perspective, we experienced growth in all deposit types during the year with the exception of interest bearing demand deposits. Our liquidity profile benefited from solid growth in overall average interest bearing deposits. Money market deposits, time deposits and savings increased 32.5%, 15.1%, 8.2%, respectively. We also benefited from a $34.9 million or 16.6% average increase in non-interest bearing demand deposits principally due to new and expanded commercial and business relationships.

The following table summarizes the maturity distribution of time deposits in denominations of $100,000 or more as of December 31, 2019:

	December 31, 2019
	(in thousands)
3 months or less	$ 84,544
3 to 6 months	92,788
6 to 12 months	167,846
Over 12 months	49,030
Total	$394,208

Our strategic focus for 2020, as was the case from 2019, is to increase the level of demand deposits and lower cost commercial deposits with new and established relationships. The strengthening of our retail and commercial deposits sales teams during 2019 is expected to contribute to meeting our lower cost core deposit and enhanced profitability objectives in 2020.

Borrowings

Borrowings consist primarily of FHLB advances. We 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 $105.5 million and $93.4 million at December 31, 2019 and 2018, respectively, which represented 5.2% and 5.5% of total assets at those respective year-ends. During 2019, FHLB advances were added to help fund commercial loan growth and enhance liquidity while achieving interest rate risk objectives. For the years ended December 31, 2019 and 2018, borrowings averaged $113.7 million and $109.4 million, respectively, and the average cost of borrowings was 2.16% and 1.86%, respectively. During the first half of 2019 we selectively extended the maturities of certain FHLB advances for purposes of managing interest rate risk. Throughout 2019 we were able to retire advances during periods of high deposit growth. As a result, average borrowings for 2019 only increased modestly by $4.3 million or 3.9%. In 2020, our utilization of FHLB advances will continue to focus on meeting asset and liability goals.

Subordinated Debentures

In 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 five 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. Our subordinated debentures, net, totaled $22.0 million at December 31, 2019, which includes $36,000 of remaining unamortized debt issuance costs that are being amortized into interest expense over the expected life of the issue. For the year ended December 31, 2019, subordinated debentures averaged $21.9 million with an average cost of 7.27%.

On May 1, 2020 we expect to prepay our $22.0 million 6.75% fixed to floating rate subordinated debentures, without penalty. Under current regulatory capital classification subordinated debentures qualify as Tier II capital. Beginning in year 6, or 2021, the amount allowable to count as Tier II capital will decay at a rate of 20% per year to the maturity date of 2025. Based on current market conditions, we believe we can issue new subordinated debentures at a lower cost than our current rate to pay off our current debt and potentially upsize the amount of new debt to strengthen total risk-based capital and help fund future growth.

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 utilize a detailed contingency funding plan, which includes a detailed analysis of our potentially volatile liabilities. 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, 2019, 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 cash equivalents and unpledged securities) were $125.9 million at December 31, 2019, which represented 6.3% of total assets on that date compared to $107.9 million at December 31, 2018 or 6.3% of total assets on that date.

Our cash and cash equivalents increased by $26.4 million from $55.4 million at December 31, 2018 to $81.8 million at December 31, 2019. The increase was due to $86.7 million provided by financing activities and $20.8 million provided by operating activities. The cash provided from financing activities was mainly

from an increase in deposits. This increase was partially offset by $81.2 million used in investing activities, primarily an increase in loans, partially offset by cash and cash equivalents acquired in the Grand Bank acquisition.

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, 2019, we had the ability to borrow $164.3 million. In addition, we have $35.0 million in unsecured borrowing capacity through two correspondent banks.

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 2020.

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, 2019 was $232.4 million for commitments to extend credit and $5.5 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 17 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, 2019.

	December 31, 2019				
	Less Than 1 Year	1 – 3 Years	3 – 5 Years	Over 5 Years	Total
			(in thousands)		
Time deposits	$556,334	$110,310	$ 6,231	$ —	$672,875
Borrowings	20,420	69,620	15,436	—	105,476
Subordinated debentures	22,000	—	—	—	22,000
Operating lease obligations	1,782	3,086	2,386	2,432	9,686
Total	$600,536	$183,016	$24,053	$2,432	$810,037

Time deposits have stated maturities. Operating lease obligations represent obligations entered into by us for the right of use of land and premises. The leases generally have escalation terms. Borrowings are advances from the FHLB. Subordinated debentures are private placement debt instruments. For additional information on our contractual obligations, refer to Notes 8, 9 and 10 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 Risk 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 non-maturity 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.

All methods used to measure interest rate sensitivity involve the use of assumptions, which may tend to oversimplify the manner in which actual yields and costs respond to changes in market interest rates. Actual outcomes could differ significantly from the simulation outcomes. The Bank's interest rate sensitivity should be reviewed in conjunction with the consolidated financial statements and notes thereto in this Annual Report on Form 10-K.

Interest Rate Sensitivity Analysis

At December 31, 2019 and 2018, 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 our Board of Directors, 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 a traditional 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 twelve and twenty-four 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 two year time frame. The net interest income simulation model for December 31, 2019 shows that over the next twelve month period, a +200 basis points rate shock is estimated to decrease net interest income by 2.8%. For a -200 basis points rate shock, net interest income over that

next year is estimated to increase 1.6%. As of December 31, 2019, net interest income in Year 2 is projected in a +200 basis points rate shock to decrease approximately 3.1% and increase 2.2% in a -200 basis point rate shock. Our objective for our interest rate risk position is to be relatively balanced in either an increasing or decreasing interest rate environment.

We also measure through simulation analysis the impact to net interest income based on our 2020 financial plan or growth scenario in both a higher and lower interest rate environment. Assuming rising interest rates with a +300 basis points rate increase over twelve months, with core deposit rates lagging changes in market rates, net interest income is projected to decrease 1.1% in Year 1. Assuming declining interest rates with a -300 basis points rate decrease over 12 months net interest income is estimated to increase 0.9% in Year 1. Assuming no further rate changes in Year 2 net interest income is estimated to decline 2.3% in the higher rate scenario and increase 0.5% in the lower rate scenario. In the fourth quarter of 2019 we also reviewed a static balance sheet scenario, with a rate ramp of +/- 300 basis points and a yield curve inversion, to understand the potential impact to our net interest margin over a one and two year period.

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

The table below sets forth the Bank's exposure to interest rate risk as measured by the change in net interest income for the next twelve months with a static balance sheet under various interest rate shocks for the dates indicated:

	Net Interest Income			
	December 31, 2019		December 31, 2018	
	Amount	% Change	Amount	% Change
	(dollars in thousands)			
Rate Shock[1]				
+ 400	$59,854	(5.7)%	$54,377	(1.8)%
+ 300	60,758	(4.2)%	54,588	(1.4)%
+ 200	61,674	(2.8)%	54,815	(1.0)%
+ 0 (Static)	63,441	—	55,371	—
- 200	64,487	1.6%	53,994	(2.5)%

(1) Change in interest rates in basis points.

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, 2019 and 2018. Our EVE as of December 31, 2019 is estimated to decline by 10.0% with a rate shock of +200 basis points and increase by 0.4% with a rate shock of -200 basis points. Our policy guideline is -25%. Our EVE in a +200 basis point shock reflected decreased market risk in the fourth quarter of 2019 compared to the same period last year. We believe that our risk profile related to long-term interest rate risk is minimal.

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 one and two-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.

The table below sets forth the Bank's exposure to interest rate risk as measured by the change in EVE under various interest rate shocks for the dates indicated:

	Economic Value of Equity			
	December 31, 2019		December 31, 2018	
	Amount	% Change	Amount	% Change
	(dollars in thousands)			
Rate Shock[1]				
+ 400	$222,830	(18.9)%	$188,501	(20.7)%
+ 300	234,727	(14.6)%	199,269	(16.2)%
+ 200	247,223	(10.0)%	209,987	(11.7)%
+ 0 (Static)	274,808	—	237,734	—
- 200	275,834	0.4%	257,849	8.5%

(1) Change in interest rates in basis points.

Capital Management

We manage capital in a highly regulated environment which requires a balance between earning the highest return for our shareholders 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.

In October 2019 we implemented a share repurchase program. The share repurchase program allows for the repurchase of up to 1.0 million shares of our common stock in the open market. This program is scheduled to expire on September 30, 2020. The shares authorized for repurchase represent approximately 4.9% of our outstanding shares as of the date of announcement of the share repurchase program. For more information on our share repurchase program, see "*Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities — Share Repurchases*." There were no shares repurchased during 2019. For additional information on share repurchases that have occurred subsequent to December 31, 2019, see Note 20 of the Notes to Consolidated Financial Statements located elsewhere in this document.

Stockholders' equity at December 31, 2019 totaled $226.4 million compared to $194.8 million at December 31, 2018, an increase of $31.6 million or 16.2%. The increase was primarily the result of the Grand Bank acquisition which added $18.4 million in additional equity. Also contributing to the increase was net income of $13.4 million for 2019. Stockholders' equity to assets was 11.25% and 11.39% at December 31, 2019 and 2018, respectively.

Our tangible stockholders' equity ratio was 10.44% as of December 31, 2019 and 10.47% as of December 31, 2018. 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. Both measures reflect stockholders' equity after deduction of goodwill and other intangible assets.

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,	
	2019	2018
	(dollars in thousands)	
Stockholders' equity	$ 226,393	$ 194,836
Less: Goodwill and other intangible assets, net	18,336	17,549
Tangible stockholders' equity (numerator)	$ 208,057	$ 177,287
Total assets	$2,011,587	$1,711,159
Less: Goodwill and other intangible assets, net	18,336	17,549
Adjusted total assets (denomintor)	$1,993,251	$1,693,610
Tangible stockholders' equity ratio	10.44%	10.47%

Please see *"Item 6. Selected Financial Data — Non-U.S. GAAP Financial Measures"* in Part II of this Annual Report on Form 10-K for more information on the tangible stockholders' equity ratio.

Our accumulated other comprehensive income or loss position is impacted by net unrealized gains or losses on investment securities available for sale and investment securities transferred to held to maturity. Based on changes in the U.S. Treasury yield curve, AFS securities values moved higher at December 31, 2019 compared to December 31, 2018. At December 31, 2019, the AFS portfolio had net unrealized gains, net of tax, of $27,000 compared to $898,000 in unrealized losses, net of tax, at December 31, 2018. The unamortized balance of unrealized losses on HTM securities that were transferred from AFS to HTM, net of tax effect, in 2014 totaled $0 at December 31, 2019 compared to $37,000 at December 31, 2018. The unrealized losses on securities transferred from AFS to HTM were being amortized over the estimated average life of those securities, which was approximately five years at the time of transfer. The unrealized losses associated with those securities are now zero. The combination of these two components resulted in accumulated other comprehensive income of $27,000 at December 31, 2019 compared to an accumulated other comprehensive loss of $935,000 at December 31, 2018.

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 four 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, engage in share repurchases, and pay discretionary bonuses based on percentages of eligible retained income that could be utilized for such actions. This capital conservation

buffer requirement was phased in over four years. At January 1, 2016, it started at 0.625% of risk-weighted assets and has increased by 0.625% on January 1 of each year until it was fully implemented in January 2019. As of December 31, 2019, the fully phased in capital conservation buffer is 2.5%.

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) a 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 table presents our regulatory capital amounts and ratios as well as the required regulatory minimums 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)					
At December 31, 2019:						
Tier 1 leverage capital	$207,147	10.27%	$ 80,716	4.00%	$100,895	5.00%
Common equity tier 1 capital	207,147	10.74%	86,772	4.50%	125,337	6.50%
Tier 1 risk-based capital	207,147	10.74%	115,695	6.00%	154,260	8.00%
Total risk-based capital	246,534	12.79%	154,260	8.00%	192,826	10.00%
At December 31, 2018:						
Tier 1 leverage capital	$177,230	10.40%	$ 68,171	4.00%	$ 85,214	5.00%
Common equity tier 1 capital	177,230	10.85%	73,516	4.50%	106,190	6.50%
Tier 1 risk-based capital	177,230	10.85%	98,022	6.00%	130,696	8.00%
Total risk-based capital	214,353	13.12%	130,696	8.00%	163,370	10.00%

We believe as of December 31, 2019 and 2018 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.

Selected Quarterly Financial Data (Unaudited)

The following table provides a summary of selected consolidated quarterly financial data for the years ended December 31, 2019 and 2018.

	For the Three Months Ended 2019			
	December 31	September 30[(1)]	June 30	March 31
	(in thousands, except share data)			
Interest and dividend income	$ 23,035	$ 20,812	$ 20,480	$ 19,843
Interest expense	6,844	6,836	6,316	5,808
Net interest income	16,191	13,976	14,164	14,035
Provision for loan losses	340	1,558	1,721	365
Net interest income after provision for loan losses	15,851	12,418	12,443	13,670
Non-interest income	1,493	905	924	673
Non-interest expense	9,309	11,928	9,127	9,000
Income before income taxes	8,035	1,395	4,240	5,343
Income tax expense	2,789	306	1,400	1,073
Net income	$ 5,246	$ 1,089	$ 2,840	$ 4,270
Basic earnings per share	$ 0.26	$ 0.06	$ 0.15	$ 0.23
Diluted earnings per share	$ 0.25	$ 0.06	$ 0.15	$ 0.23
Cash dividends per share	$ 0.03	$ 0.03	$ 0.03	$ 0.03
Basic weighted average common shares outstanding	20,377,478	18,694,801	18,670,010	18,636,873
Diluted weighted average common shares outstanding	20,666,729	18,976,574	18,954,171	18,955,624

(1) This period and subsequent periods include the effects of the acquisition of Grand Bank on September 30, 2019.

	For the Three Months Ended 2018			
	December 31	September 30	June 30[(1)]	March 31
	(in thousands, except share data)			
Interest and dividend income	$ 19,502	$ 19,369	$ 17,676	$ 16,191
Interest expense	5,350	4,811	4,043	3,590
Net interest income	14,152	14,558	13,633	12,601
Provision for loan losses	1,026	721	701	999
Net interest income after provision for loan losses	13,126	13,837	12,932	11,602
Non-interest income	984	1,185	760	523
Non-interest expense	9,190	8,214	8,654	7,256
Income before income taxes	4,920	6,808	5,038	4,869
Income tax expense	823	1,372	1,019	832
Net income	$ 4,097	$ 5,436	$ 4,019	$ 4,037
Basic earnings per share	$ 0.22	$ 0.29	$ 0.22	$ 0.23
Diluted earnings per share	$ 0.22	$ 0.29	$ 0.22	$ 0.23
Cash dividends per share	$ 0.03	$ 0.03	$ 0.03	$ 0.03
Basic weighted average common shares outstanding	18,621,688	18,609,479	18,175,617	17,427,232
Diluted weighted average common shares outstanding	18,937,468	18,949,285	18,517,953	17,802,021

(1) This period and subsequent periods include the effects of the acquisition of Delanco on April 30, 2018.

Recent Accounting Pronouncements

ASU 2016-02, "Leases (Topic 842)." Under this guidance, a lessee is 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 previous U.S. GAAP, which required only capital leases to be recognized on the balance sheet, this ASU requires both types of leases to be recognized on the balance sheet. The ASU also requires 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. We adopted this guidance on January 1, 2019, electing the modified retrospective transition approach method that does not adjust previous periods. Our consolidated statements of financial condition were impacted by the recording of operating lease right-of-use assets of $9.2 million and operating lease liabilities of $9.7 million at January 1, 2019.

ASU 2016-13, "Financial Instruments — Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments." This guidance requires 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 this 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. In November 2019, the Financial Accounting Standards Board ("FASB") issued ASU 2019-10 to defer the effective date of ASU 2016-13 from January 1, 2020 to January 1, 2023 for calendar year smaller reporting companies like the Company. We are currently evaluating the impact of this guidance on its consolidated financial statements and has retained a specialized consultant to assist in its implementation and adoption.

ASU 2016-15, "Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments." This 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 for us for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years, with retrospective application. The adoption of this guidance only affected our consolidated statements of cash flows and did not have a material impact.

ASU 2017-04, "Intangibles — Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment." This 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. We are currently evaluating the impact of this guidance on our consolidated financial statements.

ASU 2017-08, "Receivables — Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization of Purchased Callable Debt Securities." This guidance shortens the amortization period for the premium on certain purchased callable debt securities to the earliest call date. Currently, premiums on purchased callable debt securities are generally amortized over the contractual life of the security. The guidance does not change the accounting for purchased callable debt securities held at a discount as the discount continues to be amortized to maturity. Our adoption of this guidance on January 1, 2019 did not have a material impact on its consolidated financial statements as we had already been accounting for amortization of premiums on purchased callable debt securities as prescribed in this guidance.

ASU 2018-13, "Fair Value Measurement (Topic 820): Disclosure Framework — Changes to the Disclosure Requirements for Fair Value Measurement." The amendments in this update change the disclosure requirements on fair value measurements in Topic 820, Fair Value Measurement by removing, modifying and adding certain disclosure requirements. The amendments in this update are effective for fiscal years, and

interim periods within those fiscal years, beginning after December 15, 2019, with early adoption permitted. We are currently evaluating the impact of this guidance on our consolidated financial statements.

