1ST CONSTITUTION BANCORP
Form 10-Q
August 08, 2018

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q
(Mark One)
ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2018
or
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____
Commission file Number: 000-32891
1ST CONSTITUTION BANCORP
(Exact Name of Registrant as Specified in Its Charter)

New Jersey	22-3665653
(State of Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
2650 Route 130, P.O. Box 634, Cranbury, NJ	08512
(Address of Principal Executive Offices)	(Zip Code)

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

(Former name, former address and former fiscal year, if changed since last report)
Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ý No o
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý No o
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

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

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

As of August 6, 2018, there were 8,379,342 shares of the registrant’s common stock, no par value, outstanding.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

1ST Constitution Bancorp
Consolidated Balance Sheets
(Dollars in thousands)
(Unaudited)

	June 30, 2018	December 31, 2017
Assets		
Cash and due from banks	$5,572	$5,037
Interest-earning deposits	25,079	13,717
Total cash and cash equivalents	30,651	18,754
Investment securities:		
Available for sale, at fair value	130,075	105,458
Held to maturity (fair value of $95,670 and $111,865 at June 30, 2018 and December 31, 2017, respectively)	95,322	110,267
Total investment securities	225,397	215,725
Loans held for sale	9,291	4,254
Loans	899,912	789,906
Less: allowance for loan losses	(8,498)	(8,013)
Net loans	891,414	781,893
Premises and equipment, net	11,874	10,705
Accrued interest receivable	3,785	3,478
Bank-owned life insurance	28,403	25,051
Other real estate owned	1,223	—
Goodwill and intangible assets	12,387	12,496
Other assets	15,087	6,918
Total assets	$1,229,512	$1,079,274
Liabilities and Shareholders' Equity		
Liabilities		
Deposits		
Non-interest bearing	$216,087	$196,509
Interest bearing	740,700	725,497
Total deposits	956,787	922,006
Short-term borrowings	118,225	20,500
Redeemable subordinated debentures	18,557	18,557
Accrued interest payable	849	804
Accrued expenses and other liabilities	14,746	5,754
Total liabilities	1,109,164	967,621
Shareholders' Equity		
Preferred stock, no par value; 5,000,000 shares authorized; none issued	—	—
Common stock, no par value; 30,000,000 shares authorized; 8,412,640 and 8,116,201 shares issued and 8,379,342 and 8,082,903 shares outstanding as of June 30, 2018 and December 31, 2017, respectively	79,003	72,935
Retained earnings	43,560	39,822
Treasury stock, 33,298 shares at June 30, 2018 and December 31, 2017	(368)	(368)
Accumulated other comprehensive loss	(1,847)	(736)

Total shareholders’ equity	120,348	111,653
Total liabilities and shareholders’ equity	$1,229,512	$1,079,274

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Interest income				
Loans, including fees	$11,349	$ 8,697	$20,885	$ 16,740
Securities:				
Taxable	989	839	1,855	1,654
Tax-exempt	509	548	1,024	1,101
Federal funds sold and short-term investments	34	86	172	158
Total interest income	12,881	10,170	23,936	19,653
Interest expense				
Deposits	1,469	1,104	2,688	2,147
Borrowings	220	109	227	236
Redeemable subordinated debentures	174	127	324	246
Total interest expense	1,863	1,340	3,239	2,629
Net interest income	11,018	8,830	20,697	17,024
Provision for loan losses	225	150	450	300
Net interest income after provision for loan losses	10,793	8,680	20,247	16,724
Non-interest income				
Service charges on deposit accounts	153	149	303	303
Gain on sales of loans	984	1,018	2,133	2,607
Income on Bank-owned life insurance	159	130	273	260
Gain from bargain purchase	184	—	184	—
Gain on sales of securities	6	(2)	12	104
Other income	557	471	1,023	905
Total non-interest income	2,043	1,766	3,928	4,179
Non-interest expense				
Salaries and employee benefits	5,076	4,692	9,814	9,193
Occupancy expense	885	820	1,697	1,658
Data processing expenses	369	326	678	644
FDIC insurance expense	146	80	276	160
Other real estate owned expenses	—	11	2	15
Merger-related expenses	1,977	—	2,141	—
Other operating expenses	1,798	1,757	3,288	3,672
Total non-interest expenses	10,251	7,686	17,896	15,342
Income before income taxes	2,585	2,760	6,279	5,561
Income taxes	714	841	1,555	1,693
Net income	$1,871	$ 1,919	$4,724	$ 3,868
Net income per common share				
Basic	$0.22	$ 0.24	$0.57	$ 0.48
Diluted	$0.22	$ 0.23	$0.56	$ 0.47
Weighted average shares outstanding				
Basic	8,341,459	8,033,299	8,227,109	8,029,690
Diluted	8,628,105	8,301,939	8,506,961	8,301,431

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Net income	$1,871	$1,919	$4,724	$3,868
Other comprehensive income (loss):				
Unrealized holding (losses) gains on securities available for sale	(152)	545	(1,503)	726
Tax effect	37	(198)	359	(267)
Net of tax amount	(115)	347	(1,144)	459
Reclassification adjustment for gains on securities available for sale [1]	(6)	2	(12)	(80)
Tax effect [2]	1	(1)	3	32
Net of tax amount	(5)	1	(9)	(48)
Pension liability	89	—	89	—
Tax effect	(25)	—	(25)	—
Net of tax amount	64	—	64	—
Reclassification adjustment for actuarial gains for unfunded pension liability Income [3]	(15)	(24)	(30)	(43)
Tax effect [2]	4	10	8	17
Net of tax amount	(11)	(14)	(22)	(26)
Total other comprehensive (loss) income	(67)	334	(1,111)	385
Comprehensive income	$1,804	$2,253	$3,613	$4,253

