2013 Annual Report

FIRST BANK

WELCOME HOME.

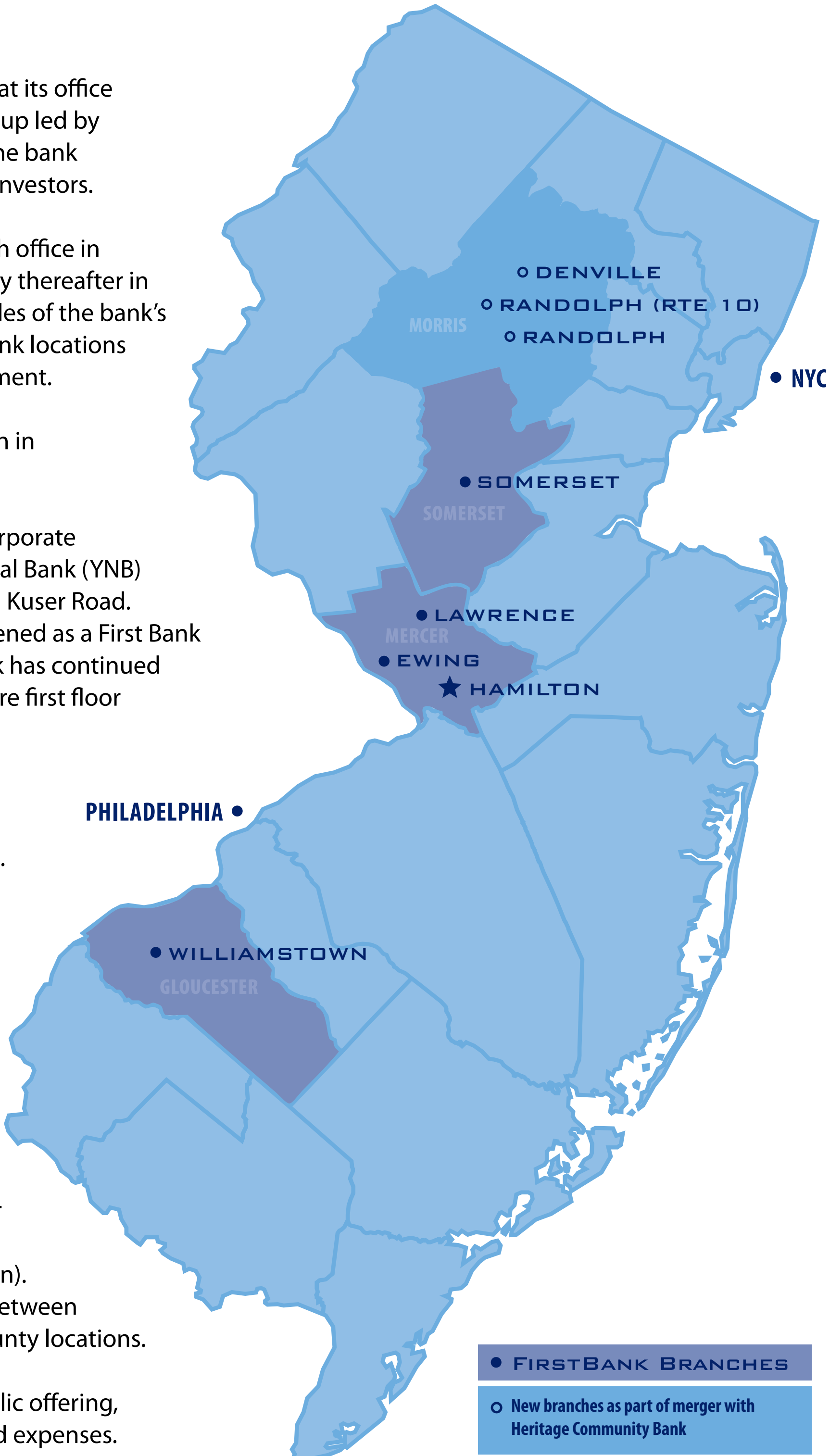
Our Story

On April 23, 2007, First Bank commenced operations at its office in Williamstown, NJ. In October 2008, an investor group led by Patrick L. Ryan and Leslie E. Goodman recapitalized the bank with an investment of $19 million from various local investors.