ASU 2019-07, "Codification Updates to SEC Sections — Amendments to SEC Paragraphs Pursuant to SEC Final Rule Releases No. 33-10532, Disclosure Update and Simplification, and Nos. 33-10231 and 33-10442, Investment Company Reporting Modernization, and Miscellaneous Updates." In 2018 the SEC issued Release No. 33-10532, Disclosure Update and Simplification, which amended certain disclosure requirements that had become redundant, outdated or superseded. In this Release, the SEC also referred certain of its disclosure requirements that overlap with, but require incremental information to, U.S. GAAP to the FASB for potential incorporation into its Accounting Standards Codification. After considering these referred disclosures the FASB issued this ASU, which we adopted as of September 30, 2019. Our adoption of this guidance did not have a material impact on its consolidated financial statements.

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 "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations — Interest Rate Sensitivity Analysis" 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

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Report of Independent Registered Public Accounting Firm

To the Stockholders and the Board of Directors of First Bank and Subsidiaries

Opinion on the Internal Control Over Financial Reporting

We have audited First Bank and Subsidiaries' (the Company) internal control over financial reporting as of December 31, 2019, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013. In our opinion, because of the effect of the material weakness described below on the achievement of the objectives of the control criteria, the Company has not maintained effective internal control over financial reporting as of December 31, 2019, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated statements of financial condition as of December 31, 2019 and 2018, the related consolidated statements of income, comprehensive income, changes in stockholders' equity and cash flows for each of the three years in the period ended December 31, 2019, and the related notes to the consolidated financial statements of the Company and our report dated March 27, 2020 expressed an unqualified opinion.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis. The following material weakness has been identified and included in management's assessment.

Management identified that previously-issued financial statements for the three and nine months ended September 30, 2019 contained a misstatement related to the Company's accounting for an acquisition. The misstatement was the result of management's review not sufficiently identifying certain restructuring liabilities that were erroneously recognized in the Company's business combination accounting, rather than recorded as expenses of the Company.

This material weakness was considered in determining the nature, timing and extent of audit tests applied in our audit of the 2019 financial statements, and this report does not affect our report dated March 27, 2020 on those financial statements.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed 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. A company's internal control

over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ RSM US LLP

New York, New York
March 27, 2020

Report of Independent Registered Public Accounting Firm

To the Stockholders and the Board of Directors of First Bank and Subsidiaries

Opinion on the Financial Statements

We have audited the accompanying consolidated statements of financial condition of First Bank and its Subsidiaries (the Company) as of December 31, 2019 and 2018, the related consolidated statements of income, comprehensive income, changes in stockholders' equity and cash flows for each of the three years in the period ended December 31, 2019, and the related notes to the consolidated financial statements (collectively, the financial statements). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2019 and 2018, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2019, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2019, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013. Our report dated March 27, 2020 expressed an opinion that the Company had not maintained effective internal control over financial reporting as of December 31, 2019, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ RSM US LLP

We have served as the Company's auditor since 2013.

New York, New York
March 27, 2020

FIRST BANK AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
(in thousands, except for share data)

	December 31, 2019	December 31, 2018
Assets		
Cash and due from banks	$ 16,751	$ 13,547
Federal funds sold	40,000	25,000
Interest bearing deposits with banks	25,041	16,883
Cash and cash equivalents	81,792	55,430
Interest bearing time deposits with banks	6,087	5,925
Investment securities available for sale	47,462	51,260
Investment securities held to maturity (fair value of $47,100 and $49,411 at December 31, 2019 and 2018, respectively)	46,612	49,811
Restricted investment in bank stocks	6,652	5,803
Other investments	6,388	6,203
Loans, net of deferred fees and costs	1,723,574	1,462,516
Less: Allowance for loan losses	17,245	15,135
Net loans	1,706,329	1,447,381
Premises and equipment, net	11,881	11,003
Other real estate owned, net	1,363	1,455
Accrued interest receivable	4,810	4,258
Bank-owned life insurance	49,580	40,350
Goodwill	16,253	16,074
Other intangible assets, net	2,083	1,475
Deferred income taxes	10,400	10,216
Other assets	13,895	4,515
Total assets	$2,011,587	$1,711,159
Liabilities and Stockholders' Equity		
Liabilities:		
Non-interest bearing deposits	$ 275,778	$ 219,034
Interest bearing deposits	1,365,089	1,174,170
Total deposits	1,640,867	1,393,204
Borrowings	105,476	93,351
Subordinated debentures	21,964	21,856
Accrued interest payable	1,076	1,045
Other liabilities	15,811	6,867
Total liabilities	1,785,194	1,516,323
Stockholders' Equity:		
Preferred stock, par value $2 per share; 10,000,000 shares authorized; no shares issued and outstanding	—	—
Common stock, par value $5 per share; 40,000,000 shares authorized; issued and outstanding 20,458,665 shares and 18,676,056 shares at December 31, 2019 and 2018, respectively	101,887	93,132
Additional paid-in capital	78,112	67,417
Retained earnings	46,367	35,222
Accumulated other comprehensive income (loss)	27	(935)
Total stockholders' equity	226,393	194,836
Total liabilities and stockholders' equity	$2,011,587	$1,711,159

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,		
	2019	2018	2017
Interest and Dividend Income			
Investment securities – taxable	$ 2,160	$ 2,156	$ 1,695
Investment securities – tax-exempt	360	443	488
Interest bearing deposits with banks, Federal funds sold and other	2,181	1,609	725
Loans, including fees	79,469	68,530	48,290
Total interest and dividend income	84,170	72,738	51,198
Interest Expense			
Deposits	21,750	14,170	8,939
Borrowings	2,461	2,031	1,003
Subordinated debentures	1,593	1,593	1,593
Total interest expense	25,804	17,794	11,535
Net interest income	58,366	54,944	39,663
Provision for loan losses	3,984	3,447	2,675
Net interest income after provision for loan losses	54,382	51,497	36,988
Non-Interest Income			
Service fees on deposit accounts	515	364	283
Loan fees	660	280	113
Income from bank-owned life insurance	1,165	1,044	739
Gains on sale of investment securities	—	3	—
Gains on sale of loans	227	335	296
Gains on recovery of acquired loans	776	804	316
Other non-interest income	652	622	369
Total non-interest income	3,995	3,452	2,116
Non-Interest Expense			
Salaries and employee benefits	20,460	17,583	12,364
Occupancy and equipment	5,221	4,861	3,037
Legal fees	595	536	331
Other professional fees	1,634	1,953	1,466
Regulatory fees	387	580	566
Directors' fees	785	700	534
Data processing	1,852	1,733	1,243
Marketing and advertising	822	759	594
Travel and entertainment	486	450	303
Insurance	334	336	256
Other real estate owned expense, net	152	221	817
Merger-related expenses	3,646	988	1,767
Other expense	2,990	2,614	1,406
Total non-interest expense	39,364	33,314	24,684
Income Before Income Taxes	19,013	21,635	14,420
Income tax expense	5,568	4,046	7,427
Net Income	$ 13,445	$ 17,589	$ 6,993
Basic earnings per common share	$ 0.70	$ 0.97	$ 0.49
Diluted earnings per common share	$ 0.69	$ 0.95	$ 0.48
Cash dividends per common share	$ 0.12	$ 0.12	$ 0.08
Basic weighted average common shares outstanding	19,098,464	18,212,875	14,221,506
Diluted weighted average common shares outstanding	19,392,429	18,571,537	14,577,664

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,		
	2019	**2018**	**2017**
Net income	$13,445	$17,589	$6,993
Other comprehensive income (loss):			
Net unrealized gains (losses) on investment securities available for sale arising during the period	1,272	(575)	(164)
Reclassification adjustment for gains on securities included in net income	—	(3)	—
Amortization of unrealized losses on investment securities transferred to held to maturity	50	118	118
	1,322	(460)	(46)
Income tax effect	(360)	126	21
Total other comprehensive income (loss), net of tax	962	(334)	(25)
Total comprehensive income	$14,407	$17,255	$6,968

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 for share data)

	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
Balance – December 31, 2016	$ 56,885	$18,779	$13,611	$(469)	$ 88,806
Net income	—	—	6,993	—	6,993
Other comprehensive loss, net of tax	—	—	—	(25)	(25)
Vesting of restricted stock, 13,819 shares	69	(69)	—	—	—
Exercise of stock options and warrants, 98,430 shares	492	273	—	—	765
Stock-based compensation	—	433	—	—	433
Cash dividends declared on common stock	—	—	(878)	—	(878)
Sale of 3,508,772 shares of common stock, net of issuance costs of $2,516	17,544	19,940	—	—	37,484
Acquisition of Bucks County Bank, 2,402,563 shares of common stock, $12.35 per share	12,013	17,659	—	—	29,672
Balance – December 31, 2017	87,003	57,015	19,726	(494)	163,250
Net income	—	—	17,589	—	17,589
Other comprehensive loss, net of tax	—	—	—	(334)	(334)
Vesting of restricted stock, 21,333 shares	106	(106)	—	—	—
Exercise of stock options, 108,384 shares	542	96	—	—	638
Adjustment related to adoption of ASU 2018-02	—	—	107	(107)	—
Stock-based compensation	—	788	—	—	788
Cash dividends declared on common stock	—	—	(2,200)	—	(2,200)
Sale of 74,026 shares of common stock, net of issuance costs of $286	370	373	—	—	743
Acquisition of Delanco Bancorp, Inc., 1,022,106 shares of common stock, $14.05 per share	5,111	9,251	—	—	14,362
Balance – December 31, 2018	93,132	67,417	35,222	(935)	194,836
Net income	—	—	13,445	—	13,445
Other comprehensive income, net of tax	—	—	—	962	962
Vesting of restricted stock, 31,296 shares	156	(156)	—	—	—
Exercise of stock options, 19,834 shares	99	14	—	—	113
Stock-based compensation expense	—	927	—	—	927
Cash dividends declared on common stock	—	—	(2,300)	—	(2,300)
Acquisition of Grand Bank, N.A. 1,699,941 shares of common stock, $10.83 per share	8,500	9,910	—	—	18,410
Balance – December 31, 2019	$101,887	$78,112	$46,367	$ 27	$226,393

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

FIRST BANK AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands, except for share data)

	Year Ended December 31,		
	2019	**2018**	**2017**
Cash flows from operating activities:			
Net income	$ 13,445	$ 17,589	$ 6,993
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan losses	3,984	3,447	2,675
Depreciation and amortization of premises and equipment	1,364	1,130	611
Amortization and accretion of premiums/discounts on investment securities, net	401	500	595
Amortization and accretion of fair value adjustments, net	(1,403)	(1,670)	(650)
Amortization and accretion of deferred loan fees and costs, net	(1,167)	(1,562)	(1,437)
Amortization of intangible assets	323	274	103
Amortization of subordinated debentures issuance cost	108	108	107
Stock-based compensation	927	788	433
Gains on sale of investment securities available for sale	—	(3)	—
Proceeds from sale of loans	4,517	17,583	6,151
Gains on sale of loans	(227)	(335)	(296)
Gains on sale of other real estate owned and other repossessed assets, net	(196)	(200)	(24)
Writedowns of other real estate owned	85	387	487
Income from bank-owned life insurance	(1,165)	(1,044)	(739)
Decrease (increase) in deferred income taxes	1,828	(1,959)	5,333
Changes in assets and liabilities:			
Increase in accrued interest receivable	(25)	(41)	(737)
Increase (decrease) in other assets	(9,915)	566	(3,744)
(Decrease) increase in accrued interest payable	(75)	24	143
Increase in other liabilities	7,998	1,339	527
Net cash provided by operating activities	20,807	36,921	16,531
Cash flows from investing activities:			
Net (increase) decrease in interest bearing time deposits with banks	(162)	218	3,327
Net loan originations	(118,923)	(171,025)	(159,906)
Purchases of investment securities available for sale	(8,451)	(3,000)	(21,330)
Purchases of investment securities held to maturity	(2,250)	(2,000)	(4,500)
Proceeds from sales of investment securities available for sale	—	18,732	—
Proceeds from maturities, calls and paydowns of investment securities available for sale	13,354	13,399	5,762
Proceeds from maturities, calls and paydowns of investment securities held to maturity	10,268	5,711	4,773
Net redemptions (purchases) of restricted stocks	48	(347)	(463)
Purchases of other investments	(185)	(149)	—
Proceeds from sales of other real estate owned	1,375	1,044	1,127
Purchases of bank-owned life insurance	(6,000)	(9,500)	(8,000)
Purchases of premises and equipment	(1,026)	(1,793)	(428)
Cash and cash equivalents acquired in acquisition	30,777	8,041	11,757
Net cash used in investing activities	(81,175)	(140,669)	(167,881)
Cash flows from financing activities:			
Net increase in deposits	76,792	118,083	116,991
Proceeds from borrowings	107,000	137,106	80,562
Repayments of borrowings	(94,875)	(138,570)	(70,257)
Proceeds from stock option and warrant exercises	113	638	765
Cash dividends paid on common stock	(2,300)	(2,200)	(1,106)
Net proceeds from sale of common stock	—	743	37,484
Net cash provided by financing activities	86,730	115,800	164,439
Net increase in cash and cash equivalents	26,362	12,052	13,089
Cash and cash equivalents at beginning of year	55,430	43,378	30,289
Cash and cash equivalents at end of year	$ 81,792	$ 55,430	$ 43,378

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

FIRST BANK AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS — (Continued)
(in thousands, except for share data)

	Year Ended December 31,		
	2019	2018	2017
Supplemental disclosures of cash flow information:			
Cash paid for interest on deposits and borrowings	$ 25,879	$ 17,770	$ 11,183
Cash paid for income taxes	3,860	4,185	5,581
Supplemental schedule of non-cash investing activities:			
Transfer of loans to other real estate owned	$ 455	$ 445	$ 435
Transfer of loans from held for sale to loans receivable	—	8,070	—
Acquisitions			
Non-cash assets acquired:			
Interest bearing time deposits with banks	$ —	$ 2,030	$ —
Investment securities	5,003	19,577	1,142
Restricted investment in bank stocks	897	167	936
Loans held for sale	—	23,058	3,317
Loans	146,255	55,683	170,861
Premises and equipment	1,180	4,443	2,728
Other real estate owned	717	1,058	1,017
Accrued interest receivable	527	389	518
Core deposit and other intangibles	931	720	796
Deferred tax asset	2,372	2,535	2,559
Other assets	1,530	416	384
Total non-cash assets acquired	159,412	110,076	184,258
Liabilities assumed:			
Deposits	170,906	108,151	155,226
Borrowings	—	—	20,091
Accrued interest payable	106	33	209
Other liabilities	946	1,148	1,314
Total liabilities assumed	171,958	109,332	176,840
Net non-cash assets acquired	(12,546)	744	7,418
Cash and cash equivalents acquired	30,777	8,041	11,757
Goodwill recorded in acquisition	179	5,577	10,497
Common stock issued in acquisition	$ 18,410	$ 14,362	$ 29,672
Number of common stock shares issued in acquisition	1,699,941	1,022,106	2,402,563
Supplemental schedule of non-cash financing activities:			
Vesting of restricted stock	156	106	69

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, 2019, 2018 and 2017

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, 2019, we operated eighteen full-service branches, including six branches and our corporate offices in our primary market of Mercer County, New Jersey. Our other branch offices are located in Gloucester, Hunterdon, Middlesex, Morris and Somerset Counties in New Jersey, and in Bucks and Chester Counties in Pennsylvania.

The Company is subject to regulation, supervision and examination by the New Jersey Department of Banking and Insurance and the Federal Deposit Insurance Corporation ("FDIC").

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.

Segment Reporting

Accounting Standards Codification ("ASC") Topic 280, *Segment Reporting*, 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. Our business is generated principally in central and northern New Jersey and eastern Pennsylvania. We generate additional business in Burlington, Gloucester and Camden Counties in southern New Jersey. Note 4 discusses the types of lending that the Company engages in.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, amounts due from banks, interest bearing deposits with banks and Federal funds sold. Cash and due from banks included $250,000 at December 31, 2019 and

Note 1 — Summary of Significant Accounting Policies — (Continued)

2018 representing compensating balances against a line of credit for a short-term borrowing facility with one of the Company's correspondent banks.

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, 2019 and 2018.

Other Investments

Other investments consist of the Solomon Hess Small Business Administration ("SBA") Loan Fund ("Fund"), purchased for the purpose of assisting the Company in satisfying its Community Reinvestment Act of 1977 (as amended) requirements. As the 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 on the equity method. 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, 2019 and 2018.

Note 1 — Summary of Significant Accounting Policies — (Continued)

Restricted Investment in Bank Stocks

Restricted stock is carried at cost and is composed of required investments in the common stock of the Federal Home Loan Bank of New York ("FHLB") and Atlantic Community Bancshares, Inc. ("ACBI"), the holding company for the ACBB. The Company is a member of FHLB and ACBI, and as a member, the Company is required to hold a certain amount of FHLB and ACBI stock. These equities are non-marketable. Management evaluates the restricted stock for impairment in accordance with ASC Topic 320, *Investments in Debt and Equity Securities*. 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 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, 2019 and 2018.

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 one to four 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

Note 1 — Summary of Significant Accounting Policies — (Continued)

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 Topic 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 Topic 310-30 were accounted for under ASC Topic 310-20, *Nonrefundable Fees and Other Costs*.