(1) Included in gain on sales of securities on the consolidated statements of income
(2) Included in income taxes on the consolidated statements of income
(3) Included in salaries and employee benefits expense on the consolidated statements of income

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

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1[ST] Constitution Bancorp
Consolidated Statements of Changes in Shareholders' Equity
For the Six Months Ended June 30, 2018 and 2017
(Dollars in thousands)
(Unaudited)

	Common Stock	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Loss	Total Shareholders' Equity
Balance, January 1, 2017	$ 71,695	$ 34,074	$ (368)	$ (600)	$ 104,801
Net income	—	3,868	—	—	3,868
Exercise of stock options (12,361 shares)	113	—	—	—	113
Share-based compensation	484	—	—	—	484
Cash dividends declared ($0.05 per share)	—	(803)	—	—	(803)
Other comprehensive income	—	—	—	385	385
Balance, June 30, 2017	$ 72,292	$ 37,139	$ (368)	$ (215)	$ 108,848
Balance, January 1, 2018	$ 72,935	$ 39,822	$ (368)	$ (736)	$ 111,653
Net income	—	4,724	—	—	4,724
Exercise of stock options (9,307 shares)	67	—	—	—	67
Share-based compensation	506	—	—	—	506
Issuance of common stock (249,785 shares)	5,495	—	—	—	5,495
Cash dividends declared ($0.06 per share)	—	(986)	—	—	(986)
Other comprehensive loss	—	—	—	(1,111)	(1,111)
Balance, June 30, 2018	$ 79,003	$ 43,560	$ (368)	$ (1,847)	$ 120,348

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

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

	Six Months Ended June 30, 2018	Six Months Ended June 30, 2017
Operating Activities:		
Net income	$4,724	$3,868
Adjustments to reconcile net income to net cash provided by operating activities-		
Provision for loan losses	450	300
Depreciation and amortization	683	694
Net amortization of premiums and discounts on securities	283	482
SBA discount accretion	(151)	(111)
Gain from bargain purchase of NJCB	(184)	—
Gains on sales and calls of securities available for sale	(12)	(104)
Gains on sales of other real estate owned	—	(14)
Gains on sales of loans held for sale	(2,133)	(2,607)
Originations of loans held for sale	(54,025)	(52,391)
Proceeds from sales of loans held for sale	51,121	66,233
Income on Bank–owned life insurance	(287)	(260)
Loss on cash surrender value on Bank-owned life insurance	14	—
Share-based compensation expense	506	484
(Increase) decrease in accrued interest receivable	(48)	35
Increase in other assets	(503)	(899)
Increase (decrease) in accrued interest payable	45	(54)
Increase (decrease) in accrued expenses and other liabilities	8,415	(806)
Net cash provided by operating activities	8,898	14,850
Investing Activities:		
Purchases of securities:		
Available for sale	(24,059)	(25,752)
Held to maturity	(2,868)	(16,460)
Proceeds from maturities and payments of securities:		
Available for sale	8,949	11,231
Held to maturity	17,694	17,645
Proceeds from sales of securities:		
Available for sale	—	5,728
Held to maturity	—	606
Proceeds from Bank-owned life insurance benefits paid	893	—
Net purchase of restricted stock	(4,600)	(105)
Net increase in loans	(35,999)	(38,242)
Capital expenditures	(479)	(439)
Forfeitable deposit on other real estate owned	100	—
Cost of improvements to OREO	—	(5)
Net cash paid for acquisition of NJCB	(996)	—
Proceeds from sales of other real estate owned	—	284
Net cash used in investing activities	(41,365)	(45,509)
Financing Activities:		
Exercise of stock options	67	113

Cash dividends paid to shareholders	(986)	(803)
Net (decrease) increase in deposits	(52,442)	29,899
Increase in short-term borrowings	97,725	775
Net cash provided by financing activities	44,364	29,984
Increase (decrease) in cash and cash equivalents	11,897	(675)
Cash and Cash Equivalents at Beginning of Period	18,754	14,886
Cash and Cash Equivalents at End of Period	$30,651	$14,211
Supplemental Disclosures of Cash Flow Information		
Cash paid during the period for -		
Interest	$3,193	$2,683
Income taxes	3,226	1,577
Transfer of loans to other real estate owned	93	455
Non-cash activities.		
Acquisition of New Jersey Community Bank		
Noncash assets acquired:		
Investment securities available for sale	11,173	
Loans	75,144	
Premises and equipment, net	1,120	
Bank-owned life insurance	3,972	
Accrued interest receivable	259	
Core deposit intangible asset	80	
Other assets	2,786	
	94,534	
Liabilities assumed:		
Deposits	87,223	
Other liabilities	636	
	87,859	
Common stock issued as consideration	5,495	

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

1ST Constitution Bancorp
Notes to Consolidated Financial Statements
June 30, 2018
(Unaudited)