In February 2009, First Bank opened its second branch office in **Lawrence, NJ.** A third branch office was opened shortly thereafter in **Ewing, NJ.** Both Mercer County locations were examples of the bank's low-cost strategy of entering previously-occupied bank locations and re-opening with minimal cost and capital investment.

Construction of the bank's full-service branch location in **Williamstown** was completed in September of 2009.

In December of 2010, First Bank established a true corporate headquarters by moving into the old Yardville National Bank (YNB) headquarters building located in **Hamilton, NJ** at 2465 Kuser Road. The former YNB branch at that same location was opened as a First Bank branch one year later in December 2011. As the bank has continued to expand, the First Bank team now occupies the entire first floor of the building and part of the second floor.



In July 2013, First Bank announced the acquisition of Heritage Community Bank (HCB) based in **Morris County, NJ.** The merger closed on March 7, 2014. The combined franchise has 8 branches and about $600 million in assets. Together with HCB, we have approximately 90 employees working throughout Gloucester, Mercer, Somerset and Morris Counties.

On September 16, 2013, we opened a new branch location in **Somerset, NJ** at 225 DeMott Lane. This marked our fifth full-service branch location in NJ, and our first location in Somerset County. This location provides another example of our low-cost approach to branch banking with its smaller footprint and minimal capital investment required (since it was previously used as a bank branch location). Our Somerset location also helps to bridge the gap between our Mercer County locations, and our new Morris County locations.

On November 20, 2013, we completed our initial public offering, raising $23 million before underwriting discounts and expenses. Our stock now trades on the NASDAQ Global Market under the ticker symbol FRBA. The new capital will be used to support the HCB acquisition as well as support future organic growth.

As of December 31, 2013, First Bank had five branches, $467 million in assets, $340 million in loans, and $399 million in deposits.

As we continue to grow and expand, we remain committed to doing our part to help grow the economy and create value for our shareholders and stakeholders. With new branches, new markets, new products, and new technology all under consideration, we're excited for the future...

FIRST BANK

WELCOME HOME.

FIRST BANK

WELCOME HOME.

2013: A YEAR OF GREAT PROGRESS FOR FIRST BANK…

In last year's letter, we talked about "getting to good." It's fair to say we made great progress toward that goal. However, we still have a lot of work to do to get to where we want to be, and we remain committed to a path of continual development, always striving to get better. Nevertheless, as we reflect back on 2013, it was a big year for First Bank.

In a community banking landscape that continues to be divided between the prospering and those struggling to survive, we did a good job making sure we remain on the correct side of that ledger. Despite some upward movement in 2013, stock market valuations for smaller community banks remain well below historical levels. But, we're confident that if we keep doing good things, the market will start to recognize the value being created at First Bank.

Two big accomplishments in 2013 have accelerated our trajectory: our first acquisition and our initial public offering. Both events provide a powerful signal to the market regarding our growth plans and our ability to execute. We have been clear about our plans to grow, raise capital and pursue merger and acquisition (M&A) opportunities. But, I'm reminded of the words of our dear friend and founder Sidney L. Hofing: "I'm from Missouri; show me." In 2013, we took significant steps to show we could deliver on some key strategic initiatives.

LET'S START WITH THE YEAR IN REVIEW, SUMMARIZING THE KEY STRATEGIC DEVELOPMENTS IN 2013:

We showed continued, positive balance sheet growth in 2013 with strong increases in loans and deposits. Overall our total assets increased from $351 million at the end of 2012 to $467 million at the end of 2013, an increase of 33%.

Loan growth: The loan portfolio increased from $260 million at the end of 2012 to $340 million at the end of 2013, an increase of $80 million or 31%. Growth came from all segments of the portfolio, but commercial loans remain our primary market niche and growth engine. Within our commercial portfolio, we saw continued diversification across both commercial and industrial (C&I) loans and commercial real-estate (CRE) loans. Within CRE we saw growth across all assets types including retail, industrial, office, mixed-use and multi-family. Our strong loan growth compared very favorably to other banks in our peer group. Based on our pipeline, we are hopeful this level of growth will continue.