For acquired loans accounted for under ASC Topic 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. 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. 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.

In accordance with ASC Topic 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 Topic 310-30. To the extent that we cannot reasonably estimate cash flows, interest income recognition is discontinued.

Principal and interest payments on ASC Topic 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.

Note 1 — Summary of Significant Accounting Policies — (Continued)

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
- the 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.

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.

Note 1 — Summary of Significant Accounting Policies — (Continued)

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.

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 Topic 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, takes into account 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, 2019 and 2018 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

Note 1 — Summary of Significant Accounting Policies — (Continued)

condition. The determination 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, or, in the case of premises acquired in a business combination, the value on the acquisition date. Depreciation is calculated using the straight-line method over the estimated useful lives of ten to forty years for buildings and three to twenty 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 allowance.

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.

Goodwill and Other Intangible Assets

The Company’s intangible assets consist of goodwill and a core deposit intangible in connection with the acquisitions of Grand Bank, N.A. (“Grand Bank”) as of September 30, 2019, Delanco Bancorp, Inc. (“Delanco”) as of April 30, 2018 and Bucks County Bank as of September 15, 2017, and a core deposit intangible in connection with the acquisition of Heritage Community Bank in 2014. The initial recording of goodwill and other intangible assets required subjective judgments concerning estimates of the fair value of the acquired assets and assumed liabilities.

Goodwill arising from these acquisitions consist largely of the synergies and economies of scale expected from combining the operations of the acquired companies. None of the goodwill is expected to be deductible for income tax purposes. Goodwill is not amortized but is subject to annual tests for impairment or more often if events or circumstances indicate it may be impaired. The goodwill impairment analysis is generally a two-step test. However, the Company may first assess qualitative factors to determine whether it is necessary to perform the two-step quantitative goodwill impairment test. The Company is not required to calculate the fair value of the reporting unit if, based on a qualitative assessment, it is determined that it was more likely than not that the unit’s fair value was not less than its carrying amount. The first step compares the fair value of the reporting unit with its carrying amount, including goodwill. If the fair value of the reporting unit equals or exceeds its carrying amount, goodwill of the reporting unit is considered not impaired; however, if the carrying amount of the reporting unit exceeds its fair value, an additional step must be performed. That additional step compares the implied fair value of the reporting unit’s goodwill with the carrying amount of that goodwill. The implied fair value of goodwill is determined in a manner similar to the amount of goodwill calculated in a business combination, i.e., by measuring the excess of the estimated

Note 1 — Summary of Significant Accounting Policies — (Continued)

fair value of the reporting unit, as determined in the first step above, over the aggregate estimated fair values of the individual assets, liabilities, and identifiable intangibles, as if the reporting unit was being acquired in a business combination at the impairment test date. An impairment loss is recorded to the extent that the carrying amount of goodwill exceeds its implied fair value. The loss establishes a new basis in the goodwill and subsequent reversal of goodwill impairment losses are not permitted. The Company completed its annual goodwill impairment testing for its reporting unit as of August 31, 2019 using a qualitative analysis and it was determined that the fair value of the Company's goodwill was in excess of its carrying amount. As such, goodwill was not impaired as of August 31, 2019. The Company is not aware of any events or circumstances that would indicate an impairment related to goodwill as of December 31, 2019.

The Company's core deposit intangibles are amortized on an accelerated basis using an estimated life of ten years. An impairment loss would 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 has not recorded any impairment to its core deposit intangibles at December 31, 2019 or 2018.

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 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 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.

Note 1 — Summary of Significant Accounting Policies — (Continued)

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. In the event that there is new tax legislation affecting the statutory federal corporate income tax rate, the deferred tax position would be revalued to reflect the future impact of the higher or lower tax rate.

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%; 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% likelihood of being realized upon settlement with a taxing authority that has full knowledge of all relevant information. The determination of whether 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 Topic 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 comprehensive income.

Note 1 — Summary of Significant Accounting Policies — (Continued)

The components of accumulated other comprehensive income (loss) included in stockholders' equity were as follows:

	December 31,	
	2019	2018
	(in thousands)	
Net unrealized gains (losses) on investment securities available for sale	$ 37	$(1,235)
Net unrealized losses on investment securities transferred to held to maturity, net of amortization	—	(51)
Income tax effect	(10)	351
Accumulated other comprehensive income (loss)	$ 27	$ (935)

Recent Accounting Pronouncements

Accounting Standards Update ("ASU") 2016-02, "Leases (Topic 842)." Under this guidance, a lessee is 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 previous U.S. GAAP, which required only capital leases to be recognized on the balance sheet, this ASU requires both types of leases to be recognized on the balance sheet. The ASU also requires 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 Company adopted this guidance on January 1, 2019, electing the modified retrospective transition approach method that does not adjust previous periods. The Company's consolidated statements of financial condition were impacted by the recording of operating lease right-of-use assets of $9.2 million and operating lease liabilities of $9.7 million at January 1, 2019. See Note 10 for further information.

ASU 2016-13, "Financial Instruments — Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments." This guidance requires 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 this 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. In November 2019, the Financial Accounting Standards Board ("FASB") issued ASU 2019-10 to defer the effective date of ASU 2016-13 from January 1, 2020 to January 1, 2023 for calendar year smaller reporting companies like the Company. The Company is currently evaluating the impact of this guidance on its consolidated financial statements and has retained a specialized consultant to assist in its implementation and adoption.

ASU 2016-15, "Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments." This 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 for the Company for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years, with retrospective application. The adoption of this guidance only affected the Company's consolidated statements of cash flows and did not have a material impact.

Note 1 — Summary of Significant Accounting Policies — (Continued)

ASU 2017-04, "Intangibles — Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment." This 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 is currently evaluating the impact of this guidance on its consolidated financial statements but believes it will not have a material impact on its consolidated financial statements.

ASU 2017-08, "Receivables — Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization of Purchased Callable Debt Securities." This guidance shortens the amortization period for the premium on certain purchased callable debt securities to the earliest call date. Currently, premiums on purchased callable debt securities are generally amortized over the contractual life of the security. The guidance does not change the accounting for purchased callable debt securities held at a discount as the discount continues to be amortized to maturity. The Company's adoption of this guidance on January 1, 2019 did not have a material impact on its consolidated financial statements as the Company had already been accounting for amortization of premiums on purchased callable debt securities as prescribed in this guidance.

ASU 2018-13, "Fair Value Measurement (Topic 820): Disclosure Framework — Changes to the Disclosure Requirements for Fair Value Measurement." The amendments in this update change the disclosure requirements on fair value measurements in Topic 820, Fair Value Measurement by removing, modifying and adding certain disclosure requirements. The amendments in this update are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019, with early adoption permitted. The Company is currently evaluating the impact of this guidance on its consolidated financial statements but believes it will have no impact on its consolidated financial statements and will not have a material impact on its disclosures.

ASU 2019-07, "Codification Updates to SEC Sections — Amendments to SEC Paragraphs Pursuant to SEC Final Rule Releases No. 33-10532, Disclosure Update and Simplification, and Nos. 33-10231 and 33-10442, Investment Company Reporting Modernization, and Miscellaneous Updates." In 2018 the SEC issued Release No. 33-10532, Disclosure Update and Simplification, which amended certain disclosure requirements that had become redundant, outdated or superseded. In this Release, the SEC also referred certain of its disclosure requirements that overlap with, but require incremental information to, U.S. GAAP to the FASB for potential incorporation into its Accounting Standards Codification. After considering these referred disclosures the FASB issued this ASU, which the Company adopted as of September 30, 2019. The Company's adoption of this guidance did not have a material impact on its consolidated financial statements.

Reclassifications

Certain reclassifications, none of which are material, have been made to prior years' information to conform to the 2019 presentation.

Note 2 — Business Combinations

Grand Bank, N.A. Acquisition

At the close of business on September 30, 2019, First Bank completed its acquisition of Grand Bank, N.A., ("Grand Bank"), previously headquartered in Hamilton Square, New Jersey. The acquisition of Grand Bank expanded First Bank's presence in Mercer County, New Jersey through the addition of two full-service branches.

Note 2 — Business Combinations — (Continued)

Grand Bank shareholders received 3,262.956 shares of the Company's common stock for each share of Grand Bank common stock they owned as of the effective date of the acquisition. The aggregate consideration paid to Grand Bank shareholders was $18.4 million; however, the merger agreement also provided for, following the closing of the merger, the potential of additional compensation to the Grand Bank shareholders ("contingent consideration"). The contingent consideration would be due upon the occurrence of the sale of certain property previously owned by Grand Bank and acquired by First Bank in the merger. If the sale occurs prior to September 30, 2022, Grand Bank shareholders would be entitled to receive contingent consideration not to exceed $2.4 million, payable in the form of First Bank common stock. Under business combination accounting the Company determined that, at the time of acquisition, the property had no value and deemed that no contingent consideration liability was either required or likely to be required in the future. The contingent consideration will continue to be evaluated and, if recognized, measured at fair value with any changes in fair value recognized in earnings.

The Grand Bank acquisition was accounted for using the business combination method of accounting. Under this method of accounting, the purchase price has been allocated to the respective assets acquired and liabilities assumed based upon their estimated fair values, net of tax, as of the acquisition date. The excess consideration paid over the fair value of the net assets acquired has been reported as goodwill in the Company's consolidated statements of financial condition.

In connection with the acquisition, the consideration paid and the fair value of identifiable assets acquired and liabilities assumed as of the date of acquisition are summarized in the following table:

	Estimated Fair Value At September 30, 2019 (in thousands)
Consideration paid:	
Common stock issued in acquisition	$ 18,410
Assets acquired:	
Cash and cash equivalents	30,777
Investment securities	5,003
Restricted investment in bank stocks	897
Loans	146,255
Premises and equipment	1,180
Other real estate owned	717
Accrued interest receivable	527
Core deposit and other intangibles	931
Deferred tax asset	2,372
Other assets	1,530
Total assets acquired	190,189
Liabilities assumed:	
Deposits	170,906
Accrued interest payable	106
Other liabilities	946
Total liabilities assumed	171,958
Net assets acquired	18,231
Goodwill recorded in acquisition	$ 179

Note 2 — Business Combinations — (Continued)

The assets acquired and liabilities assumed in the acquisition of Grand Bank were recorded at their estimated fair values based on management's best estimates using information available at the date of the acquisition and are subject to adjustment for up to one year after the closing date of the acquisition. The fair values are not expected to be materially different from the estimates. As of the issuance of these financial statements, deferred income taxes are considered to be a provisional estimate until the final tax return of Grand Bank is completed.

Acquired loans are initially recorded at their acquisition-date fair values using Level 3 inputs. Refer to Note 19, Fair Value Measurement and Fair Value of Financial Instruments, for a discussion of the fair value hierarchy. Fair values are based on a discounted cash flow methodology that involves assumptions and judgments as to credit risk, expected lifetime losses, environmental factors, collateral values, discount rates, expected payments and expected prepayments. Specifically, the Company has prepared three separate loan fair value adjustments that it believes a market participant might employ in estimating the entire fair value adjustment necessary under ASC 820-10, Fair Value Measurement-Overall, for the acquired loan portfolio. The three separate fair valuation methodologies employed are: (i) an interest rate loan fair value adjustment, (ii) a general credit fair value adjustment, and (iii) a specific credit fair value adjustment for purchased credit impaired ("PCI") loans subject to ASC 310-30 provisions. The acquired loans were recorded at fair value at the acquisition date without carryover of Grand Bank's previously established allowance for loan losses. The fair value of the financial assets acquired included loans receivable with a book balance, prior to fair value adjustments, of $149.2 million.

The table below illustrates the fair value adjustments made to the amortized cost basis to present the fair value of the loans acquired.

	At September 30, 2019 (in thousands)
Gross Principal Balance, net of loan discounts	$149,155
Interest rate fair value adjustment on performing loans	2,559
Credit fair value adjustment on performing loans	(3,540)
Credit fair value adjustment on acquired impaired loans	(1,919)
Fair value of acquired loans	$146,255

The credit fair value adjustment on PCI loans represents the portion of the loan balances that have been deemed uncollectible based on the Company's expectations of future cash flows for each respective loan.

	At September 30, 2019 (in thousands)
Contractually required principal and interest at acquisition	$ 8,092
Contractual cash flows not expected to be collected (non-accretable discount, includes principal and interest)	(4,766)
Expected cash flows at acquisition	3,326
Interest component of expected cash flows (accretable discount)	(566)
Fair value of loans acquired accounted for under ASC 310-30	$ 2,760

For loans acquired without evidence of credit deterioration, the Company prepared interest rate loan fair value and credit fair value adjustments. Loans were grouped into homogeneous pools by characteristics such as loan type, term, collateral and rate. Market rates for similar loans were obtained from various

Note 2 — Business Combinations — (Continued)

internal and external data sources and reviewed for reasonableness. The average of these rates was used as the fair value interest rate a market participant would utilize. A present value approach was utilized to calculate the interest rate fair value premium of $2.6 million. Additionally, for loans acquired without credit deterioration, a credit fair value adjustment was calculated using a two-part credit fair value analysis: (i) expected lifetime credit migration losses, and (ii) estimated fair value adjustment for certain qualitative factors. The expected lifetime losses were calculated using historical losses observed at Grand Bank. An estimated environmental factor was also derived to apply to each loan type. The environmental factor represents the potential discount which may arise due to general credit and economic factors. A credit fair value discount of $3.5 million was determined. Both the interest rate and credit fair value adjustments related to loans acquired without evidence of credit deterioration will be substantially recognized as interest income over the expected life of the loans.

In connection with the acquisition of Grand Bank, the Company recorded a net deferred income tax asset of $2.4 million related to certain tax attributes of Grand Bank, along with the effects of fair value adjustments resulting from applying the acquisition method of accounting.

The fair value of savings and transaction deposit accounts acquired from Grand Bank provide value to the Company as a source of below market rate funds. The fair value of the core deposit intangible was determined based on a discounted cash flow analysis using a discount rate based on the estimated cost of capital for a market participant. To calculate cash flows, the sum of deposit account servicing costs (net of deposit fee income) and interest expense on deposits was compared to the cost of alternative funding sources available to the Company. The expected cash flows of the deposit base included estimated attrition rates. The core deposit intangible was valued at $343,000 or 0.59% of core deposits. The core deposit intangible asset is being amortized on an accelerated basis over ten years.

The fair value of certificate of deposit accounts was determined by compiling individual account data into groups of equal remaining maturities with corresponding calculated weighted average rates. Each maturity group's weighted average rate was compared to market rates for similar maturities and then priced to yield market rates. This valuation adjustment was determined to be $358,000 and is being amortized in line with the expected cash flows driven by the maturities of these deposits, primarily over the next five years.

Direct costs related to the merger were accrued and expensed as incurred. During the year ended December 31, 2019, the Company incurred $3.6 million in Grand Bank merger-related expenses, including core system termination and integration fees of $2.4 million, legal fees of $328,000, severance expenses of $279,000, a fee paid to the Company's financial advisors of $250,000, other professional fees of $154,000 and $222,000 in other merger-related expenses.

Supplemental Pro Forma Financial Information (Unaudited)

The following table presents unaudited financial information regarding the former Grand Bank operations included in the consolidated statements of income from September 30, 2019, the date of the acquisition, through December 31, 2019. In addition, the pro forma table presents unaudited financial information regarding the former Grand Bank operations included in the consolidated statements of income assuming the Grand Bank acquisition had been completed as of January 1, 2019 for the year ended December 31, 2019 and as of January 1, 2018 for the year ended December 31, 2018. The table has been prepared for comparative purposes only and is not necessarily indicative of the actual results that would have been attained had the acquisition occurred at the beginning of the periods presented, nor is it indicative of future results.

Furthermore, the unaudited pro forma financial information includes merger-related expenses but does not reflect management's estimate of any revenue-enhancing opportunities, cost savings or the impact of

Note 2 — Business Combinations — (Continued)

conforming certain accounting policies of Grand Bank to the Company's policies that may have occurred as a result of the integration and consolidation of Grand Bank's operations.

	Actual from October 1, 2019 to December 31, 2019	Pro forma Combined Year Ended December 31, 2019	Pro forma Combined Year Ended December 31, 2018
	(in thousands, except for share data)		
Interest income	$2,418	$91,653	$82,953
Interest expense	549	27,460	19,755
Provision for loan losses	—	4,384	3,995
Non-interest income	288	4,691	5,133
Non-interest expense	1,901	45,529	41,698
Income taxes	65	4,846	4,234
Net income	$ 191	$14,125	$18,404
Earnings per diluted share	$ 0.01	$ 0.68	$ 0.91

Delanco Bancorp, Inc. Acquisition

On April 30, 2018, First Bank completed its acquisition of Delanco Bancorp, Inc. ("Delanco"), a New Jersey corporation, and its wholly-owned subsidiary Delanco Federal Savings Bank, a federal savings bank, both previously headquartered in Delanco, New Jersey. The acquisition of Delanco expanded First Bank's New Jersey presence in Burlington County through the addition of two full-service branches in Delanco and Cinnaminson, New Jersey.