(1) Summary of Significant Accounting Policies

The accompanying unaudited consolidated financial statements include 1ST Constitution Bancorp (the "Company"), its wholly-owned subsidiary, 1ST Constitution Bank (the "Bank"), and the Bank's wholly-owned subsidiaries, 1ST Constitution Investment Company of New Jersey, Inc., FCB Assets Holdings, Inc., 204 South Newman Street Corp. and 249 New York Avenue, LLC. 1ST Constitution Capital Trust II, a subsidiary of the Company, is not included in the Company's consolidated financial statements, as it is a variable interest entity and the Company is not the primary beneficiary. All significant intercompany accounts and transactions have been eliminated in consolidation and certain prior period amounts have been reclassified to conform to current year presentation. The accounting and reporting policies of the Company and its subsidiaries conform to accounting principles generally accepted in the United States of America ("U.S. GAAP") and pursuant to the rules and regulations of the Securities and Exchange Commission (the "SEC"), including the instructions to Form 10-Q and Article 10 of Regulation S-X. Certain information and footnote disclosures normally included in financial statements have been condensed or omitted pursuant to such rules and regulations. These consolidated financial statements should be read in conjunction with the audited consolidated financial statements and the notes thereto included in the Company's Form 10-K for the year ended December 31, 2017, filed with the SEC on March 19, 2018.

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

The Company has evaluated events and transactions occurring subsequent to the balance sheet date of June 30, 2018 for items that should potentially be recognized or disclosed in these financial statements. The evaluation was conducted through the date these financial statements were issued.

Adoption of New Accounting Standards

ASU 2014-09 - Revenue from Contracts with Customers (Topic 606)

On January 1, 2018, the Company adopted Accounting Standards Update ("ASU") 2014-09 Revenue from Contracts with Customers and all subsequent amendments to the ASU (collectively, "Topic 606"), which (i) creates a single framework for recognizing revenue from contracts with customers that fall within its scope and (ii) revises when it is appropriate to recognize a gain or loss from the transfer of nonfinancial assets, such as other real estate owned ("OREO"). The majority of the Company's revenues come from interest income, other services to customers and other sources, including loans, leases and securities that are outside the scope of Topic 606. The Company's services that fall within the scope of Topic 606 are presented within non-interest income and are recognized as revenue as the Company satisfies its obligation to the customer. Services within the scope of Topic 606 include service charges on deposits, interchange income, other services and the sale of OREO. Refer to Note 6 - Revenue from Contracts with Customers - for further discussion on the Company's accounting policies for revenue sources within the scope of Topic 606.

The Company adopted Topic 606 using the modified retrospective method for reporting periods beginning after January 1, 2018. The Company did not have any contracts that were not completed as of January 1, 2018. The adoption of Topic 606 did not result in a change to the accounting for any of the in-scope revenue streams; therefore, no cumulative effect adjustment was recorded.

ASU Update 2017-07 - Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost

In March 2017, the FASB issued ASU 2017-07, "Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost," which requires that an employer disaggregate the service cost component from the other components of net benefit costs as follows: (1) service cost must be presented in the same line item(s) as other employee compensation costs. These costs are generally included within income from continuing operations but in some cases, may be eligible for capitalization if certain criteria are met; and (2) all other components of net benefit cost must be presented in the income statement separately from the service cost component and outside a subtotal of income from operations, if one is presented. These generally include interest cost, actual return on plan assets, amortization of prior service cost included in accumulated other comprehensive income and gains or losses from changes in the value of the projected benefit obligation or plan assets.

For the Company, the provisions of this ASU are effective for fiscal years beginning after December 15, 2017, including interim periods within those years. The adoption of this guidance in 2018 did not have a material impact on the Company’s consolidated financial statements.

ASU Update 2017-01 - Business Combinations (Topic 805): Clarifying the Definition of a Business

In January 2017, the FASB issued ASU 2017-01 “Business Combinations (Topic 805): Clarifying the Definition of a Business,” which clarifies the definition of a business with the objective of adding guidance to assist companies and other reporting organizations with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The amendments in this ASU provide a more robust framework to use in determining when a set of assets and activities is a business. The current definition of a business is interpreted broadly and can be difficult to apply. Stakeholders indicated that analyzing transactions is inefficient and costly and the definition does not permit the use of reasonable judgment.

Under current implementation guidance, there are three elements of a business: inputs, processes and outputs. While an integrated set of assets and activities (collectively referred to as a “set”) that is a business usually has outputs, outputs are not required to be present. Additionally, all the inputs and processes that a seller uses in operating a set are not required if market participants can acquire the set and continue to produce outputs, for example, by integrating the acquired set with their own inputs and processes.

The ASU introduces a “screen” to assist entities in determining when a set should not be considered a business. If substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets, the set is not considered a business. If the screen is not met, the ASU requires that to be considered a business, a set must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. Further, the ASU removes the evaluation of whether a market participant could replace missing elements (as required under current U.S. GAAP).

For the Company, the ASU is effective for annual periods beginning after December 15, 2017, including interim periods within those periods. The amendments in this ASU should be applied prospectively on or after the effective date. No disclosures are required at transition. The adoption of this guidance in 2018 did not have a material impact on the Company’s consolidated financial statements.

ASU Update 2016-15 - Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments.

In August 2016, the FASB issued ASU 2016-15 “Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments,” which clarifies whether the following items should be categorized as operating, investing or financing in the statement of cash flows: (1) debt prepayment and extinguishment costs, (2) settlement of zero-coupon debt, (3) settlement of contingent consideration, (4) insurance proceeds, (5) settlement of corporate-owned life insurance (COLI) and bank-owned life insurance (BOLI) policies, (6) distributions from equity method investees, (7) beneficial interests in securitization transactions and (8) receipts and payments with aspects of more than one class of cash flows.