Deposit growth: Our total deposits increased from $309 million at the end of 2012 to $399 million at the end of 2013, an increase of $90 million or 29%. Importantly, non-interest bearing deposits increased from under 9% to over 12% of total deposits. We do not have any brokered deposits and jumbo certificates of deposits make up less than 4% of total deposits. Overall, we have a good mix of core deposits. We also enjoyed deposit growth across all five branches throughout 2013. Our newest branch in Somerset, NJ opened in September of 2013 and finished the year with over $13 million in deposits. Deposit mix improvements and the reduction of some key deposit rates throughout the year led to a 21 basis points (bps) reduction in our overall cost of funds in 2013 compared to 2012.

Merger with Heritage Community Bank: On July 11, 2013, we announced our first M&A transaction with the proposed merger of Heritage Community Bank (HCB) with and into First Bank. After over a year of hard work on the due diligence and the merger, we were pleased to see the deal get approved and then finalized on March 7, 2014. The HCB deal offers two primary benefits: improved economies of scale and entry into the attractive markets of Morris County, specifically, and North Jersey more broadly.

We expect to make the Morris County assets a springboard to future growth and development in those markets. To that end, Vice Chairman Paul Fitzgerald will be spending a significant amount of time helping to build and expand our presence in that market. As you may recall, Paul has significant experience in the North Jersey market, having started and run two de novo banks in North Jersey prior to joining us at First Bank. Paul will be working closely with former HCB President and CEO Peter Kenny who will remain with us.

In addition, Vice President and Team Leader David DiStefano will be relocating to Morris County to lead the team of Commercial Lending Relationship Managers in that market. Together with the core group of strong talent from HCB, we are looking forward to big things from that team in 2014.

HCB brings over $130 million in additional assets and three additional branch locations. These additional assets will help improve our operating efficiency and help drive improved operating margins. Furthermore, our legal lending limit will move above $10 million as a result of the merger, which will create additional efficiency opportunities as larger loans require less overhead expense per revenue dollar.

We are very excited about the profit enhancement and strategic growth opportunities which should come from this partnership.

Initial Public Offering: Our continued organic growth and the HCB merger would not have been possible without the significant capital raised in November during our initial public offering. The offering was finalized with $23 million in gross proceeds ($21 million net of the underwriting discount and expenses) and our listing on the NASDAQ Global Market under the ticker symbol "FRBA." We have already seen a notable increase in trading activity in the stock since our listing on Nasdaq. While we are certainly far from being considered a truly "liquid" stock, the uptick in activity is a positive development.

BUT, IT WASN'T ALL SUNSHINE AND FLOWERS IN 2013:

While many good things happened in 2013, we still had negative developments we had to contend with.

Another round of pre-recap loan portfolio clean-up: After ten straight quarters of relative stability and improvement relating to asset quality, during the fourth quarter of 2013 we had a handful of pre-recap loans which required additional charge-offs of $600,000. In general, our asset quality metrics continued to improve during 2013: non-performing assets to total assets (NPAs/Assets) came down to 1.09% at December 31, 2013 compared to 1.69% at December 31, 2012; non-performing loans to total loans (NPLs/Loans) declined to 0.98% at December 31, 2013 compared to 1.28% at December 31, 2012; and, our reserves as a ratio of NPLs increased to 1.40x at December 31, 2013 compared to 1.23x at December 31, 2012. Nevertheless, the increase in charge-offs was disappointing and led to lower than anticipated profits for the year.

Margin compression: The continued low interest rate operating environment, and renewed competition for quality commercial loan assets, led to lower earning-asset yields and a lower net interest margin (NIM) in 2013. Specifically, the NIM, on a tax equivalent basis, in 2013 was 3.47%, a 21 basis point reduction compared to the NIM of 3.68% in 2012.

Title insurance reboot: After a promising start, operational inefficiencies drove the need to disband our title insurance joint venture and seek a new partner. As a result, fee income from the joint venture dropped off significantly in the second half of 2013. We are pleased to report that we have formed a new joint venture, and we hope to see revenue growth in this area back on track in 2014.

SO, HOW DID THOSE DEVELOPMENTS IMPACT PROFITABILITY IN 2013?