Delanco shareholders received 1.11 shares of the Company's common stock for each share of Delanco common stock they owned as of the effective date of the acquisition. The aggregate consideration paid to Delanco shareholders was $14.4 million. The results of Delanco's operations are included in the Company's unaudited consolidated statements of income for the year ended December 31, 2018 for the period beginning April 30, 2018, the date of the acquisition.

The Delanco acquisition was accounted for using the purchase method of accounting. Under this method of accounting, the purchase price has been allocated to the respective assets acquired and liabilities assumed based upon their estimated fair values, net of tax, as of the acquisition date. The excess consideration paid over the fair value of the net assets acquired has been reported as goodwill in the Company's consolidated statements of financial condition.

Note 2 — Business Combinations — (Continued)

In connection with the acquisition, the consideration paid and the fair value of identifiable assets acquired and liabilities assumed as of the date of acquisition are summarized in the following table:

	Estimated Fair Value At April 30, 2018
	(in thousands)
Consideration paid:	
Common stock issued in acquisition	$ 14,362
Assets acquired:	
Cash and cash equivalents	8,041
Interest bearing time deposits with banks	2,030
Investment securities	19,577
Restricted investment in bank stocks	167
Loans held for sale	23,058
Loans	55,683
Premises and equipment	4,443
Other real estate owned	1,058
Accrued interest receivable	389
Core deposit intangible	720
Deferred tax asset	2,535
Other assets	416
Total assets acquired	118,117
Liabilities assumed:	
Deposits	108,151
Accrued interest payable	33
Other liabilities	1,148
Total liabilities assumed	109,332
Net assets acquired	8,785
Goodwill recorded in acquisition	$ 5,577

The assets acquired and liabilities assumed in the acquisition of Delanco were recorded at their estimated fair values based on management's best estimates using information available at the date of the acquisition and are subject to adjustment for up to one year after the closing date of the acquisition. During the fourth quarter of 2018 the Company recorded a $77,000 increase in goodwill due to a reduction in the Company's estimate of usable deferred tax assets from Delanco. On December 31, 2018, the Company finalized its review of the acquired assets and liabilities and will not be recording any further adjustments to the carrying value.

Direct costs related to the merger were accrued and expensed as incurred. For the year ended December 31, 2018, the Company incurred $988,000 in Delanco merger-related expenses, including severance pay compensation and retention bonuses of $190,000, legal fees of $147,000, a fee paid to our financial advisor of $154,000, core system integration fees of $257,000, other professional fees of $114,000 and $126,000 in other merger-related expenses.

Note 2 — Business Combinations — (Continued)

Supplemental Pro Forma Financial Information (Unaudited)

The following table presents unaudited financial information regarding the former Delanco operations included in the consolidated statements of income from April 30, 2018, the date of the acquisition, through December 31, 2018. In addition, the table provides unaudited condensed pro forma financial information assuming the Delanco acquisition had been completed as of January 1, 2018 for the year ended December 31, 2018 and as of January 1, 2017 for the year ended December 31, 2017. The table has been prepared for comparative purposes only and is not necessarily indicative of the actual results that would have been attained had the acquisition occurred at the beginning of the periods presented, nor is it indicative of future results.

Furthermore, the unaudited pro forma financial information includes merger-related expenses but does not reflect management's estimate of any revenue-enhancing opportunities, cost savings or the impact of conforming certain accounting policies of Delanco to the Company's policies that may have occurred as a result of the integration and consolidation of Delanco's operations. The combined pro forma information reflects adjustments related to certain purchase accounting fair value adjustments and amortization of the core deposit intangibles.

	Delanco Actual from May 1, 2018 to December 31, 2018	Pro forma Combined Year Ended December 31, 2018	Pro forma Combined Year Ended December 31, 2017
	(in thousands, except for share data)		
Interest income	$2,424	$74,147	$55,428
Interest expense	340	17,855	12,039
Provision for loan losses	—	3,447	2,565
Non-interest income	108	3,598	2,360
Non-interest expense	1,152	35,172	28,444
Income taxes	194	3,978	8,037
Net income	$ 846	$17,293	$ 6,703
Earnings per diluted share	$ 0.05	$ 0.91	$ 0.43

Bucks County Bank Acquisition

On September 15, 2017, First Bank completed its acquisition of Bucks County Bank ("BCB"), a Pennsylvania state-chartered commercial bank previously headquartered in Doylestown, Bucks County, Pennsylvania. BCB shareholders received 0.98 shares of the Company's common stock for each share of BCB common stock they owned as of the effective date of the acquisition. The aggregate consideration paid to BCB shareholders was $29.7 million. The results of BCB's operations are included in the Company's consolidated statements of income for the year ended December 31, 2017 for the period beginning September 15, 2017, the date of the acquisition. The acquisition of BCB added market share in one of the Company's target markets: Bucks County, Pennsylvania. The acquisition resulted in four new branches in Doylestown, Warminster, Bensalem and Levittown, Pennsylvania.

The BCB acquisition was accounted for using the purchase method of accounting and, accordingly, assets acquired, liabilities assumed and consideration paid were recorded at their estimated fair values as of the acquisition date. The $10.5 million excess consideration paid over the fair value of net assets acquired has been reported as goodwill in the Company's consolidated statements of financial condition.

Note 2 — Business Combinations — (Continued)

In connection with the acquisition, the consideration paid and the fair value of identifiable assets acquired and liabilities assumed as of the date of acquisition are summarized in the following table:

	Estimated Fair Value At September 15, 2017
	(in thousands)
Consideration paid:	
Common stock issued in acquisition	$ 29,672
Assets acquired:	
Cash and cash equivalents	11,757
Investment securities available for sale	1,142
Restricted investment in bank stocks	936
Loans held for sale	3,317
Loans	170,861
Premises and equipment, net	2,728
Other real estate owned, net	1,017
Accrued interest receivable	518
Core deposit intangible	796
Deferred tax asset	2,559
Other assets	384
Total assets acquired	196,015
Liabilities assumed:	
Deposits	155,226
Borrowings	20,091
Accrued interest payable	209
Other liabilities	1,314
Total liabilities assumed	176,840
Net assets acquired	19,175
Goodwill recorded in acquisition	$ 10,497

The assets acquired and liabilities assumed in the acquisition of BCB were recorded at their estimated fair values based on management's best estimates using information available at the date of the acquisition and were subject to adjustment for up to one year after the closing date of the acquisition. On December 31, 2017, the Company finalized its review of the acquired assets and liabilities with no change to the original estimates.

Direct costs related to the merger were accrued and expensed as incurred. For the year ended December 31, 2017, the Company incurred $1.6 million in merger-related expenses related to the BCB acquisition, including severance pay compensation and retention bonuses of $445,000, legal fees of $302,000, a fee paid to our financial advisor of $255,000, core system integration fees of $240,000, other professional fees of $173,000, and $88,000 in other merger-related expenses.

Note 2 — Business Combinations — (Continued)

Supplemental Pro Forma Financial Information (Unaudited)

The following table presents unaudited condensed financial information regarding the former BCB operations included in the Company's consolidated statements of income from September 15, 2017, the date of the acquisition, through December 31, 2017. In addition, the table provides unaudited condensed pro forma financial information assuming the BCB acquisition had been completed as of January 1, 2017 for the year ended December 31, 2017 and as of January 1, 2016 for the year ended December 31, 2016. The table has been prepared for comparative purposes only and is not necessarily indicative of the actual results that would have been attained had the acquisition occurred at the beginning of the periods presented, nor is it indicative of future results.

	BCB Proforma from September 15, 2017 to December 31, 2017	Pro forma Combined Year Ended December 31, 2017	Pro forma Combined Year Ended December 31, 2016
	(in thousands, except for share data)		
Interest income	$2,831	$57,767	$47,213
Interest expense	315	12,718	11,322
Provision for loan losses	—	2,884	2,909
Non-interest income	170	2,432	2,231
Non-interest expense	1,622	31,164	24,718
Income taxes	362	7,218	3,506
Net income	$ 702	$ 6,215	$ 6,989
Earnings per diluted share	$ 0.04	$ 0.38	$ 0.54

Fair Value Measurement of Assets Acquired and Liabilities Assumed

The methods used to determine the fair value of the assets acquired and the liabilities assumed in the Grand Bank, Delanco and BCB acquisitions were as follows. Refer to Note 19, Fair Value Measurement and Fair Value of Financial Instruments, for a discussion of the fair value hierarchy.

Investment Securities

The estimated fair values of investment securities were calculated utilizing Level 2 inputs. The securities acquired are bought and sold in active markets. Prices for these instruments were determined using matrix pricing, which is a mathematical technique used widely in the industry to value debt securities without relying exclusively on quoted market prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted prices.

Loans

The acquired loan portfolio was valued utilizing Level 3 inputs and included the use of present value techniques employing cash flow estimates and incorporated assumptions that marketplace participants would use in estimating fair values. In instances where reliable market information was not available, the Company used its own assumptions in an effort to determine reasonable fair value. Specifically, the Company utilized three separate fair value analyses which a market participant would employ in estimating the total fair value adjustment. The three fair valuation methodologies used were: (i) interest rate loan fair value analysis; (ii) general credit fair value adjustment; and (iii) specific credit fair value adjustment.

To prepare the interest rate fair value analysis, loans were grouped by characteristics such as loan type, term, collateral and rate. Market rates for similar loans were obtained from various external data sources

Note 2 — Business Combinations — (Continued)

and reviewed by Company management for reasonableness. The average of these rates was used as the fair value interest rate a market participant would utilize. A present value approach was utilized to calculate the interest rate fair value adjustment.

The general credit fair value adjustment was calculated using a two part general credit fair value analysis: (i) expected lifetime losses and (ii) estimated fair value adjustment for qualitative factors. The expected lifetime losses were calculated using an average of historical losses of the acquired bank. The adjustment related to qualitative factors was impacted by general economic conditions and the risk related to lack of experience with the originator's underwriting process.

To calculate the specific credit fair value adjustment the Company reviewed the acquired loan portfolio for loans meeting the definition of an impaired loan with deteriorated credit quality. Loans meeting these criteria were reviewed by comparing the contractual cash flows to expected collectable cash flows.

The aggregate expected cash flows less the acquisition date fair value resulted in an accretable yield amount which will be recognized over the life of the loans on a level yield basis as an adjustment to yield.

Premises

The estimated fair value of premises was measured based upon appraisals from independent third parties.

Other Real Estate Owned

The estimated fair value of other real estate owned was determined by sales agreements or appraisals by qualified licensed appraisers. Costs to sell are based on estimation per the terms and conditions of the sales agreements or appraisals. These assets are included as Level 3 fair values.

Core Deposit Intangible

The fair value of savings and transaction deposit accounts provide value to the Company as a source of below market rate funds. The fair value of the core deposit intangible was determined based on a discounted cash flow analysis using a discount rate based on the estimated cost of capital for a market participant. To calculate cash flows, the sum of deposit account servicing costs (net of deposit fee income) and interest expense on deposits were compared to the cost of alternative funding sources available to the Company. The expected cash flows of the deposit base included estimated attrition rates. The core deposit intangible is amortized on an accelerated basis over ten years.

Certificates of Deposit

The fair value of certificate of deposit accounts was determined by compiling individual account data into groups of equal remaining maturities with corresponding calculated weighted average rates. Each maturity group's weighted average rate was compared to market rates for similar maturities and then priced to yield market rates. This valuation adjustment is amortized in line with the expected cash flows driven by the maturities of these deposits, primarily over the next five years.

Borrowings

Fair value estimates of borrowings were based on the discounting of contractual cash flows using rates which approximate the rates offered for borrowings of similar remaining maturities.

Note 3 — Investment Securities

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

	December 31, 2019			
	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	$27,948	$103	$ (76)	$27,975
Issued by GNMA	3,848	—	(40)	3,808
U.S. Treasury securities	8,960	26	(2)	8,984
Asset-backed securities	2,130	—	(44)	2,086
Corporate obligations	4,539	70	—	4,609
Total	$47,425	$199	$(162)	$47,462

	December 31, 2018			
	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	$31,487	$16	$ (902)	$30,601
Issued by GNMA	4,844	1	(196)	4,649
U.S. Treasury securities	8,997	14	(75)	8,936
Asset-backed securities	2,615	3	(30)	2,588
Corporate obligations	4,552	5	(71)	4,486
Total	$52,495	$39	$(1,274)	$51,260

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

	December 31, 2019			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(in thousands)			
Investment securities held to maturity				
Residential mortgage-backed securities:				
Issued by FNMA and FHLMC	$10,182	$ 27	$(78)	$10,131
Issued by GNMA	1,435	—	—	1,435
Obligations of state and political subdivisions	15,995	209	—	16,204
Corporate obligations	19,000	330	—	19,330
Total	$46,612	$566	$(78)	$47,100

Note 3 — Investment Securities — (Continued)

	December 31, 2018			
	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	$ 9	$ —	$ 2,009
Residential mortgage-backed securities:				
Issued by FNMA and FHLMC	12,408	—	(436)	11,972
Issued by GNMA	1,479	—	(65)	1,414
Obligations of state and political subdivisions	22,174	30	(101)	22,103
Corporate obligations	11,750	163	—	11,913
Total	$49,811	$202	$(602)	$49,411

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, 2019			
	Available for Sale		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(in thousands)			
Due within one year	$ 6,463	$ 6,492	$ 3,587	$ 3,598
Due after one year through five years	8,462	8,486	11,013	11,157
Due after five years through ten years	704	701	20,118	20,497
Due after ten years	—	—	277	282
Residential mortgage-backed securities:				
Issued by FNMA and FHLMC	27,948	27,975	10,182	10,131
Issued by GNMA	3,848	3,808	1,435	1,435
Total investment securities	$47,425	$47,462	$46,612	$47,100

Note 3 — 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 were as follows, as of the dates indicated:

	December 31, 2019								
	Less than 12 months			12 months or longer			Total		
	Number of Issues	Fair Value	Unrealized Losses	Number of Issues	Fair Value	Unrealized Losses	Number of Issues	Fair Value	Unrealized Losses
	(dollars in thousands)								
Investment securities available for sale									
Residential mortgage-backed securities:									
Issued by FNMA and FHLMC	—	$ —	$—	11	$11,505	$ (76)	11	$11,505	$ (76)
Issued by GNMA	—	—	—	7	3,618	(40)	7	3,618	(40)
U.S. Treasury securities	1	2,995	(2)	—	—	—	1	2,995	(2)
Asset-backed securities	1	702	(3)	1	1,384	(41)	2	2,086	(44)
Corporate obligations	—	—	—	—	—	—	—	—	—
Total	2	$3,697	$ (5)	19	$16,507	$(157)	21	$20,204	$(162)

	December 31, 2018								
	Less than 12 months			12 months or longer			Total		
	Number of Issues	Fair Value	Unrealized Losses	Number of Issues	Fair Value	Unrealized Losses	Number of Issues	Fair Value	Unrealized Losses
	(dollars in thousands)								
Investment securities available for sale									
Residential mortgage-backed securities:									
Issued by FNMA and FHLMC	—	$ —	$ —	20	$28,420	$ (902)	20	$28,420	$ (902)
Issued by GNMA	—	—	—	7	4,428	(196)	7	4,428	(196)
U.S. Treasury securities	—	—	—	2	5,924	(75)	2	5,924	(75)
Asset-backed securities	—	—	—	1	1,628	(30)	1	1,628	(30)
Corporate obligations	2	3,981	(71)	—	—	—	2	3,981	(71)
Total	2	$3,981	$(71)	30	$40,400	$(1,203)	32	$44,381	$(1,274)

Note 3 — Investment Securities — (Continued)

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

	December 31, 2019								
	Less than 12 months			12 months or longer			Total		
	Number of Issues	Fair Value	Unrealized Losses	Number of Issues	Fair Value	Unrealized Losses	Number of Issues	Fair Value	Unrealized Losses
	(dollars in thousands)								
Investment securities held to maturity									
Residential mortgage-backed securities:									
Issued by FNMA and FHLMC	—	$—	$—	9	$6,125	$(78)	9	$6,125	$(78)
Total	—	$—	$—	9	$6,125	$(78)	9	$6,125	$(78)

	December 31, 2018								
	Less than 12 months			12 months or longer			Total		
	Number of Issues	Fair Value	Unrealized Losses	Number of Issues	Fair Value	Unrealized Losses	Number of Issues	Fair Value	Unrealized Losses
	(dollars in thousands)								
Investment securities held to maturity									
Residential mortgage-backed securities:									
Issued by FNMA and FHLMC	1	$ 377	$(13)	13	$11,595	$(423)	14	$11,972	$(436)
Issued by GNMA	—	—	—	1	1,414	(65)	1	$ 1,414	(65)
Obligations of state and political subdivisions	18	8,657	(63)	12	6,853	(38)	30	$15,510	(101)
Total	19	$9,034	$(76)	26	$19,862	$(526)	45	$28,896	$(602)

Investment securities with unrealized losses are evaluated quarterly to determine whether the losses are other than temporary. At December 31, 2019 and 2018, 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 relatively 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 these investment securities.

There were no sales of securities during 2019. Proceeds from the sale of securities available for sale during 2018 were $18.7 million. Gross gains of $3,000 and gross losses of $0 were realized on those sales. There were no sales of securities during 2017.