For the Company, the provisions of this ASU are effective for fiscal years beginning after December 15, 2017 and interim periods within those fiscal years. The Company currently classifies cash flows related to BOLI in accordance with the guidance, and the adoption of this guidance in 2018 did not have a material impact on its consolidated financial statements.

ASU Update 2016-01 - Financial Instruments-Overall: Recognition and Measurement of Financial Assets and Financial Liabilities

In January 2016, the FASB issued ASU 2016-01 “Financial Instruments-Overall: Recognition and Measurement of Financial Assets and Financial Liabilities.” The guidance in the ASU, among other things, requires equity investments, with certain exceptions, to be measured at fair value with changes in fair value recognized in net income; simplifies the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment; eliminates the requirement for public business entities to disclose the methods and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet; requires public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes; requires an entity to present separately in other comprehensive income, the portion of the change in fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments; requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset on the balance sheet or the accompanying notes to the financial statements; and clarifies that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale securities.

For the Company, the guidance in this ASU is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The adoption of this guidance in 2018 did not have a material impact on the Company's consolidated financial statements.

(2) Acquisition of New Jersey Community Bank

On April 11, 2018, the Company completed its acquisition of 100 percent of the common shares of New Jersey Community Bank ("NJCB"), which merged with and into the Bank. The shareholders of NJCB received total consideration of $8.6 million, which was comprised of 249,785 shares of common stock of the Company with a market value of $5.5 million and cash of $3.1 million, of which $401,000 was placed in escrow to cover costs and expenses, including settlement costs, if any, that the Company may incur after closing the merger as a result of a certain litigation matter.

The merger was accounted for under the acquisition method of accounting, and accordingly, assets acquired, liabilities assumed and consideration exchanged were recorded at preliminary estimated fair values as of the acquisition date. NJCB's results of operations have been included in the Company's Consolidated Statements of Income since April 11, 2018.

The assets acquired and liabilities assumed in the merger were recorded at their estimated fair values based on management's best estimates, using information available at the date of the merger, including the use of third party valuation specialists. The fair values are preliminary estimates and subject to adjustment for up to one year after the closing date of the merger.

The following table summarizes the estimated fair value of the acquired assets and liabilities assumed:

(Dollars in Thousands)	Amount
Consideration paid:	
Company stock issued	$5,495
Cash payment	2,668
Cash held in escrow	401
Total consideration paid	$8,564
Recognized amounts of identifiable assets acquired and liabilities assumed at fair value:	
Cash and cash equivalents	$2,073
Investment securities available for sale	11,173
Loans	75,144
Premises and equipment, net	1,120
Core deposit intangible asset	80
Bank-owned life insurance	3,972
Accrued interest receivable	259
Other assets	2,786
Deposits	(87,223)
Other liabilities	(636)
Total identifiable assets and liabilities, net	$8,748
Gain from bargain purchase	$184

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

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

Loans acquired in the NJCB acquisition were recorded at fair value and subsequently accounted for in accordance with ASC Topic 310. The fair values of loans acquired were estimated, utilizing cash flow projections based on the remaining maturity and repricing terms. Cash flows were adjusted for estimated future credit losses of approximately $1.6 million and estimated prepayments. Projected cash flows were then discounted to present value, utilizing a risk-adjusted market rate for similar loans that management determined market participants would likely use.

At the acquisition date, the Company recorded $74.3 million of loans without evidence of credit quality deterioration and $881,000 of loans with evidence of credit quality deterioration.

The following table summarizes the composition of the loans acquired and recorded at fair value:

		At April 11, 2018	
(Dollars in Thousands)	Loans acquired with no credit quality deterioration	Loans acquired with credit quality deterioration	Total
Commercial			
Construction	$ 798	—	$798
Commercial real estate	58,191	873	59,064
Commercial business	1,293	8	1,302
Residential real estate	7,572		7,572
Consumer	6,409		6,409
Total loans	$ 74,263	$ 881	$75,144

The following is a summary of the loans acquired with evidence of deteriorated credit quality in the NJCB acquisition as of the date of the closing of the merger:

(Dollars in Thousands)	Acquired Credit Impaired Loans
Contractually required principal and interest at acquisition	$ 1,658
Contractual cash flows not expected to be collected (non-accretable difference)	609
Expected cash flows at acquisition	1,049
Interest component of expected cash flows (accretable difference)	168
Fair value of acquired loans	$ 881

Bank-owned life insurance was recorded at the cash surrender value of the insurance policies, which approximates the redemption value of the policies.
The core deposit intangible totaled $80,000 and is being amortized over its estimated useful life of approximately 10 years, using an accelerated method. No goodwill was recognized in the transaction.
The following table presents the projected amortization of the core deposit intangible for each period:

(Dollars in Thousands)	Amount
Year	
2018	$ 15
2019	13
2020	12
2021	10
2022	8
Thereafter	22
	$ 80