Net Income: Overall, while the bank continued to make money in 2013, net profits were not what we hoped or expected. For the year, net income was $1.7 million, down compared to $2.6 million in 2012. The single biggest driver of the decline related to a change in our tax position: we did not pay taxes in 2012 as we depleted the remainder of our net operating loss carry forwards; during 2013 we became fully taxable.

Pre-tax income: Given the change in tax position from 2012 to 2013, a comparison of pre-tax income is useful. In 2013, we earned $2.8 million in pre-tax income, an increase of $529,000 or 23% compared to $2.3 million in 2012. While 23% is a nice increase year over year, opportunities for profit improvement remain. Pre-tax profit in 2013 equates to 0.70% of average assets, a number that will need to move higher as we prove out our operating model. Close control of expenses, together with increased operating leverage, will help lead to improved profitability moving forward.

We track our non-interest expenses to average assets (NIE/AA) relative to peers to ensure our expenses remain under control. In 2013, our NIE/AA ratio declined to 2.36%, down from 2.47% in 2012 and significantly below a peer group average of 2.90% compiled by SNL Financial.

We track operating leverage by looking at net interest income growth compared to non-interest expense growth. In 2013, our net-interest income increased by $2.3 million compared to non-interest expense growth of $1.7 million - a positive improvement of $588,000.

In summary, pre-recap charge-offs led to a disappointing bottom line in 2013, but the important strategic accomplishments throughout the year led to improved operating leverage and improved pre-tax profits.

WHERE DO WE GO FROM HERE?

Execution is job #1, #2, and #3 in 2014: We will not be successful in 2014 without the successful integration of HCB. We have profits and strategic credibility at risk. As a result, we have made the successful integration of HCB our top strategic priority in 2014. Success will be defined across a variety of metrics: customer retention, market expansion, operational excellence, and cost savings.

Continued organic growth: Our loan and deposit pipelines remain very active. The competition for quality loans is increasing, but we will be working hard to try and make sure we get our share. We will be looking for organic loan growth throughout the New York City to Philadelphia corridor. Deposit growth will certainly be more concentrated near the places where we have physical branches. However, successful use of technology and cross selling to commercial borrowers allows us to extend our deposit gathering capabilities as well.

Continued M&A exploration: Overall market M&A activity picked up significantly toward the end of 2013. We expect that trend to continue. Time will tell if another attractive opportunity will become available. We remain in contact with fellow community bankers and investment bankers to ensure we have the opportunity to investigate future deals.

New branches: We want to grow our branch network prudently. That means only adding branches as needed and making sure new locations are cost efficient. Growth at existing branches will help drive the timing of new locations. We currently anticipate opening an additional branch location in 2014. While we have looked at numerous options, no decisions have been made regarding a new location at this point.

WHAT COULD PREVENT US FROM ACHIEVING OUR GOALS IN 2014?

Asset quality issues: As an active commercial lender, asset quality deterioration remains our biggest risk. Continually improving asset quality metrics, and our enhanced capital position, help mitigate this risk in 2014. Continued improvement in the economy would provide additional support.

HCB merger integration issues: We need to make sure we get this deal done right. Mistakes could lead to reputational issues as well as economic losses. Problems with integration could also lead to a slow down in organic growth, as well as potentially precluding future M&A opportunities.

ESTABLISHING OURSELVES AS A STRONG AND RESPECTED PLAYER:

Last year we ended our letter with the analogy of "getting into the game." Twelve months, an IPO and a closed acquisition later, it is fair to say that we're now in the game. That was a step, not a goal. We still have work to do to become a strong and respected player.

We continue to believe that a simple operating model focused on deposit generation and relationship-based commercial lending is the key to long-term success. As my grandmother used to say, remember who you are and where you came from.

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

Sincerely,

Patrick L. Ryan *President and CEO*

Note: The foregoing material contains forward-looking statements concerning the financial condition, results of operations and business of the Bank. We caution that such statements are subject to a number of uncertainties, including but not limited to those set forth under the caption "Item 1A – Risk Factors" in the accompanying annual report, as well as changes in economic activity in our markets, changes in interest rates and changes in regulation and the regulatory environment, and actual results could differ materially, and, therefore, readers should not place undue reliance on any forward-looking statements. The Bank does not undertake, and specifically disclaims, any obligation to publicly release the results of any revisions that may be made to any forward-looking statements to reflect the occurrence of anticipated or unanticipated events or circumstances after the date of such statements.