Investment securities with a market value of $16.6 million and $21.1 million at December 31, 2019 and December 31, 2018, respectively, were pledged as collateral for municipal deposits and Federal Home Loan Bank (“FHLB”) borrowings.

Note 4 — Loans

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

	December 31,	
	2019	2018
	(in thousands)	
Commercial and industrial	$ 239,090	$ 195,786
Commercial real estate:		
Owner-occupied	395,995	355,062
Investor	673,300	567,407
Construction and development	105,709	85,064
Multi-family	119,005	87,930
Residential real estate:		
Residential mortgage and first lien home equity loans	123,917	101,341
Home equity – second lien loans and revolving lines of credit	32,555	28,563
Consumer and other	35,810	43,070
	1,725,381	1,464,223
Net deferred loan fees and costs	(1,807)	(1,707)
Total loans	$1,723,574	$1,462,516

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 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

Note 4 — Loans — (Continued)

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 one to four 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, one to four 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, 2019 and 2018.

	December 31, 2019			
	Pass	Special Mention	Substandard	Total
	(in thousands)			
Commercial and industrial	$ 216,490	$ 7,983	$14,617	$ 239,090
Commercial real estate:				
Owner-occupied	378,918	11,080	5,997	395,995
Investor	670,554	399	2,347	673,300
Construction and development	105,235	—	474	105,709
Multi-family	116,051	—	2,954	119,005
Residential real estate:				
Residential mortgage and first lien home equity loans	118,706	312	4,899	123,917
Home equity – second lien loans and revolving lines of credit	31,243	768	544	32,555
Consumer and other	35,748	—	62	35,810
Total	$1,672,945	$20,542	$31,894	$1,725,381

Note 4 — Loans — (Continued)

	December 31, 2018			
	Pass	Special Mention	Substandard	Total
	(in thousands)			
Commercial and industrial	$ 192,604	$1,689	$ 1,493	$ 195,786
Commercial real estate:				
Owner-occupied	349,023	1,344	4,695	355,062
Investor	564,415	926	2,066	567,407
Construction and development	85,064	—	—	85,064
Multi-family	83,258	—	4,672	87,930
Residential real estate:				
Residential mortgage and first lien home equity loans	97,731	332	3,278	101,341
Home equity – second lien loans and revolving lines of credit	27,383	753	427	28,563
Consumer and other	42,839	—	231	43,070
Total	$1,442,317	$5,044	$16,862	$1,464,223

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, 2019						
	30 – 59 Days Past Due	60 – 89 Days Past Due	90 Days or More Past Due and Still Accruing	Nonaccrual	Total Past Due	Total Current	Total
	(in thousands)						
Commercial and industrial	$1,493	$ —	$1,122	$12,985	$15,600	$ 223,278	$ 238,878
Commercial real estate:							
Owner-occupied	2,540	361	—	5,693	8,594	386,212	394,806
Investor	—	399	—	662	1,061	671,950	673,011
Construction and development	—	—	—	—	—	105,235	105,235
Multi-family	208	—	73	730	1,011	117,994	119,005
Residential real estate:							
Residential mortgage and first lien home equity loans	596	28	—	928	1,552	118,549	120,101
Home equity – second lien loans and revolving lines of credit	670	—	—	494	1,164	31,374	32,538
Consumer and other	—	—	—	61	61	35,749	35,810
Total	$5,507	$788	$1,195	$21,553	$29,043	$1,690,341	$1,719,384

Note 4 — Loans — (Continued)

Nonaccrual loans in the preceding table do not include $6.0 million of PCI loans, which were recorded at fair value at acquisition.

	December 31, 2018						
	30 – 59 Days Past Due	60 – 89 Days Past Due	90 Days or More Past Due and Still Accruing	Nonaccrual	Total Past Due	Total Current	Total
	(in thousands)						
Commercial and industrial	$2,538	$1,944	$ —	$1,307	$ 5,789	$ 189,811	$ 195,600
Commercial real estate:							
Owner-occupied	545	685	—	1,071	2,301	351,651	353,952
Investor	504	428	12	121	1,065	565,948	567,013
Construction and development	—	—	—	—	—	85,064	85,064
Multi-family	198	—	323	2,146	2,667	85,263	87,930
Residential real estate:							
Residential mortgage and first lien home equity loans	1,991	308	99	854	3,252	95,665	98,917
Home equity – second lien loans and revolving lines of credit	609	261	—	246	1,116	27,266	28,382
Consumer and other	115	46	—	183	344	42,726	43,070
Total	$6,500	$3,672	$434	$5,928	$16,534	$1,443,394	$1,459,928

Nonaccrual loans in the preceding table do not include $4.3 million of PCI loans, 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 $1.3 million and $592,000 at December 31, 2019 and 2018, respectively. The amount of foreclosed residential real estate property held by the Company at December 31, 2019 and 2018 was $379,000 and $63,000, respectively.

The outstanding principal balance and related carrying amount of PCI loans, for which the Company applies the provisions of ASC Topic 310-30, were as follows as of the dates indicated:

	December 31,	
	2019	2018
	(in thousands)	
Outstanding principal balance	$15,241	$12,768
Carrying amount	5,997	4,295

Note 4 — Loans — (Continued)

The following table presents the change in the accretable discount on PCI loans for the periods presented.

	Year Ended December 31, 2019	2018	2017
	(in thousands)		
Accretable discount balance – beginning of year	$ 394	$ 258	$ 48
Addition from acquistion of Grand Bank, N.A.	566	—	—
Addition from acquisition of Delanco Bancorp, Inc.	—	447	—
Addition from acquisition of Bucks County Bank	—	—	349
Reclassifications from nonaccretable[1]	—	92	—
Accretion recorded to interest income	(345)	(403)	(139)
Accretable discount balance – end of year	$ 615	$ 394	$ 258

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

Note 5 — Allowance for Loan Losses

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

		Commercial real estate				Residential real estate			
	Commercial and industrial	Owner-occupied	Investor	Construction and development	Multi-family	Residential mortgage and first lien home equity loans	Home equity — second lien loans and revolving lines of credit	Consumer and other	Total
	(in thousands)								
Year Ended December 31, 2019									
Balance – beginning of period	$ 2,456	$3,249	$6,152	$782	$1,473	$482	$186	$355	15,135
Charge offs	(1,564)	(94)	(98)	—	(377)	(4)	—	(18)	(2,155)
Recoveries	70	201	—	—	—	—	10	—	281
Provision for loan losses	3,475	(214)	577	193	27	10	(56)	(28)	3,984
Balance – end of period	$ 4,437	$3,142	$6,631	$975	$1,123	$488	$140	$309	$17,245

		Commercial real estate				Residential real estate			
	Commercial and industrial	Owner-occupied	Investor	Construction and development	Multi-family	Residential mortgage and first lien home equity loans	Home equity — second lien loans and revolving lines of credit	Consumer and other	Total
	(in thousands)								
Year Ended December 31, 2018									
Balance – beginning of period	$1,673	$2,864	$5,182	$654	$ 526	$497	$ 108	$193	$11,697
Charge offs	(281)	—	(125)	—	—	(21)	(113)	(2)	(542)
Recoveries	131	86	125	—	—	2	188	1	533
Provision for loan losses	933	299	970	128	947	4	3	163	3,447
Balance – end of period	$2,456	$3,249	$6,152	$782	$1,473	$482	$ 186	$355	$15,135

Note 5 — Allowance for Loan Losses — (Continued)

		Commercial real estate				Residential real estate			
	Commercial and industrial	Owner-occupied	Investor	Construction and development	Multi-family	Residential mortgage and first lien home equity loans	Home equity-second lien loans and revolving lines of credit	Consumer and other	Total
	(in thousands)								
Year Ended December 31, 2017									
Balance – beginning of period	$1,341	$2,628	$3,929	$730	$488	$389	$ 130	$191	$ 9,826
Charge offs	(246)	(359)	—	—	—	(63)	(173)	(31)	(872)
Recoveries	12	4	—	—	—	—	46	6	68
Provision for loan losses	566	591	1,253	(76)	38	171	105	27	2,675
Balance – end of period	$1,673	$2,864	$5,182	$654	$526	$497	$ 108	$193	$11,697

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, 2019							
	Loan Balances				Allowance for Loan Losses Balances			
	Individually Evaluated For Impairment	Collectively Evaluated For Impairment	PCI[1]	Total	Individually Evaluated For Impairment	Collectively Evaluated For Impairment	PCI[1]	Total
	(in thousands)							
Commercial and industrial	$12,986	$ 225,892	$ 212	$ 239,090	$961	$ 3,476	$—	$ 4,437
Commercial real estate:								
Owner-occupied	6,214	388,592	1,189	395,995	—	3,142	—	3,142
Investor	661	672,350	289	673,300	—	6,631	—	6,631
Construction and development	—	105,235	474	105,709	—	975	—	975
Multi-family	730	118,275	—	119,005	—	1,123	—	1,123
Residential real estate:								
Residential mortgage and first lien home equity loans	928	119,173	3,816	123,917	—	488	—	488
Home equity – second lien loans and revolving lines of credit	493	32,045	17	32,555	—	140	—	140
Consumer and other	67	35,743	—	35,810	—	309	—	309
Total	$22,079	$1,697,305	$5,997	$1,725,381	$961	$16,284	$—	$17,245

Note 5 — Allowance for Loan Losses — (Continued)

	December 31, 2018							
	Loan Balances				Allowance for Loan Losses Balances			
	Individually Evaluated For Impairment	Collectively Evaluated For Impairment	PCI[1]	Total	Individually Evaluated For Impairment	Collectively Evaluated For Impairment	PCI[1]	Total
	(in thousands)							
Commercial and industrial	$1,307	$ 194,293	$ 186	$ 195,786	$237	$ 2,219	$—	$ 2,456
Commercial real estate:								
Owner-occupied	1,071	352,881	1,110	355,062	—	3,249	—	3,249
Investor	121	566,892	394	567,407	—	6,152	—	6,152
Construction and development	—	85,064	—	85,064	—	782	—	782
Multi-family	2,146	85,784	—	87,930	696	777	—	1,473
Residential real estate:								
Residential mortgage and first lien home equity loans	854	98,063	2,424	101,341	—	482	—	482
Home equity – second lien loans and revolving lines of credit	246	28,136	181	28,563	—	186	—	186
Consumer and other	238	42,832	—	43,070	—	355	—	355
Total	$5,983	$1,453,945	$4,295	$1,464,223	$933	$14,202	$—	$15,135

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

Note 5 — 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, 2019			December 31, 2018		
	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	$11,741	$12,040	$ —	$ 901	$1,020	$ —
Commercial real estate:						
Owner-occupied	6,214	6,308	—	1,071	1,269	—
Investor	661	661	—	121	121	—
Multi-family	730	730	—	—	—	—
Residential real estate:						
Residential mortgage and first lien home equity loans	928	933	—	854	854	—
Home equity – second lien loans and revolving lines of credit	493	493	—	246	246	—
Consumer and other	67	67	—	238	238	—
Total	$20,834	$21,232	$ —	$3,431	$3,748	$ —
Impaired loans with a valuation allowance:						
Commercial and industrial	$ 1,245	$ 1,245	$961	$ 406	$ 406	$237
Commercial real estate:						
Multi-family	—	—	—	2,146	2,146	696
Total	$ 1,245	$ 1,245	$961	$2,552	$2,552	$933
Total impaired loans:						
Commercial and industrial	$12,986	$13,285	$961	$1,307	$1,426	$237
Commercial real estate:						
Owner-occupied	6,214	6,308	—	1,071	1,269	—
Investor	661	661	—	121	121	—
Multi-family	730	730	—	2,146	2,146	696
Residential real estate:						
Residential mortgage and first lien home equity loans	928	933	—	854	854	—
Home equity – second lien loans and revolving lines of credit	493	493	—	246	246	—
Consumer and other	67	67	—	238	238	—
Total	$22,079	$22,477	$961	$5,983	$6,300	$933

Note 5 — Allowance for Loan Losses — (Continued)

Impaired loans in the preceding table do not include $6.0 million and $4.3 million of PCI loans, which were recorded at fair value at acquisition, at December 31, 2019 and 2018, respectively.

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

	Year Ended December 31, 2019			Year Ended December 31, 2018			Year Ended December 31, 2017		
	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	Average Recorded Investment	Interest Income Recognized	Interest Income Recognized on a Cash Basis
					(in thousands)				
Impaired loans without a valuation allowance:									
Commercial and industrial	$ 4,857	$—	$ —	$1,181	$—	$448	$1,365	$—	$22
Commercial real estate:									
Owner-occupied	3,629	16	130	1,145	—	16	1,718	—	57
Investor	429	—	—	462	—	9	91	—	—
Construction and development	—	—	—	49	—	5	—	—	—
Multi-family	1,281	—	—	—	—	—	17	—	1
Residential real estate:									
Residential mortgage and first lien home equity loans	999	—	—	657	—	—	995	—	—
Home equity – second lien loans and revolving lines of credit	243	—	24	213	—	1	561	—	1
Consumer and other	133	3	7	230	4	1	181	5	—
Total	11,571	19	161	3,937	4	480	4,928	5	81
Impaired loans with a valuation allowance:									
Commercial and industrial	128	—	—	211	—	—	—	—	—
Commercial real estate:									
Multi-family	—	—	—	265	—	—	—	—	—
Total	128	—	—	476	—	—	—	—	—
Total impaired loans:									
Commercial and industrial	4,985	—	—	1,392	—	448	1,365	—	22
Commercial real estate:									
Owner-occupied	3,629	16	130	1,145	—	16	1,718	—	57
Investor	429	—	—	462	—	9	91	—	—
Construction and development	—	—	—	49	—	5	—	—	—
Multi-family	1,281	—	—	265	—	—	17	—	1
Residential real estate:									
Residential mortgage and first lien home equity loans	999	—	—	657	—	—	995	—	—
Home equity – second lien loans and revolving lines of credit	243	—	24	213	—	1	561	—	1
Consumer and other	133	3	7	230	4	1	181	5	—
Total	$11,699	$19	$161	$4,413	$ 4	$480	$4,928	$ 5	$81

Note 5 — Allowance for Loan Losses — (Continued)

The information in the preceding table does not include PCI loans which were recorded at fair value at acquisition.

Troubled Debt Restructured Loans

Impaired loans include nonaccrual loans and 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, 2019, the Company had one TDR on nonaccrual status for $5.9 million and two TDRs totaling approximately $526,000 which were performing according to the terms of their modification. At December 31, 2018, the Company had one TDR on nonaccrual status for $475,000 and two TDRs totaling $56,000 which were performing according to the terms of their modification. During 2019 one TDR loan was paid off, one TDR previously on nonaccrual status became performing in accordance with the terms of their modification and one new TDR loan was executed. There were no new TDRs executed in 2018.

TDRs are individually evaluated for impairment and are included in impaired loans. There were no TDRs that subsequently defaulted during 2019 and 2018. There was no related allowance for any TDR included within the allowance for loan losses as of December 31, 2019 and 2018.

Note 6 — Premises and Equipment

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

	December 31,	
	2019	2018
	(in thousands)	
Land	$ 3,162	$ 2,973
Buildings	6,016	5,618
Leasehold improvements	5,265	4,482
Furniture, fixtures, equipment and software	5,044	4,207
	19,487	17,280
Accumulated depreciation and amortization	(7,606)	(6,277)
Total premises and equipment, net	$11,881	$11,003

Depreciation and amortization expense on premises and equipment for the years ended December 31, 2019, 2018 and 2017 was $1.4 million, $1.1 million and $611,000, respectively. Included in 2019 and 2018 were $36,000 and $17,000 in accretion, respectively, of fair value adjustments related to acquisitions. Included in 2017 was $3,000 in amortization of fair value adjustments related to acquisitions.

Note 7 — Goodwill and Intangible Assets

In 2019, the Company recorded goodwill and a core deposit intangible asset in connection with the acquisition of Grand Bank in the amounts of $179,000 and $343,000, respectively. In 2018, the Company recorded goodwill and a core deposit intangible asset in connection with the acquisition of Delanco in the amounts of $5.6 million and $720,000, respectively. In 2017, the Company recorded goodwill and a core deposit intangible asset in connection with the acquisition of Bucks County Bank in the amounts of $10.5 million and $796,000, respectively. In 2014, the Company recorded a core deposit intangible asset in connection with the acquisition of Heritage Community Bank in the amount

Note 7 — Goodwill and Intangible Assets — (Continued)

of $419,000. Also included in intangible assets are servicing assets associated with sold SBA loans of $680,000 and 112,000 at December 31, 2019 and 2018, respectively.

The core deposit intangible assets are being amortized on an accelerated basis over ten years. The following table summarizes the activity within the core deposit intangible assets for the years indicated:

	Year Ended December 31,		
	2019	2018	2017
	(in thousands)		
Balance – beginning of year	$1,363	$ 917	$ 224
Addition from acquisition of Grand Bank, N.A.	343	—	—
Addition from acquisition of Delanco Bancorp, Inc.	—	720	—
Addition from acquisition of Bucks County Bank	—	—	796
Amortization	(303)	(274)	(103)
Balance – end of year	$1,403	$1,363	$ 917

At December 31, 2019, the schedule of remaining amortization of the core deposit intangible assets was as follows:

	Remaining Amortization
	(in thousands)
2020	$ 313
2021	271
2022	230
2023	188
2024	147
Thereafter	254
Total	$1,403

Goodwill and core deposit intangible assets are evaluated annually for impairment. The Company believes that the fair value of goodwill and the core deposit intangible assets were in excess of their carrying amounts and therefore there was no impairment of intangible assets at December 31, 2019 and 2018. There were no accumulated impairment losses as of December 31, 2019, 2018 and 2017.