The fair values of deposit liabilities with no stated maturities, such as checking, money market and savings accounts, were assumed to equal the carrying value amounts since these deposits are payable on demand. The fair values of certificates of deposit represent the present value of contractual cash flows discounted at market rates for similar certificates of deposit.
Direct costs related to the acquisition were expensed as incurred. During the three and six months ended June 30, 2018, the Company incurred $2.0 million and $2.1 million, respectively, of expenses for termination of contracts, legal and financial advisory fees, severance and other integration related expenses, which have been separately stated as merger-related expenses in the Company's Consolidated Statements of Income.
Supplemental Pro Forma Financial Information
The following table presents financial information regarding the former NJCB operations included in the Company's Consolidated Statements of Income from the date of the acquisition (April 11, 2018) through June 30, 2018 under the column "Actual from acquisition date to June 30, 2018." In addition, the table presents unaudited condensed pro forma financial information assuming that the NJCB acquisition had been completed as of January 1, 2018 and January 1, 2017, respectively. In the table, merger-related expenses of $2.1 million were excluded from the pro forma non-interest expenses for the six months ended June 30, 2018. Income taxes were also adjusted to exclude income tax benefits of $568,000 related to the merger expenses for the six months ended June 30, 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 as of the beginning of the periods presented, nor is it indicative of future results. Furthermore, the unaudited pro forma financial information does not reflect management's estimate of any revenue-enhancing opportunities nor anticipated cost savings that may have occurred as a result of the integration and consolidation of NJCB's operations. The pro forma financial information reflects adjustments related to certain merger expenses and the related income tax effects.

(Dollars in Thousands)	Actual from Acquisition Date to 6/30/2018	Pro Forma for the Six Months Ended 6/30/2018	Pro Forma for the Six Months Ended 6/30/2017
Net interest income	$ 790	$ 21,545	$ 18,463
Non-interest income	40	3,920	4,312
Non-interest expenses	445	17,004	17,426
Income taxes	116	2,123	1,693
Net income	269	5,888	3,356

(3) Net Income Per Common Share
Basic net income per common share is calculated by dividing net income by the weighted average number of common shares outstanding during each period. Diluted net income per common share is calculated by dividing net income by the weighted average number of common shares outstanding, as adjusted for the assumed exercise of dilutive common stock warrants and common stock options using the treasury stock method.

Awards of restricted shares are included in outstanding shares when granted. Unvested restricted shares are entitled to non-forfeitable dividends and participate in undistributed earnings with common shares. Awards of this nature are considered participating securities and basic and diluted earnings per share are computed under the two-class method.

Dilutive securities in the tables below exclude common stock options and warrants with exercise prices that exceed the average market price of the Company’s common stock during the periods presented. Inclusion of these common stock options and warrants would be anti-dilutive to the diluted earnings per common share calculation. For the three and six months ended June 30, 2018 and 2017, no options and 9,500 options, respectively, were anti-dilutive and were not included in the computation of diluted earnings per common share.

The following table illustrates the calculation of both basic and diluted earnings per share for the three and six months ended June 30, 2018 and 2017:

	Three Months Ended June 30,		Six Months Ended June 30,	
(Dollars in thousands, except per share data)	2018	2017	2018	2017
Net income	$1,871	$ 1,919	$4,724	$ 3,868
Basic weighted average shares outstanding	8,341,459	8,033,299	8,227,109	8,029,690
Plus: common stock equivalents	286,646	268,640	279,852	271,741
Diluted weighted average shares outstanding	8,628,105	8,301,939	8,506,961	8,301,431
Earnings per share:				
Basic	$0.22	$ 0.24	$0.57	$ 0.48
Diluted	$0.22	$ 0.23	$0.56	$ 0.47

(4) Investment Securities

A summary of amortized cost and approximate fair value of investment securities available for sale follows:

	June 30, 2018			
(Dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury securities and obligations of U.S. Government sponsored entities ("GSE") and agencies	$3,984	$ —	$ (64)	$3,920
Residential collateralized mortgage obligations - GSE	41,743	8	(942)	40,809
Residential mortgage backed securities - GSE	15,877	38	(201)	15,714
Obligations of state and political subdivisions	24,154	97	(384)	23,867
Trust preferred debt securities - single issuer	1,489	—	(87)	1,402
Corporate debt securities	28,374	22	(502)	27,894
Other debt securities	16,539	28	(98)	16,469
Total	$132,160	$ 193	$ (2,278)	$130,075

	December 31, 2017			
(Dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury securities and obligations of U.S. Government sponsored entities ("GSE") and agencies	$1,997	$ —	$ (30)	$1,967
Residential collateralized mortgage obligations - GSE	27,688	18	(381)	27,325
Residential mortgage backed securities - GSE	14,231	129	(72)	14,288
Obligations of state and political subdivisions	19,575	227	(82)	19,720
Trust preferred debt securities - single issuer	2,481	—	(132)	2,349
Corporate debt securities	27,917	14	(248)	27,683
Other debt securities	12,140	12	(26)	12,126
Total	$106,029	$ 400	$ (971)	$105,458

A summary of amortized cost, carrying value and approximate fair value of investment securities held to maturity follows:

(Dollars in thousands)	June 30, 2018 Amortized Cost	Other-Than-Temporary Impairment Recognized In Accumulated Other Comprehensive Loss	Carrying Value	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. treasury securities and obligations of U.S. government-sponsored entities ("GSE") and agencies	$3,021	$ —	$3,021	$ —	$ (93)	$2,928
Residential collateralized mortgage obligations - GSE	7,615	—	7,615	17	(194)	7,438
Residential mortgage backed securities - GSE	33,247	—	33,247	87	(686)	32,648
Obligations of state and political subdivisions	51,046	—	51,046	784	(133)	51,697
Trust preferred debt securities - pooled	657	(501)	156	566	—	722
Other debt securities	237	—	237	—	—	237
Total	$95,823	$ (501)	$95,322	$ 1,454	$ (1,106)	$95,670