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, 2013**

or

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

For the transition period from ____________ to ____________

FDIC Certificate No: 58481

FIRST BANK

(Exact name of registrant as specified in its charter)

(609) 643-4211

(Registrants' telephone number including area code)

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

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

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

Securities registered under 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 ☒

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

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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

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

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

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

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrant's most recently completed second fiscal quarter. Not applicable, as First Bank's Common Stock was not actively traded as of June 30, 2013.

As of March 7, 2014, there were 9,395,549 outstanding shares of Common Stock, par value $5.00 per share.

DOCUMENTS INCORPORATED BY REFERENCE

	Form 10-K Item	Document Incorporated
Item 10.	Directors and Executive Officers of the Registrant	Proxy Statement for 2014 Annual Meeting of Shareholders to be filed within 120 days of December 31, 2013.
Item 11.	Executive Compensation	Proxy Statement for 2014 Annual Meeting of Shareholders to be filed within 120 days of December 31, 2013.
Item 12.	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	Proxy Statement for 2014 Annual Meeting of Shareholders to be filed within 120 days of December 31, 2013.
Item 13.	Certain Relationships and Related Transactions	Proxy Statement for 2014 Annual Meeting of Shareholders to be filed within 120 days of December 31, 2013.
Item 14.	Principal Accountant Fees and Services	Proxy Statement for 2014 Annual Meeting of Shareholders to be filed within 120 days of December 31, 2013.

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Forward-Looking Statements

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

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

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

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

PART I

Item 1. Business.

General

We are a New Jersey state-chartered bank which commenced operations as a commercial bank on April 23, 2007. As a state-chartered bank, 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 eight (8) full-service branches located in Hamilton, Lawrence, Ewing, Somerset, Williamstown, Randolph (2), and Denville, New Jersey. Our primary service areas include Mercer, Burlington, Middlesex and Somerset Counties in central New Jersey, Morris County in northern New Jersey, and Gloucester, Atlantic and Camden Counties in southern New Jersey. We target business from individuals, businesses, and governmental entities located in our primary service areas, as well as throughout New Jersey, with a particular focus on the corridor between New York City and Philadelphia.

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

Since the Bank's recapitalization in 2008, we have experienced significant growth. Our assets have grown from $62.9 million to $466.8 million at December 31, 2013, or a 49.3% compound annual growth rate, net loans have grown from $40.3 million to $335.3 million at December 31, 2013, or a 52.7% compound annual growth rate, and total deposits have grown from $32.9 million to $399.1 million at December 31, 2013, or a 64.8% compound annual growth rate.

In November 2013, we completed our Initial Public Offering, raising net capital of $20.9 million through the issuance of 3,833,334 shares of our common stock at $6.00 per share. Our common stock is now traded on the NASDAQ Global Market exchange.

On March 7, 2014, we closed upon our previously reported acquisition of Heritage Community Bank ("HCB"). Each shareholder of HCB received 0.4534 shares of our common stock for each share of HCB common stock outstanding. As a result, we issued 875,250 shares of our common stock. Our branches in Randolph and Denville, New Jersey are formerly branches of HCB. As part of the acquisition, we acquired $133.4 million in assets, $123.1 million in deposits, and $107.5 million in loans as of the closing date.

We believe our market area remains one of the more desirable banking markets in the country, and that our recent entry into Somerset and Morris Counties will only enhance the desirability of our markets. By providing a superior, customer experience, including access to our decision makers, and by expanding our brand into local communities located in the densely populated central and northern New Jersey marketplaces, 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 recent trend of consolidation among larger financial institutions has resulted in competitors that are not intimately familiar with the needs of individuals and businesses in our service areas, and a general curtailment of services and increased fees. Our business strategy is to continue to pursue additional business from those customers who, as a result of these trends, are underserved or undervalued by larger financial institutions.