Note 8 — Deposits

Deposit composition was as follows as of the dates indicated:

	December 31,	
	2019	2018
	(in thousands)	
Non-interest bearing demand deposits	$ 275,778	$ 219,034
Interest bearing demand deposits	170,951	165,248
Money market and savings deposits	521,263	393,282
Time deposits, $100,000 and over	394,208	354,489
Time deposits, other	278,667	261,151
Total deposits	$1,640,867	$1,393,204

Note 8 — Deposits — (Continued)

The aggregate amount of demand and savings deposit overdrafts that has been reclassified as loans was $193,000 and $78,000 at December 31, 2019 and 2018, respectively. The aggregate amount of time deposits in denominations that met or exceeded the FDIC insurance limit of $250,000 at December 31, 2019 and 2018 was $174.0 million and $131.5 million, respectively. The Company had $70.7 million in brokered deposits at December 31, 2019, or 4.3% of total deposits, compared with $60.1 million, or 4.3% of total deposits, at December 31, 2018.

At December 31, 2019, the contractual maturities of time deposits were as follows:

	December 31, 2019
	(in thousands)
2020	$556,334
2021	89,858
2022	20,452
2023	1,939
2024	4,292
Total	$672,875

Note 9 — Borrowings and Subordinated Debentures

Borrowings at December 31, 2019 and 2018 consisted of FHLB advances. FHLB advances are secured by pledges of certain eligible collateral, including U.S. government and agency mortgage-backed securities and commercial loans. FHLB advances are summarized below:

	December 31,	
	2019	2018
	(in thousands, except rate information)	
FHLB advances	$105,476	$ 93,351
Maximum FHLB advances outstanding at any month end during year	146,253	129,509
Average balance for the year	113,740	109,419
Weighted average rate	2.19%	2.04%
Average interest rate for the year	2.16%	1.86%

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, 2019, the Company had the ability to borrow $164.3 million. The Company's borrowing facility at December 31, 2019 included $46.3 million in pledged securities and $118.0 million in commercial real estate loan collateral. At December 31, 2018, the Company had $56.6 million in pledged securities and $116.9 million in commercial real estate loan collateral.

Note 9 — Borrowings and Subordinated Debentures — (Continued)

The following table presents the contractual maturities of the Company's borrowings at December 31, 2019:

	December 31, 2019
	(in thousands)
2020	$ 20,420
2021	31,130
2022	38,490
2023	5,436
2024	10,000
Total	$105,476

The Company also had lines of credit for short-term borrowings with two correspondent banks at December 31, 2019 and 2018 for $35.0 million. There were no borrowings on these facilities at either date.

In 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 $22.0 million at December 31, 2019, which included $36,000 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 $21.9 million and 7.27%, respectively, in 2019 and $21.8 million and 7.31%, respectively, in 2018.

Note 10 — Leases

Effective January 1, 2019, the Company adopted ASU No. 2016-02 Leases (Topic 842) and all subsequent ASUs that modified Topic 842. For the Company, this ASU affected the accounting treatment for operating lease agreements in which the Company is the lessee by recognizing lease assets and liabilities in the consolidated statements of condition. All of the operating leases in which the Company is the lessee are comprised of real property primarily for branches and office space. At December 31, 2019, the Company's operating lease right-of-use assets and operating lease liabilities totaled $8.2 million and $8.6 million, respectively, and are reflected in the consolidated statements of financial condition in other assets and other liabilities, respectively.

In adopting the guidance, the Company used the following practical expedients for transitional relief as provided for in a subsequent ASU:

- An entity need not reassess whether any expired or existing contract are or contain leases.
- An entity need not reassess the lease classification for any expired or existing leases.
- An entity need not reassess initial direct costs for any existing leases.
- An entity may elect to apply hindsight to leases that existed during the period from the beginning of the earliest period presented in the financial statements until the effective date.

The Company also elected not to include short-term leases (i.e., leases with initial terms of twelve months or less), or equipment leases (deemed immaterial) in the consolidated statements of financial condition as provided for in the guidance.

Note 10 — Leases — (Continued)

The following provides additional information about the Company's operating leases:

At December 31, 2019:	
Weighted average remaining lease term	6.82 years
Weighted average discount rate	3.25%
Future minimum payments for the Years Ended:	
(in thousands)	
December 31, 2020	$1,782
December 31, 2021	1,568
December 31, 2022	1,518
December 31, 2023	1,423
December 31, 2024	963
Thereafter	2,432
Total	$9,686
Year Ended December 31, 2019:	
Operating lease cost (cost resulting from lease payments) (in thousands)	$1,764

Total lease rental expense was $2.1 million, $1.9 million and $1.5 million for the years ended December 31, 2019, 2018 and 2017, respectively.

The Company has a lease agreement for its corporate office and main office branch in Hamilton, New Jersey 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 ten years, expiring in 2025 with options to extend. Minimum lease payments are $367,000 for 2020, $374,000 for 2021through 2024 and $187,000 thereafter.

The Company has a lease agreement for administrative office space with Danch Farm II, LLC, an entity which the Chairman of the Board of Directors has a significant ownership interest. The lease has a term of five years and four months, expiring in in 2023 with options to extend. Minimum lease payments are $240,000 for 2020 through 2022, $220,000 for 2023 and $0 thereafter.

Note 11 — Stockholders' Equity

On September 30, 2019, the Company issued 1.7 million shares of its common stock in connection with its acquisition of Grand Bank at a price of $10.83 per share.

On June 29, 2018, the Company concluded an at-the-market common stock offering. During the offering the Company sold 74,026 common shares at a price per share of $13.90. As a result, the Company realized $743,000 in proceeds, net of underwriting discounts and offering expenses of $286,000.

On April 30, 2018, the Company issued 1.0 million shares of its common stock in connection with its acquisition of Delanco Bancorp, Inc. at a price of $14.05 per share.

In September 2017, the Company issued 2.4 million shares of its common stock in connection with its acquisition of Bucks County Bank at a price of $12.35 per share.

In June 2017, the Company issued 3.5 million shares of its common stock, including an underwriters' option of 219,298 shares, in a public offering at a price of $11.40 per share. As a result, the Company realized $37.5 million in proceeds, net of underwriting discounts and offering expenses of $2.5 million.

Note 11 — Stockholders' Equity — (Continued)

When First Bank was organized in 2007, warrants to purchase 96,620 shares of its common stock were issued to certain organizers in exchange for the at-risk capital they provided in the Bank's organizational phase. The strike price on these warrants was $10.00. The warrants had a term of ten years with a final expiration date of either March 31, 2017 or May 16, 2017. The only warrants exercised were 48,602 warrants exercised during 2017, which resulted in $486,000 in new equity. All unexercised warrants have expired.

Note 12 — Income Taxes

The components of income tax expense consisted of the following for the presented years ended:

	Year Ended December 31,		
	2019	2018	2017
		(in thousands)	
Federal income tax:			
Current	$2,636	$ 6,322	$1,768
Deferred	771	(2,093)	5,389
Total	3,407	4,229	7,157
State income tax:			
Current	1,103	(251)	326
Deferred	1,058	68	(56)
Total	2,161	(183)	270
Total income tax expense	$5,568	$ 4,046	$7,427

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, 2019, 2018 and 2017.

Reconciliations of the statutory corporate federal income tax at a rate of 21% for the years ended December 31, 2019 and 2018 and 34% for the year ended December 31, 2017 to the income tax expense reported in the consolidated statements of income are as follows:

	Year Ended December 31,		
	2019	2018	2017
Federal income tax at statutory rate	21.0%	21.0%	34.0%
State income tax, net of federal benefit	9.0%	-0.7%	1.2%
Changes in taxes resulting from:			
Net tax-exempt income	-0.3%	-0.4%	-1.1%
Bank-owned life insurance income	-1.3%	-1.0%	-1.7%
Incentive stock options	0.2%	-0.1%	0.3%
Non-deductible expenses	0.8%	0.4%	1.5%
Impact of change in federal tax rate on deferred tax assets	0.0%	0.0%	15.0%
Other	-0.1%	-0.5%	2.3%
Total	29.3%	18.7%	51.5%

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

Note 12 — Income Taxes — (Continued)

	December 31, 2019	December 31, 2018
	(in thousands)	
Deferred tax asset:		
Allowance for loan losses	$ 4,313	$ 4,007
Organization costs	2	3
Net deferred loan fees	457	446
Nonaccrual interest	142	153
Net operating losses	387	538
Purchase accounting	4,624	3,978
Supplemental Executive Retirement Plan	19	12
Depreciation	249	262
Restricted stock	117	51
Unrealized losses on investment securities available for sale	—	351
Other	381	564
Total deferred tax asset	10,691	10,365
Deferred tax liability:		
Prepaid expenses	(109)	(119)
Unrealized gains on investment securities available for sale	(10)	—
Other	(172)	(30)
Total deferred tax liability	(291)	(149)
Net deferred tax asset	$10,400	$10,216

On July 1, 2018, New Jersey enacted into law changes to the New Jersey corporate business tax laws. This legislation required a combined group to file combined returns for tax years beginning in 2019 and thereafter. However, due to technical issues and inconsistencies with existing tax law, it was determined that the tax law change did not have an impact on deferred taxes. In December 2019, the State of New Jersey issued a clarifying technical bulletin related to the impact of the new tax legislation enacted in July 2018. This technical bulletin provided clarification to the combined income tax reporting for certain members of a unitary business group. Accordingly, this required a revaluation of some of the Bank's deferred tax assets. As a result, in the fourth quarter, the Company recorded state deferred tax expense in the amount of approximately $730,000.

The Tax Cuts and Jobs Act ("Tax Act") was signed into law on December 22, 2017. Included as part of the law was a permanent reduction in the maximum federal corporate income tax rate from 35% to 21% effective January 1, 2018. Based upon the change in the tax rate, the Company revalued its net deferred tax asset at December 31, 2017 and recognized additional tax expense of $2.6 million for the year ended December 31, 2017.

The Company has federal net operating loss carryforwards from its acquisition of Heritage Community Bank of $1.6 million and $1.8 million for the years ended December 31, 2019 and 2018, respectively. These net operating losses are subject to an annual limitation of $195,000 under IRC Section 382 that will begin to expire in 2031. The Company has federal net operating loss carryforwards from its acquisition of BCB of approximately $240,000 and $764,000 for the year ended December 31, 2019 and 2018. These net operating losses are subject to annual limitation of approximately $525,000 under IRC Section 382 and expire in 2026. The Company has federal net operating loss carryforwards from its acquisition of Delanco of approximately $2.3 million and $2.7 million for the year ended December 31, 2019 and

Note 12 — Income Taxes — (Continued)

2018. These net operating losses are subject to annual limitation of approximately $330,000 under IRC Section 382 and will begin to expire in 2030. There were no federal net operating loss carryforwards from the acquisition of Grand Bank.

The Company recorded deferred tax assets of $2.4 million and $2.5 million from the acquisitions of Grand Bank and Delanco, respectively. Accordingly, the change in the net deferred tax asset in 2019 and in 2018 does not equal the deferred expense in those years due to the acquisition.

Accounting guidance requires the effect of income tax law changes on deferred taxes to be recognized as a component of income tax expense related to continuing operations. During 2017 this additional income tax expense included approximately $107,000 related to items recognized in accumulated other comprehensive losses.

The Company's federal income tax returns are open for examination from 2016 and from 2015 for state income tax returns.

Note 13 — 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,		
	2019	2018	2017
	(in thousands, except per share data)		
Net income available to common stockholders	$13,445	$17,589	$ 6,993
Basic weighted average common shares outstanding	19,098	18,213	14,222
Effect of dilutive common stock equivalents	294	359	356
Diluted weighted average common shares outstanding	19,392	18,572	14,578
Basic earnings per share	$ 0.70	$ 0.97	$ 0.49
Diluted earnings per share	$ 0.69	$ 0.95	$ 0.48
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	376	314	406

Note 14 — Stock Compensation

On September 13, 2017, the Company's shareholders approved the First Bank 2017 Equity Compensation Plan (the "Plan"). The Plan, which replaced prior similar plans, authorizes a maximum of 625,000 shares of the Company's common stock to be issued as incentive stock options, non-qualified stock options, restricted stock awards or other equity awards to officers or directors of the Company, with certain individual and total limits. The following presents the number of shares authorized to be awarded under the Plan and the number of remaining shares available for grant at December 31, 2019:

Awards authorized	1,580,222
Cumulative granted awards, net of cancellations	1,240,988
Awards available for grant	339,234

All options granted under the Plan have a term that shall not exceed ten years and all options granted to date have a vesting period of one to three years. The exercise price of the options granted under the Plan 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

Note 14 — Stock Compensation — (Continued)

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.

The table below reflects stock option activity in the Company's Plan for the periods indicated:

	Year Ended December 31,					
	2019		2018		2017	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding – beginning of year	819,217	$ 7.80	784,297	$ 6.37	793,858	$ 5.78
Granted	96,657	11.37	153,591	13.90	59,438	13.36
Exercised	(19,834)	5.65	(108,384)	5.90	(49,828)	5.65
Expired	(3,277)	10.47	(152)	14.25	(13,002)	5.10
Forfeited	(17,808)	12.02	(10,135)	9.39	(6,169)	6.41
Outstanding – end of year	874,955	$ 8.15	819,217	$ 7.80	784,297	$ 6.37
Exercisable – end of year	702,715	$ 7.10	555,089	$ 5.92	529,040	$ 5.53
Weighted average fair value of options granted during the period	$ 2.95		$ 3.99		$ 3.88	
Weighted average remaining contractual life (in years)	5.1		5.8		6.0	
Aggregate intrinsic value	$3,111,710		$3,884,509		$5,880,802	

The aggregate intrinsic values in the preceding table represents 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 2019, 2018 and 2017 were estimated at the date of grant using the Black-Scholes option pricing model with the following assumptions:

	Year Ended December 31,		
	2019	2018	2017
Expected volatility	25.84% – 26.66%	26.90% – 28.16%	27.66% – 28.76%
Dividend yield	1.04% – 1.15%	0.83% – 1.02%	0.56% – 0.70%
Expected life	5.0 – 6.0 years	5.0 – 6.0 years	6.0 years
Risk-free rate	1.39% – 2.51%	2.67% – 3.00%	1.87% – 2.16%
Fair value	$2.47 – $3.14	$3.36 – $4.14	$3.29 – $4.13

Note 14 — Stock Compensation — (Continued)

The following table summarizes information about stock options outstanding and exercisable at December 31, 2019:

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 – $5.25	256,500	1.3	$ 5.06	256,500	$ 5.06
$5.25 – $6.49	132,001	4.6	6.05	132,001	6.04
$6.49 – $10.85	213,525	6.2	6.77	204,525	6.60
$10.85 – $14.40	272,929	8.1	13.16	109,689	13.87
Total	874,955	5.1	$ 8.15	702,715	$ 7.10

Stock-based compensation expense related to outstanding stock options was $376,000, $448,000 and $253,000 for the years ended December 31, 2019, 2018 and 2017, respectively. As of December 31, 2019, there was $344,000 of unrecognized compensation cost related to unvested stock options which is expected to be recognized over a weighted average period of 1.7 years. As of December 31, 2018, there was $501,000 of unrecognized compensation cost related to unvested stock options which is expected to be recognized over a weighted average period of 1.8 years. As of December 31, 2017, there was $363,000 of unrecognized compensation cost related to unvested stock options which was expected to be recognized over a weighted average period of 1.8 years.

Restricted stock activity for 2019, 2018 and 2017 under the Company's Plan is presented in the following table:

	Year Ended December 31,					
	2019		2018		2017	
	Restricted Shares	Weighted Average Grant Date Fair Value	Restricted Shares	Weighted Average Grant Date Fair Value	Restricted Shares	Weighted Average Grant Date Fair Value
Outstanding – beginning of year	49,649	$13.37	42,615	$10.64	33,300	$ 6.25
Granted	66,863	11.48	30,755	14.16	23,652	14.25
Vested	(31,296)	13.10	(21,333)	9.10	(13,819)	6.20
Forfeited	(4,029)	12.36	(2,388)	13.07	(518)	11.59
Outstanding – end of year	81,187	$12.03	49,649	$13.37	42,615	$10.64
Weighted average remaining contractual life (in years)	1.3		1.2		1.6	

Restricted stock awarded to date have a vesting period of one to three years. Stock-based compensation expense related to restricted stock awards was $551,000, $340,000 and $180,000 for the years ended December 31, 2019, 2018 and 2017, respectively. Unrecognized compensation expense related to restricted stock was $507,000 as of December 31, 2019 and is expected to be recognized over a weighted average period of 2.0 years. Unrecognized compensation expense related to restricted stock was $351,000 as of December 31, 2018 and was expected to be recognized over a weighted average period of 1.5 years. Unrecognized compensation expense related to restricted stock was $287,000 as of December 31, 2017 and was expected to be recognized over a weighted average period of 2.0 years.