(Dollars in thousands)	December 31, 2017 Amortized Cost	Other-Than-Temporary Impairment Recognized In Accumulated Other Comprehensive Loss	Carrying Value	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. treasury securities and obligations of U.S. government-sponsored entities ("GSE") and agencies	$3,234	$ —	$3,234	$ —	$ (84)	$3,150
Residential collateralized mortgage obligations - GSE	8,701	—	8,701	94	(123)	8,672
Residential mortgage backed securities - GSE	34,072	—	34,072	231	(127)	34,176
Obligations of state and political subdivisions	63,797	—	63,797	1,224	(35)	64,986
Trust preferred debt securities - pooled	657	(501)	156	418	—	574
Other debt securities	307	—	307	—	—	307
Total	$110,768	$ (501)	$110,267	$ 1,967	$ (369)	$111,865

At June 30, 2018 and December 31, 2017, $118.4 million and $98.4 million of investment securities, respectively, were pledged to secure public funds and collateralized borrowings from the FHLB and for other purposes required or permitted by law.

Restricted stock was included in other assets at June 30, 2018 and December 31, 2017 and totaled $6.1 million and $1.6 million, respectively. Restricted stock consisted of $6.0 million of Federal Home Loan Bank of New York stock and $135,000 of Atlantic Community Bankers Bank stock at June 30, 2018 and $1.5 million of Federal Home Loan Bank of New York stock and $65,000 of Atlantic Community Bankers Bank stock at December 31, 2017.

The following table sets forth certain information regarding the amortized cost, carrying value, fair value, weighted average yields and contractual maturities of the Company's investment portfolio as of June 30, 2018. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	June 30, 2018		
(Dollars in thousands)	Amortized Cost	Fair Value	Yield
Available for sale			
Due in one year or less	$3,667	$3,665	2.04%
Due after one year through five years	32,156	31,753	2.70%
Due after five years through ten years	28,267	27,873	2.93%
Due after ten years	68,070	66,784	2.78%
Total	$132,160	$130,075	2.77%
	Carrying Value	Fair Value	Yield
Held to maturity			
Due in one year or less	$19,267	$19,312	2.35%
Due after one year through five years	16,540	16,974	3.99%
Due after five years through ten years	21,110	21,035	3.04%
Due after ten years	38,405	38,349	3.06%
Total	$95,322	$95,670	3.07%

Gross unrealized losses on available for sale and held to maturity securities and the fair value of the related securities aggregated by security category and length of time that individual securities have been in a continuous unrealized loss position at June 30, 2018 and December 31, 2017 were as follows:

	June 30, 2018						
		Less than 12 months		12 months or longer		Total	
(Dollars in thousands)	Number of Securities	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Treasury securities and obligations of U.S. Government sponsored entities (GSE) and agencies	5	$3,920	$(64)	$2,928	$(93)	$6,848	$(157)
Residential collateralized mortgage obligations - GSE	29	37,358	(686)	7,891	(450)	$45,249	$(1,136)
Residential mortgage backed securities - GSE	50	37,000	(715)	4,046	(172)	$41,046	$(887)
Obligations of state and political subdivisions	69	22,187	(472)	2,532	(45)	$24,719	$(517)
Trust preferred debt securities - single issuer	2	—	—	1,402	(87)	$1,402	$(87)
Corporate debt securities	7	14,273	(268)	7,546	(234)	$21,819	$(502)
Other debt securities	9	11,016	(97)	15	(1)	$11,031	$(98)
Total temporarily impaired	171	$125,754	$(2,302)	$26,360	$(1,082)	$152,114	$(3,384)

securities

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(Dollars in thousands)	December 31, 2017 Number of Securities	Less than 12 months Fair Value	Less than 12 months Unrealized Losses	12 months or longer Fair Value	12 months or longer Unrealized Losses	Total Fair Value	Total Unrealized Losses
U.S. Treasury securities and obligations of U.S. Government sponsored corporations (GSE) and agencies	2	$1,967	$ (30)	$3,150	$ (84)	$5,117	$ (114)
Residential collateralized mortgage obligations - GSE	11	19,237	(205)	8,788	(299)	$28,025	$ (504)
Residential mortgage backed securities - GSE	35	21,770	(141)	3,074	(58)	$24,844	$ (199)
Obligations of state and political subdivisions	42	11,594	(82)	2,717	(35)	$14,311	$ (117)
Trust preferred debt securities - single issuer	4	—	—	2,349	(132)	$2,349	$ (132)
Corporate debt securities	7	11,967	(98)	7,662	(150)	$19,629	$ (248)
Other debt securities	4	8,840	(25)	21	(1)	$8,861	$ (26)
Total temporarily impaired securities	105	$75,375	$ (581)	$27,761	$ (759)	$103,136	$ (1,340)

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

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

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

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

Trust preferred debt securities – single issuer: The investments in these securities with unrealized losses are comprised of two corporate trust preferred securities issued by one large financial institution that mature in 2027. The contractual terms of the trust preferred securities do not allow the issuer to settle the securities at a price less than the face value of the trust preferred securities, which is greater than the amortized cost of the trust preferred securities. The issuer maintains an investment grade credit rating and has not defaulted on interest payments. The decline in fair value is attributable to the widening of interest rate and credit spreads and the lack of an active trading market for these securities. The Company does not intend to sell these investments and it is not more likely than not that the Company will be required to sell these investments before a market price recovery or maturity. Therefore, these investments are not considered other-than-temporarily impaired.