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

Note 15 — Benefit Plans

Employee 401(k) Plan

The Company has a 401(k) savings plan covering substantially all employees. Under the plan, in 2019, 2018 and 2017 the Company matched 50% of employee contributions for all participants, not to exceed 6% of their salary. The Company's 401(k) plan expense was $364,000, $288,000 and $200,000 for the years ended December 31, 2019, 2018 and 2017, 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, 2019, 2018 and 2017, $47,000, $30,000 and $19,000, respectively, in interest was credited to the DDFP by the Company and charged to operations.

Supplemental Executive Retirement Plan

In October 2018, the Company entered into a Supplemental Executive Retirement Plan ("SERP") with its Chief Executive Officer. Effective January 1, 2018, the SERP provides that upon attaining age 65, the Company's Chief Executive Officer will be entitled to an annual benefit in the amount of his final average compensation, payable in monthly installments over a period of ten years, commencing the month following the attainment of age 65. The Company funded its obligation with the increase in cash surrender value of bank-owned life insurance policies during 2018. In 2019 and 2018, the Bank recorded compensation expense of $33,000 and $42,000, respectively. The accrued liability amount as of December 31, 2019 and 2018 were $75,000 and $42,000, respectively.

Note 16 — 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.

Note 16 — Transactions with Executive Officers, Directors and Principal Stockholders — (Continued)

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

	Year Ended December 31,	
	2019	2018
	(in thousands)	
Balance – beginning of year	$29,004	$ 36,616
New loans and advances	7,040	3,300
Repayments	(1,642)	(10,883)
Other changes[1]	12	(29)
Balance – end of year	$34,414	$ 29,004

(1) For the year ended December 31, 2019 the increase in other changes consisted of a loan to an executive officer that was acquired via the Grand Bank acquisition. For the year ended December 31, 2018 the decrease in other changes consisted of loans to an executive officer who resigned during 2018.

There were no related party loans past due or on nonaccrual status as of December 31, 2019 and 2018.

The Company has a lease agreement for its corporate office and main office branch in Hamilton, New Jersey 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 ten years, expiring in 2025 with options to extend. Minimum lease payments are $367,000 for 2020, $374,000 for 2021through 2024 and $187,000 thereafter. 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 for administrative office space with Danch Farm II, LLC, an entity which the Chairman of the Board of Directors has a significant ownership interest. The lease has a term of five years and four months, expiring in in 2025 with options to extend. Minimum lease payments per year are $240,000 for 2020 through 2022, $220,000 for 2023 and $0 thereafter. The lease agreement includes costs related to real estate taxes, insurance, utilities and maintenance costs in addition to the base rent.

These lease agreements were approved by the Company's Board of Directors before the leases were signed in accordance with the Company's policies.

Note 17 — 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. 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

Note 17 — Other Commitments and Contingencies — (Continued)

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, 2019 and 2018, total commitments to extend credit amounted to $232.4 million and $198.8 million, respectively. At December 31, 2019 and 2018, the Company had performance standby letters of credit of $5.5 million and $4.0 million, respectively. These letters of credit are primarily related to performance guarantees on real estate development.

The Company is party to litigation in the ordinary course of business 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 18 — 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 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 was phased in over four years. It began January 1, 2016 at 0.625% of risk-weighted assets and has increased by 0.625% on January 1 of each year until it was fully implemented in January 2019. As of December 31, 2019 the fully phased in capital conservation buffer was 2.5%.

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 18 — 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)			
At December 31, 2019:						
Tier 1 leverage capital	$207,147	10.27%	$ 80,716	4.00%	$100,895	5.00%
Common equity tier 1 capital	207,147	10.74%	86,772	4.50%	125,337	6.50%
Tier 1 risk-based capital	207,147	10.74%	115,695	6.00%	154,260	8.00%
Total risk-based capital	246,534	12.79%	154,260	8.00%	192,826	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)			
At December 31, 2018:						
Tier 1 leverage capital	$177,230	10.40%	$ 68,171	4.00%	$ 85,214	5.00%
Common equity tier 1 capital	177,230	10.85%	73,516	4.50%	106,190	6.50%
Tier 1 risk-based capital	177,230	10.85%	98,022	6.00%	130,696	8.00%
Total risk-based capital	214,353	13.12%	130,696	8.00%	163,370	10.00%

Management believes, as of December 31, 2019 and 2018, 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.

Note 19 — 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

Note 19 — Fair Value Measurements and Fair Values of Financial Instruments — (Continued)

unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

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

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

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

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

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

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

	December 31, 2019			
	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	$27,975	$ —	$27,975	$—
Issued by GNMA	3,808	—	3,808	—
U.S. Treasury securities	8,984	8,984	—	—
Asset-backed securities	2,086	—	2,086	—
Corporate obligations	4,609	—	4,609	—
Total	$47,462	$8,984	$38,478	$—

Note 19 — Fair Value Measurements and Fair Values of Financial Instruments — (Continued)

	December 31, 2018			
	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	$30,601	$ —	$30,601	$—
Issued by GNMA	4,649	—	4,649	—
U.S. Treasury securities	8,936	8,936	—	—
Asset-backed securities	2,588	—	2,588	—
Corporate obligations	4,486	—	4,486	—
Total	$51,260	$8,936	$42,324	$—

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

	December 31, 2019			
	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	$21,118	$—	$—	$21,118
Other real estate owned	1,076	—	—	1,076
Total	$22,194	$—	$—	$22,194

	December 31, 2018			
	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	$5,050	$—	$—	$5,050
Other real estate owned	889	—	—	889
Total	$5,939	$—	$—	$5,939

The information in the preceding tables does not include PCI loans.

Note 19 — Fair Value Measurements and Fair Values of Financial Instruments — (Continued)

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, 2019				
	Fair Value	Valuation Method	Unobservable Input	Range of Discount[3]	Weighted Average[3]
	(dollars in thousands)				
Impaired loans, collateral dependent	$21,118	Fair value of collateral[1]	Appraised Value[2]	0% – 13%	10%
Other real estate owned	1,076	Fair value of collateral[1]	Appraised Value[2]		
			Sales Price	6% – 14%	8%

	Quantitative Information about Level 3 Fair Value Measurements December 31, 2018				
	Fair Value	Valuation Method	Unobservable Input	Range of Discount[3]	Weighted Average[3]
	(dollars in thousands)				
Impaired loans, collateral dependent	$5,050	Fair value of collateral[1]	Appraised value[2]	0% – 13%	10%
Other real estate owned	889	Fair value of collateral[1]	Appraised value[2]		
			Sales price	6% – 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 information in the preceding tables does not include PCI loans.

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 Topic 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 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

Note 19 — Fair Value Measurements and Fair Values of Financial Instruments — (Continued)

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, 2019 and 2018.

Cash and Cash Equivalents (Carried at Cost)

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

Interest Bearing Time Deposits with Banks (Carried at Cost)

The fair value of interest bearing time deposits with 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 on the Equity Method)

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

Note 19 — Fair Value Measurements and Fair Values of Financial Instruments — (Continued)

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.

PCI Loans (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 Topic 310-30 are included as Level 3 fair values.

Other Real Estate Owned (Carried at Fair Value)

Other real estate owned is 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. Other real estate owned is 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.

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 17) 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, 2019 and 2018.

Note 19 — Fair Value Measurements and Fair Values of Financial Instruments — (Continued)

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, 2019				
			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	$ 81,792	$ 81,792	$81,792	$ —	$ —
Interest bearing time deposits with banks	6,087	6,735	—	6,735	—
Investment securities available for sale	47,462	47,462	8,984	38,478	—
Investment securities held to maturity	46,612	47,100	—	47,100	—
Restricted investment in bank stocks	6,652	6,652	—	6,652	—
Other investments	6,388	6,388	—	6,388	—
Net loans[(1)]	1,706,329	1,747,034	—	1,720,445	26,589
Accrued interest receivable	4,810	4,810	—	4,810	—
Financial Liabilities:					
Non-maturity deposits	967,992	967,992	—	967,992	—
Time deposits	672,875	673,804	—	673,804	—
Borrowings	105,476	106,262	—	106,262	—
Subordinated debentures	21,964	22,132	—	22,132	—
Accrued interest payable	1,076	1,076	—	1,076	—

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

Note 19 — Fair Value Measurements and Fair Values of Financial Instruments — (Continued)

	December 31, 2018				
			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	$ 55,430	$ 55,430	$55,430	$ —	$ —
Interest bearing time deposits with banks	5,925	5,924	—	5,924	—
Investment securities available for sale	51,260	51,260	8,936	42,324	—
Investment securities held to maturity	49,811	49,411	—	49,411	—
Restricted investment in bank stocks	5,803	5,803	—	5,803	—
Other investments	6,203	6,203	—	6,203	—
Net loans(1)	1,447,381	1,429,082	—	1,419,792	9,290
Accrued interest receivable	4,258	4,258	—	4,258	—
Financial Liabilities:					
Non-maturity deposits	777,564	777,564	—	777,564	—
Time deposits	615,640	611,230	—	611,230	—
Borrowings	93,351	92,442	—	92,442	—
Subordinated debentures	21,856	21,872	—	21,872	—
Accrued interest payable	1,045	1,045	—	1,045	—

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

Note 20 — Subsequent Events

Beginning on January 30, 2020 through March 24, 2020, the Company repurchased 318,098 shares totaling $3.0 million under its share repurchase program announced in October 2019. See "*Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities — Share Repurchases*" in Part II of this Annual Report on Form 10-K for additional information about the share repurchase program.

Subsequent to year-end 2019, global, national and local economies and financial markets have been negatively impacted by the effects of the worldwide coronavirus (COVID-19) pandemic. The Company is closely monitoring its asset quality, liquidity, and capital positions as the pandemic-related social and economic effects are extended and continue. Management is actively working to minimize the current and future impact of this unprecedented situation, and is making adjustments to operations where appropriate or necessary to help slow the spread of the virus. As of the date of issuance of these financial statements, the impact the pandemic may have on the Company's financial position is not known.

Management has evaluated subsequent events through the date of issuance of the Consolidated Financial Statements and does not believe any other events warrant recording or disclosure in these Consolidated Financial Statements.

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 have evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e)of the Securities Exchange Act of 1934). Based on that evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were not effective as of December 31, 2019 as a result of the material weakness set forth below. However, after giving full consideration to this material weakness, and the additional analyses and other procedures that we performed to ensure that our consolidated financial statements included in this Annual Report on Form 10-K were prepared in accordance with U.S. GAAP, our management has concluded that our consolidated financial statements present fairly, in all material respects, our financial position, results of operations and cash flows for the periods disclosed in conformity with U.S. GAAP.

(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, 2019 utilizing the framework established in *Internal Control — Integrated Framework* (2013), issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, management determined that, as of December 31, 2019, the Company's internal control over financial reporting was not effective to provide reasonable assurance regarding the reliability of financial reporting as a result of the material weakness discussed below.

The Company's independent registered public accounting firm has issued an audit report on the effectiveness of the Company's internal control over financial reporting. This report appears on page 66.

A "material weakness" is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis. On March 16, 2020, in connection with our preparation of, and our independent registered public accounting firm's review of, our consolidated financial statements for the year ended December 31, 2019, a potential error was identified by our independent registered public accounting firm relating to the accounting for certain recorded expenses related to First Bank's September 30, 2019 acquisition of Grand Bank. Based on the March review, it was determined that the error arose from a misapplication of the applicable business combination accounting guidance related to certain expenses that were recorded by Grand Bank prior to the closing of the acquisition, and that these expenses should have been recorded by the combined Company.

The description of the underlying material weakness is as follows:

- Certain accounting policies and procedures related to corporate accounting functions with respect to review of complex corporate transactions and the accounting and recordation of expenses related

thereto were not sufficiently documented and/or executed to be considered effective in providing reasonable assurance that accounting transactions are consistently and accurately recorded in accordance with U.S. GAAP and applicable accounting guidance.

(c) Management's Remediation Plan

As of the date of filing of this Form 10-K, we have identified and will implement several steps, as further described below, designed to remediate the material weakness described in this Item 9A and to enhance our overall control environment. Although we intend to complete the remediation process as promptly as possible, we cannot at this time estimate how long it will take to remediate this material weakness, and our remediation plan may not prove to be successful. We will not consider the material weakness remediated until our enhanced controls are operational for a sufficient period of time and tested, enabling management to conclude that the enhanced controls are operating effectively. Our remediation plan includes, but is not limited to, the following measures:

- Improving documentation of accounting policies and procedures to support our internal control infrastructure,
- Communicating policy and procedure updates to new and existing personnel to ensure internal control responsibilities assigned and/or delegated are properly reinforced,
- Ensuring additional internal review of the applicable accounting guidance is conducted, and
- Obtaining additional support from additional third party accounting specialists as needed.

While the foregoing measures are intended to effectively remediate the material weakness described in this Item 9A, it is possible that additional remediation steps will be necessary. As such, as we continue to evaluate and implement our plan to remediate the material weakness, our management may decide to take additional measures to address the material weakness or modify the remediation steps described above. Until this material weakness is remediated, we plan to continue to perform additional analyses and other procedures to help ensure that our consolidated financial statements are prepared in accordance with GAAP.

(d) Changes in internal control over financial reporting.

Other than as described above in this Item 9A, there have been no changes in the Company's internal control over financial reporting during the quarter ended December 31, 2019 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 2020 Proxy Statement under the captions "ELECTION OF DIRECTORS," "INFORMATION ABOUT THE BOARD OF DIRECTORS AND MANAGEMENT," and "DELINQUENT SECTION 16(a) REPORTS," each of which is incorporated herein by reference. It is expected that the 2020 Proxy Statement will be filed with the FDIC within 120 days of December 31, 2019.

Item 11. Executive Compensation.

Information required by this Item is included in the 2020 Proxy Statement under the captions "EXECUTIVE COMPENSATION" and "2019 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, 2019.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

Information required by this Item is included in the 2020 Proxy Statement under the caption "SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT", which is incorporated herein by reference. It is expected that the 2020 Proxy Statement will be filed with the FDIC within 120 days of December 31, 2019.

Equity Compensation Plan Information

The following presents certain information regarding the Company's equity compensation plans as of December 31, 2019.

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	874,955	$8.15	339,234
Equity compensation plans not approved by security holders	—	—	—
Total	874,955	$8.15	339,234

Item 13. Certain Relationships and Related Transactions, and Director Independence.

Information required by this Item is included in the 2020 Proxy Statement under the caption "Interest of Management and Others in Certain Transactions; Review, Approval or Ratification of Transactions with Related Persons", which is incorporated herein by reference. It is expected that the 2020 Proxy Statement will be filed with the FDIC within 120 days of December 31, 2019.

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 REGISTERED PUBLIC ACCOUNTING FIRM" in the 2020 Proxy Statement is incorporated by reference herein. It is expected that the 2020 Proxy Statement will be filed with the FDIC within 120 days of December 31, 2019.

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, 2019 and 2018

ii. Consolidated Statements of Income for the Years Ended December 31, 2019, 2018 and 2017

iii. Consolidated Statements of Comprehensive Income for the Years Ended December 31, 2019, 2018 and 2017

iv. Consolidated Statements of Changes in Stockholders' Equity for the Years Ended December 31, 2019, 2018 and 2017

v. Consolidated Statements of Cash Flows for the Years Ended December 31, 2019, 2018 and 2017

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 Reorganization, dated March 28, 2017, between First Bank and Bucks County Bank (incorporated by reference to Exhibit 2.1 to the Current Report on Form 8-K filed by the registrant with the FDIC on March 29, 2017)
2.2	Agreement and Plan of Reorganization, dated October 18, 2017, between First Bank and Delanco Bancorp, Inc. (incorporated by reference to Exhibit 2.1 to the Current Report on Form 8-K filed by the registrant with the FDIC on October 20, 2017)
2.3	Amendment to Agreement and Plan of Reorganization, dated as of March 12, 2018, between First Bank and Delanco Bancorp, Inc. (incorporated by reference to Exhibit 2.1 to the Current Report on Form 8-K filed by the registrant with the FDIC on March 12, 2018)
2.4	Agreement and Plan of Reorganization, dated March 19, 2019, between First Bank and Grand Bank, N.A. (incorporated by reference to Exhibit 2.1 to the Current Report on Form 8-K filed by the registrant with the FDIC on March 19, 2019)
3.1	First Restated Certificate of Incorporation of First Bank, effective December 24, 2019[(2)]
3.2	Amended and Restated Bylaws of First Bank (incorporated by reference to Exhibit 3.1 to the Current Report on Form 8-K filed by the registrant with the FDIC on February 19, 2020)
4.1	Description of Capital Stock[(2)]
10.1	Amended and Restated Employment Agreement with Patrick L. Ryan dated October 16, 2018 (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed by the registrant with the FDIC on October 22, 2018)[(1)]
10.2	Supplemental Executive Retirement Plan with Patrick L. Ryan dated October 16, 2018 (incorporated by reference to Exhibit 10.2 to the Current Report on Form 8-K filed by the registrant with the FDIC on October 22, 2018)[(1)]
10.3	Employment Agreement with Stephen F. Carman dated March 1, 2016 (incorporated by reference from Exhibit 10.2 to the registrant's Current Report on Form 8-K filed on March 7, 2016)[(1)]

Exhibit No.	Description
10.4	Employment Agreement with Peter J. Cahill dated March 1, 2016 (incorporated by reference from Exhibit 10.2 to the registrant's Current Report on Form 8-K filed on March 7, 2016)[1]
10.5	Severance Agreement by and between First Bank and Emilio Cooper dated September 18, 2018 (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed by the registrant with the FDIC on October 11, 2018[1]
10.6	First Bank 2009 Stock Option Plan-A filed as part of the registrant's Registration Statement on Form 10 filed on October 1, 2013[1]
10.7	First Bank 2009 Stock Option Plan-B filed as part of the registrant's Registration Statement on Form 10 filed on October 1, 2013[1]
10.8	First Bank 2015 Equity Compensation Plan-C (incorporated by reference to Annex E and Annex F of the registrant's Proxy Statement filed on February 7, 2014)[1]
10.9	First Bank 2015 Equity Compensation Plan-D (incorporated by reference to Annex E and Annex F of the registrant's Proxy Statement filed on February 7, 2014)[1]
10.10	First Bank 2017 Equity Compensation Plan E (incorporated by reference to Annex C of the registrant's Proxy Statement filed on August 11, 2017)[1]
10.11	Subordinated Note Purchase Agreement (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)
10.12	Form of 6.75% Fixed to Floating Rate Subordinated Note (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)
10.13	Form of Securities Purchase Agreement dated June 30, 2016 by and among the Registrant and the Buyers identified therein (incorporated by reference from Exhibits 10.1 to the registrant's Current Report on Form 8-K filed on July 5, 2016)
21	Subsidiaries of the Registrant[2]
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[2]
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[2]
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[3]

(1) Management contract or compensatory plan, contract or arrangement.