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

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

On a quarterly basis, management evaluates the security to determine if any additional other-than-temporary impairment is required. As of June 30, 2018, the security was in an unrealized gain position.

(5) Allowance for Loan Losses and Credit Quality

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

The following table provides an aging of the loan portfolio by loan class at June 30, 2018:

(Dollars in thousands)	30-59 Days	60-89 Days	Greater than 90 Days	Total Past Due	Current	Total Loans Receivable	Recorded Investment > 90 Days Accruing	Non-accrual Loans
Commercial								
Construction	$—	$—	$—	$—	$138,144	$ 138,144	$ —	$ —
Commercial Business	13	251	808	1,072	105,286	106,358	—	4,111
Commercial Real Estate	1,333	514	3,268	5,115	373,883	378,998	—	3,268
Mortgage Warehouse Lines	—	—	—	—	204,359	204,359	—	—
Residential Real Estate	—	60	1,123	1,183	44,865	46,048	—	1,123
Consumer								
Loans to Individuals	—	—	205	205	25,357	25,562	—	411
Other	—	—	—	—	192	192	—	—
Total loans	$1,346	$825	$5,404	$7,575	$892,086	899,661	$ —	$ 8,913
Deferred loan costs, net						251		
Total loans, including deferred loan costs, net						$ 899,912		

The following table provides an aging of the loan portfolio by loan class at December 31, 2017:

(Dollars in thousands)	30-59 Days	60-89 Days	Greater than 90 Days	Total Past Due	Current	Total Loans Receivable	Recorded Investment > 90 Days Accruing	Non-accrual Loans
Commercial								
Construction	$—	$—	$—	$—	$136,412	$136,412	$ —	$ —
Commercial Business	180	545	619	1,344	91,562	92,906	—	4,212
Commercial Real Estate	540	—	2,465	3,005	305,919	308,924	—	2,465
Mortgage Warehouse Lines	—	—	—	—	189,412	189,412	—	—
Residential Real Estate	911	256	69	1,236	39,258	40,494	—	69
Consumer								
Loans to Individuals	119	—	116	235	20,790	21,025	—	368
Other	—	—	—	—	183	183	—	—
Total loans	$1,750	$801	$3,269	$5,820	$783,536	789,356	$ —	$ 7,114
Deferred loan costs, net						550		
Total loans, including deferred loan costs, net						$789,906		

As provided by ASC 310-30, the excess of cash flows expected at acquisition over the initial investment in the loan is recognized as interest income over the life of the loan. At June 30, 2018, there was one purchased credit impaired (“PCI”) loan for $514,000 that was not classified as a non-performing loan. At December 31, 2017, there were no PCI loans that were not classified as non-performing loans.

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

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

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

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

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

4. Special Mention - A “special mention” loan has potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or in the Company's credit position at some future date. Special mention loans are not adversely classified and do not expose the Company to sufficient risk to warrant adverse classification.

5. Substandard - A “substandard” loan is inadequately protected by the current net worth and paying capacity of the obligor or by the collateral pledged, if any. Loans so classified must have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the Company will sustain some loss if the deficiencies are not corrected.

6. Doubtful - A loan classified as "doubtful" has all the weaknesses inherent in a loan classified as substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently known facts, conditions and values, highly questionable and improbable.

7. Loss - A loan classified as "loss" is considered uncollectible and of such little value that its continuance on the books is not warranted. This classification does not mean that the loan has absolutely no recovery or salvage value, but rather it is not practical or desirable to defer writing off this loan even though partial recovery may occur in the future.

The following table provides a breakdown of the loan portfolio by credit quality indicator at June 30, 2018:
(Dollars in thousands)

Commercial Credit Exposure - By Internally Assigned Grade	Construction	Commercial Business	Commercial Real Estate	Mortgage Warehouse Lines	Residential Real Estate
Grade:					
Pass	$ 133,827	$ 93,532	$ 357,024	$ 204,359	$ 44,579
Special Mention	4,317	8,535	11,083	—	116
Substandard	—	4,031	10,891	—	1,353
Doubtful	—	260	—	—	—
Total	$ 138,144	$ 106,358	$ 378,998	$ 204,359	$ 46,048

Consumer Credit Exposure - By Payment Activity	Loans To Individuals	Other
Performing	$ 25,151	$ 192
Non-performing	411	—
Total	$ 25,562	$ 192

The following table provides a breakdown of the loan portfolio by credit quality indicator at December 31, 2017:
(Dollars in thousands)

Commercial Credit Exposure - By Internally Assigned Grade	Construction	Commercial Business	Commercial Real Estate	Mortgage Warehouse Lines	Residential Real Estate
Grade:					
Pass	$ 136,180	$ 84,746	$ 289,203	$ 189,412	$ 39,539
Special Mention	232	3,454	13,267	—	666
Substandard	—	1,252	6,454	—	289
Doubtful	—	3,454	—	—	—
Total	$ 136,412	$ 92,906	$ 308,924	$ 189,412	$ 40,494

Consumer Credit Exposure - By Payment Activity	Loans To Individuals	Other
Performing	$ 20,657	$ 183
Non-performing	368	—
Total	$ 21,025	$ 183

Impaired Loans

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

The following tables summarize the distribution of the allowance for loan losses and loans receivable by loan class and impairment method at June 30, 2018 and December 31, 2017:

	June 30, 2018								
(Dollars in thousands)	Construction	Commercial Business	Commercial Real Estate	Mortgage Warehouse Lines	Residential Real Estate	Loans to Individuals	Other	Unallocated	Total
Allowance for loan losses:									
Individually evaluated for impairment	$—	$ 487	$ 229	$—	$ —	$ —	$—	$ —	$716
Loans acquired with deteriorated credit quality	—	—	—	—	—	—	—	—	—
Collectively evaluated for impairment	1,661	1,178	3,085	920	462	169	—	307	7,782
Ending Balance	$ 1,661	$ 1,665	$ 3,314	$ 920	$ 462	$ 169	$—	$ 307	$ 8,498
Loans receivable:									
Individually evaluated for impairment	$ 104	$ 4,320	$ 7,234	$—	$ 1,123	$ 411	$—	$ —	$ 13,192
Loans acquired with deteriorated credit quality	—	303	1,452	—	—	—	—	—	1,755
Collectively evaluated for impairment	138,040	101,735	370,312	204,359	44,925	25,151	192	—	884,714
Ending Balance	$ 138,144	$ 106,358	$ 378,998	$ 204,359	$ 46,048	$ 25,562	$ 192	$ —	899,661
Deferred loan costs, net									251
									$ 899,912

	December 31, 2017								
(Dollars in thousands)	Construction	Commercial Business	Commercial Real Estate	Mortgage Warehouse Lines	Residential Real Estate	Loans to Individuals	Other	Unallocated	Total
Allowance for loan losses:									
Individually evaluated for impairment	$—	$ 592	$ 92	$—	$ —	$ —	$—	$ —	$ 684
Loans acquired with deteriorated credit quality	—	—	—	—	—	—	—	—	—
Collectively evaluated for impairment	1,703	1,128	2,857	852	392	114	—	283	7,329
Ending Balance	$ 1,703	$ 1,720	$ 2,949	$ 852	$ 392	$ 114	$—	$ 283	$ 8,013

Loans receivable:									
Individually evaluated for impairment	$232	$ 4,459	$ 5,713	$—	$ 69	$ 368	$—	$ —	$10,841
Loans acquired with deteriorated credit quality	—	274	590	—	—	—	—	—	864
Collectively evaluated for impairment	136,180	88,173	302,621	189,412	40,425	20,657	183	—	777,651
Ending Balance	$136,412	$ 92,906	$ 308,924	$189,412	$ 40,494	$ 21,025	$183	$ —	789,356
Deferred loan costs, net									550
									$789,906

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The activity in the allowance for loan loss by loan class for the three and six months ended June 30, 2018 and 2017 was as follows:

(Dollars in thousands)	Construction	Commercial Business	Commercial Real Estate	Mortgage Warehouse Lines	Residential Real Estate	Loans to Individuals	Other	Unallocated	Total
Balance - March 31, 2018	$ 1,612	$ 1,675	$ 3,166	$ 732	$ 446	$ 129	$ —	$ 537	$ 8,297
Provision charged/(credited) to operations	49	16	140	188	16	46	—	(230)	225
Loans charged off	—	(32)	—	—	—	(7)	—	—	(39)
Recoveries of loans charged off	—	6	8	—	—	1	—	—	15
Balance - June 30, 2018	$ 1,661	$ 1,665	$ 3,314	$ 920	$ 462	$ 169	$ —	$ 307	$ 8,498
Balance - March 31, 2017	$ 1,370	$ 1,822	$ 2,634	$ 642	$ 365	$ 122	$ —	$ 595	$ 7,550
Provision charged/(credited) to operations	85	(386)	352	260	20	(3)	—	(178)	150
Loans charged off	—	—	—	—	—	—	—	—	—
Recoveries of loans charged off	—	1	5	—	—	1	—	—	7
Balance - June 30, 2017	$ 1,455	$ 1,437	$ 2,991	$ 902	$ 385	$ 120	$ —	$ 417	$ 7,707

(Dollars in thousands)	Construction	Commercial Business	Commercial Real Estate	Mortgage Warehouse Lines	Residential Real Estate	Loans to Individuals	Other	Unallocated	Total
Balance - January 1, 2018	$ 1,703	$ 1,720	$ 2,949	$ 852	$ 392	$ 114	$ —	$ 283	$ 8,013
Provision charged/(credited) to operations	(42)	(36)	304	68	70	61	1	24	450
Loans charged off	—	(32)	—	—	—	(7)	(1)	—	(40)
Recoveries of loans charged off	—	13	61	—	—	1	—	—	75
Balance - June 30, 2018	$ 1,661	$ 1,665	$ 3,314	$ 920	$ 462	$ 169	$ —	$ 307	$ 8,498
Balance - January 1, 2017	$ 1,204	$ 1,732	$ 2,574	$ 973	$ 367	$ 112	$ —	$ 532	$ 7,494
Provision charged/(credited) to operations	251	(298)	408	(71)	119	6	—	(115)	300
Loans charged off	—	—	—	—	(101)	—	—	—	(101)
Recoveries of loans charged off	—	3	9	—	—	2	—	—	14
Balance - June 30, 2017	$ 1,455	$ 1,437	$ 2,991	$ 902	$ 385	$ 120	$ —	$ 417	$ 7,707

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

Impaired Loans Receivables (By Class)

(Dollars in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance	Three Months Ended June 30, 2018		Six Months Ended June 30, 2018	
				Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
With no allowance:							
Commercial:							