(2) Filed herewith

(3) Furnished herewith

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 27, 2020.

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 27, 2020.

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/ Douglas C. Borden Douglas C. Borden	Director
/s/ Christopher B. Chandor Christopher B. Chandor	Director
/s/ Patricia A. Costante Patricia A. Costante	Director
/s/ Scott R. Gamble Scott R. Gamble	Director
/s/ Deborah Paige Hanson Deborah Paige Hanson	Director

Signature	Title
/s/ Gary S. Hofing Gary S. Hofing	Director
/s/ Glenn M. Josephs Glenn M. Josephs	Director
/s/ Peter Pantages Peter Pantages	Director
/s/ Michael E. Salz Michael E. Salz	Director
/s/ John E. Strydesky John E. Strydesky	Director

Exhibit 3.1

FIRST RESTATED
CERTIFICATE OF INCORPORATION
OF
FIRST BANK

FIRST BANK, a New Jersey state charter bank (the "Bank"), does hereby certify that the original certificate of incorporation of the Bank was filed with the New Jersey Department of Banking and Insurance, Division of Banking, on January 8, 2007, and that the following restated certificate of incorporation of the Bank (the "Restated Certificate") has been duly adopted by the board of directors of the Bank in accordance with Section 117.1(c) of the New Jersey Banking Act of 1948, as amended (the "Act"), to restate and integrate in a single certificate the provisions of the original certificate of incorporation of the Bank and all amendments made prior to the adoption of this Restated Certificate.

FIRST. The name of the bank is First Bank.

SECOND. The location and post office address of the Bank's principal office in this state is 2465 Kuser Road, Hamilton, New Jersey 08690.

THIRD. The purpose of the Bank is and it shall have unlimited power to engage in and to do any lawful act concerning any or all lawful business for which banks may be incorporated under provisions of the Act as presently enacted and as from time to time amended, and all those powers which are presently, or in the future may be authorized by law to be exercised by banks, but this Bank shall not have power to exercise any fiduciary power which may by law be exercised only by banks which are qualified to act as fiduciaries.

FOURTH. The term of the Bank's existence is perpetual, subject to liquidation and dissolution as provided by law.

FIFTH. The amount of authorized capital stock of the Bank shall be $220,000,000, divided into (i) 40,000,000 shares of common stock with a par value of $5.00 per share and (ii) 10,000,000 shares of preferred stock, par value $2.00 per share, with the rights, obligations and preferences set forth in the next paragraph. Authorized but unissued stock may be issued by the board of directors under the provisions of the Act, as presently enacted, and as from time to time amended and supplemented. With the approval of the Commissioner of Banking and Insurance, the Bank shall have the authority, pursuant to N.J.S.A. 17:9A-212(b), to repurchase shares of its capital stock. Shares of stock so reacquired by purchase shall be designated as treasury stock, unless resold.

The board of directors of the Bank is expressly authorized from time to time to adopt and to cause to be executed and filed without further approval of the stockholders, amendments to this certificate of incorporation authorizing the issuance up to ten million (10,000,000) shares of one or more classes or series of preferred stock for such consideration as the board of directors may fix. In an amendment authorizing any class or series of preferred stock, the board of directors is expressly authorized to determine:

(1) The distinctive designation of the class or series and the number of shares which will constitute the class or series, which number may be increased or decreased (but not below the number of shares then outstanding in that class or above the total shares authorized herein) from time to time by action of the board of directors;

(2) The dividend rate of the class or series, whether dividends will be cumulative, and, if so, from what date or dates;

(3) The price or prices at which, and the terms and conditions on which, the shares of the class or series may be redeemed at the option of the Bank;

(4) Whether or not the shares of the class or series will be entitled to the benefit of a retirement or sinking fund to be applied to the purchase or redemption of such shares and, if so entitled, the amount of such fund and the terms and provisions relative to the operation thereof;

(5) Whether or not the shares of the class or series will be convertible into, or exchangeable for, any other shares of stock of the Bank or other securities, and if so convertible or exchangeable, the conversion price or prices, or the rates of exchange, and any adjustments thereof, at which such conversion or exchange may be made, and any other terms and conditions of such conversion or exchange;

(6) The rights of the shares of the class or series in the event of voluntary or involuntary liquidation, dissolution or winding up of the Bank;

(7) Whether or not the shares of the class or series will have priority over, parity with, or be junior to the shares of any other class or series in any respect, whether or not the shares of the class or series will be entitled to the benefit of limitations restricting the issuance of shares of any other class or series having priority over or on parity with the shares of such class or series and whether or not the shares of the class or series are entitled to restrictions on the payment of dividends on, the making of other distributions in respect of, and the purchase or redemption of shares of any other class or series of preferred stock and/or common stock ranking junior to the shares of the class or series;

(8) Whether the class or series will have voting rights, in addition to any voting rights provided by law, and if so, the terms of such voting rights; and

(9) Any other preferences, qualifications, privileges, options and other relative or special rights and limitations of that class or series.

SIXTH. The amount of surplus with which the Bank will commence business is $250,000.

SEVENTH. The amount of the fund reserved for organization expense is $300,000 and the amount of the reserve for contingencies is $200,000.

EIGHTH. Each holder of record of common stock shall have the right to one vote for each share of common stock standing in such holder's name on the books of the Bank. No stockholder shall be entitled to cumulate any votes for the election of directors.

NINTH. The management, control and government of the Bank shall be vested in a board of directors consisting of not less than five and not more than 25 directors in number, as fixed by the board of directors of the Bank from time to time.

TENTH. The number of directors constituting the board of directors as of the date hereof is twelve, and the names of the persons serving as directors on the date hereof are as follows:

Patrick M. Ryan
Leslie E. Goodman
Patrick L. Ryan
Elbert G. Basolis, Jr.
Douglas C. Borden
Christopher B. Chandor
Patricia A. Costante
Deborah Paige Hanson
Gary S. Hofing
Glenn M. Josephs
Michael E. Salz
John E. Strydesky

Each director has an address at 2465 Kuser Road, Hamilton, New Jersey 08690.

ELEVENTH. The board of directors of the Bank shall have the power to make, alter and repeal by-laws, subject to alteration or repeal by the stockholders at any meeting. The power conferred by this Article ELEVENTH shall be subject to such limitations as may from time to time be imposed by law.

TWELFTH. The board of directors may, between annual meetings, increase the number of directors by not more than two, and may appoint persons to fill the vacancies so created, subject to the limitation, however, that there shall not at any time be more directors than authorized by Section 101 of the Act.

THIRTEENTH. The board of directors shall have power to pay dividends from time to time, in whole or in part in stock, without an amendment of this certificate pursuant to Article 19 of the Act and without approval or ratification of the stockholders, in the manner provided by and subject to the limitations contained in Section 52 of the Act, as may be further amended.

FOURTEENTH. No holder of any class of capital stock of the Bank shall have preemptive rights, and the Bank shall have the right to issue and to sell to any person or persons any shares of its capital stock or any option, warrant or right to acquire capital stock, or any securities having conversion or option rights without first offering such shares, rights or securities to any holder of any class of capital stock of the Bank.

FIFTEENTH. The Bank may indemnify every corporate agent as defined in, and to the fullest extent permitted by, Section 250 of the Act, and to the fullest extent otherwise permitted by law.

SIXTEENTH. To the fullest extent from time to time permitted by law, no director or officer of the Bank shall be personally liable to the Bank or to any of its stockholders, except for liabilities arising from any breach of duty based upon an act or omission (i) in breach of such director's or officer's duty of loyalty to the Bank or its stockholders, (ii) not in good faith or involving a knowing violation of law or (iii) resulting in receipt by such director or officer of an improper personal benefit. Neither the amendment or repeal of this Article SIXTEENTH, nor the adoption of any provision of this certificate of incorporation inconsistent with this Article SIXTEENTH, shall eliminate or reduce the protection afforded by this Article SIXTEENTH to a director or officer of the Bank in respect to any matter which occurred, or any cause of action, suit or claim which but for this Article SIXTEENTH would have accrued or arisen, prior to such amendment, repeal or adoption.

SEVENTEENTH. The Bank reserves the right to amend, alter, change or repeal any provision contained in its certificate of incorporation in the manner now or hereafter prescribed by statute, and except as set forth in Article SIXTEENTH, all rights conferred upon stockholders and directors herein are hereby granted subject to this reservation.

EIGHTEENTH. The board of directors shall have power to appoint an executive committee, from time to time, from among its members, in accordance with the statute in such case made and provided. Such committee shall have and may exercise such powers as are authorized by law, subject to the time and provisions of the by-laws of this Bank.

NINETEENTH. For the convenience of the parties hereto and to facilitate the filing and recording of this certificate of incorporation, it may be executed in several counterparts, each of which shall be deemed the original, but all of which together shall constitute one and the same instrument.

IN WITNESS WHEREOF, the president and chief executive officer and corporate secretary have hereunto set our hands and the corporate seal of said institution this 20th day of August, 2019.

/S/ Patrick L. Ryan

Patrick L. Ryan
President and Chief Executive Officer

/S/ Donna Bencivengo

Donna Bencivengo
Corporate Secretary

Exhibit 4.1

DESCRIPTION OF THE REGISTRANT'S SECURITIES REGISTERED PURSUANT TO SECTION 12 OF THE SECURITIES EXCHANGE ACT OF 1934.

As of December 31, 2019, our authorized capital stock consisted of 40,000,000 shares of common stock, $5.00 par value per share and 10,000,000 shares of preferred stock, $2.00 par value per share, the terms, conditions and designations of which may be set by the Board of Directors at the time of issuance. As of December 31, 2019, we had 20,458,665 shares of common stock issued and outstanding and no shares of preferred stock issued and outstanding. In addition, we have issued and outstanding options to purchase an aggregate of 874,955 shares of common stock, and our Board of Directors has the authority to issue additional options to purchase 339,234 shares of common stock.

Common Stock

Dividends. We may pay dividends as declared from time to time by our Board of Directors out of funds legally available therefor, subject to certain restrictions. Under the Banking Act, no cash dividend may be paid by us unless, following the payment of such dividend, our capital stock will be unimpaired and we will have a surplus of no less than 50% of our capital stock or, if not, the payment of such dividend will not reduce our surplus.

Voting Rights. Each holder of our common stock is entitled to one vote for each share held on all matters voted upon by the shareholders, including the election of directors. There is no cumulative voting in the election of directors.

Rights in Liquidation. In the event of our liquidation, dissolution or winding up, each holder of our common stock would be entitled to receive a pro rata portion of all of our assets available for distribution to holders of our common stock after payment of all our debts and liabilities.

Absence of Other Rights. Shares of our common stock are not subject to any preemptive rights, subscription rights, preferential rights, conversion rights, exchange rights, call rights, redemption rights or related sinking fund provisions.

Fully Paid and Non-assessable. All outstanding shares of our common stock are fully paid and non-assessable, and the shares of common stock to be issued will be fully paid and non-assessable.

Anti-Takeover Effects of the Certificate of Incorporation and By-laws and Applicable Laws

Certificate of Incorporation and By-laws. Various provisions contained in the Certificate of Incorporation, as amended and restated, and the Amended and Restated By-laws could delay or discourage some transactions involving an actual or potential change in control of us or a change in our management and may limit the ability of our stockholders to remove current management or approve transactions that our stockholders may deem to be in their best interests. Among other things, these provisions provide for:

- rules regarding how our stockholders may present proposals or nominate directors for election at stockholder meetings;
- limitations on the right of stockholders to remove directors;
- limitations on the right of stockholders to act by written consent; and
- limitations on the right of stockholders to call for special meetings.

Federal Bank Regulations. Under the federal Change in Bank Control Act (the "Control Act"), prior written notice must be submitted to the Federal Deposit Insurance Corporation ("FDIC") if any person, or any group acting in concert, seeks to acquire 10% or more of any class of outstanding voting securities of a bank, unless the FDIC determines that the acquisition will not result in a change of control. Under the Control Act, the FRB has 60 days within which to act on such notice taking into consideration certain factors, including the financial and managerial resources of the acquirer, the convenience and needs of the community served by the bank holding company and its subsidiary banks and the antitrust effects of the acquisition. Under the Bank Holding Company Act of 1956, as amended ('BHCA"), a company is generally

required to obtain prior approval of the FRB before it may obtain control of a bank. Under the BHCA, control is generally described to mean the beneficial ownership of 25% or more of the outstanding voting securities of a company, although a presumption of control may exist if a party beneficially owns 10% or more of the outstanding voting securities of a company and certain other circumstances are present.

New Jersey Shareholders Protection Act. Under New Jersey law, the New Jersey Shareholders' Protection Act (the "Shareholders' Protection Act") prohibits certain transactions involving an "interested stockholder" and a resident domestic corporation. When used in reference to any such corporation, an "interested stockholder" is generally defined as one who is the beneficial owner, directly or indirectly, of 10% or more of the voting power of the outstanding voting stock of that corporation or who is an affiliate or associate of that corporation and at any time within the five-year period immediately prior to the date in question was the beneficial owner, directly or indirectly, of 10% or more of the voting power of the then outstanding stock of that corporation.

The Shareholders' Protection Act generally prohibits any business combination between an interested stockholder and a resident domestic corporation for a period of five years following that interested stockholder's stock acquisition date unless: (a) that business combination is approved by the corporation's board of directors prior to that interested stockholder's stock acquisition date or (b) the transaction(s) which caused the person to become an interested stockholder was approved by the corporation's board of directors prior to that interested stockholder's stock acquisition date and any subsequent business combinations with that interested stockholder are approved by the corporation's board of directors, provided that any such subsequent business combination is approved by (1) the board of directors, or a committee thereof, consisting solely of persons who are not employees, officers, directors, stockholders, affiliates or associates of that interested stockholder, and (2) the affirmative vote of the holders of a majority of the voting stock not beneficially owned by such interested stockholder at a meeting called for such purpose. After the five-year period expires, the prohibition on business combinations with an interested stockholder continues unless certain conditions are met. Subject to further limitations, these conditions include: (a) a business combination approved by the corporation's board of directors prior to that interested stockholder's stock acquisition date; (b) a business combination approved by a vote of two-thirds of the voting stock not owned by the interested stockholder; (c) a business combination that meets certain valuation requirements and whereby the corporation's shareholders receive consideration in accordance with the Shareholders' Protection Act; and (d) a business combination approved by the corporation's board of directors, or a committee thereof, consisting solely of persons who are not employees, officers, directors, stockholders, affiliates or associates of that interested stockholder prior to the consummation of the business combination and by the affirmative vote of the holders of a majority of the voting stock not beneficially owned by such interested stockholder at a meeting called for such purpose if the transaction(s) with the interested stockholder which caused the person to become an interested stockholder was approved by the corporation's board of directors prior to the consummation of such transaction(s).

Preferred Stock

Under our Certificate of Incorporation, as amended and restated, our Board of Directors may set the terms and conditions of any class of preferred stock without further shareholder approval. The Board may also issue the preferred stock in such circumstances, for such consideration, as the Board deems appropriate. The Board has no current agreements or plans to issue shares of preferred stock.

Registrar and Transfer Agent

The registrar and transfer agent for our common stock is Computershare, Louisville, Kentucky.

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
Rhinebeck-Red Hook-GB, 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 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 27, 2020

/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 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 27, 2020

/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, 2019, 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 27, 2020

/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)