Since the recapitalization in late 2008, we have experienced significant organic growth. In addition to planned organic growth, we will 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 recent acquisition of HCB is an example of an acquisition that fits our strategy.

Lending Activities

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

Commercial and Industrial Loans. We offer commercial and industrial loans to small- to mid-sized businesses for general business purposes. These commercial and industrial loans are generally secured by business assets. 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 made on a secured basis 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 commercial structures. Construction and development loans include land loans to acquire vacant land for future development.
- ***Multi-Family Real Estate 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 1-4 family residences. These loans tend to have longer terms (15-30 years), and are typically originated on a fixed rate basis. We also offer home equity loans - second liens and revolving lines of credit. Second lien home equity loans are usually originated on a fixed rate basis with terms of 5, 10 or 15 years. Revolving lines of credit, which tend to be floating rate products, allow customers to borrow and pay back their loan over the life of the loan with full repayment due at maturity.

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

In managing the growth of the loan portfolio, we have focused on: (1) the application of prudent underwriting criteria; (2) active involvement by senior management and the Board of Directors in the loan approval process; (3) active monitoring of loans to ensure that repayments are made in a timely manner and to identify potential problem loans; and (4) 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 discussion on the composition of our loan portfolio, see Note 3 to our Consolidated Financial Statements elsewhere in this Annual Report on Form 10-K.

Investment Activities

We have legal authority to invest in various types of liquid assets, including U.S. Treasury obligations, securities of various Federal agencies, state and municipal governments, mortgage-backed securities and certificates of deposit of Federally insured institutions. Within certain regulatory limits, we also may invest a portion of our assets in corporate debt securities and mutual funds. As a member of the Federal Home Loan Bank, we also maintain an investment in Federal Home Loan Bank of New York ("FHLB") stock.

Our investment objectives are to provide and maintain liquidity, establish an acceptable level 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 other investment purposes. Scheduled loan repayments are a relatively stable source of funds, while deposit inflows and outflows and loan prepayments are significantly influenced by interest rates and general economic conditions.

Deposits. Substantially all of our depositors are residents of New Jersey. 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 designed for the businesses operating in our market areas. We do not have any brokered deposits. From time to time we promote various products in an effort to increase deposits.

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

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

Borrowings. Although deposits are our primary source of funds, we may utilize borrowings when they are a less costly source of funds and can be invested at a positive interest rate spread, when we desire additional capacity to fund loan demand or when they meet our asset and liability management goals. Our borrowings historically have consisted of advances from the FHLB.

The FHLB functions as a government-sponsored enterprise providing credit for member financial institutions. As a member, we are required to own capital stock in the FHLB and may apply for advances on the security of such stock and certain of our mortgage 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 correspondent banking services, both credit and noncredit, to financial institutions in the Mid-Atlantic region. As a member, we are required to own capital stock in ACBB and may use an unsecured line of credit.

Competition

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

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

We expect competition to remain intense in the future as a result of legislative, regulatory and technological changes and the continuing trend of 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, 2013, we employed 55 full-time employees and 5 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 principal executive offices are located at 2465 Kuser Road, Hamilton, New Jersey 08690, and our telephone number is (609) 643-4211. Our website address 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.

SUPERVISION AND REGULATION

Recently Enacted Regulatory Reform

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

- capped debit card interchange fees for institutions with $10 billion in assets or more at $0.21 plus 5 basis points times the transaction amount, a substantially lower rate than the average rate in effect prior to adoption of the Dodd-Frank Act;
- provided for an increase in the FDIC assessment for depository institutions with assets of $10 billion or more, increases in the minimum reserve ratio for the DIF from 1.15% to 1.35% and changes the basis for determining FDIC premiums from deposits to assets;
- permanently increased the deposit insurance coverage to $250,000 and allowed depository institutions to pay interest on checking accounts;

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

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

Consumer Protection

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

In January 2013, the CFPB issued a final rule implementing the ability-to-repay and qualified mortgage (QM) provisions of the Truth in Lending Act, as amended by the Dodd-Frank Act (the "QM Rule"). The ability-to-repay provision requires creditors to make reasonable, good faith determinations that borrowers are able to repay their mortgages before extending the credit based on a number of factors and consideration of financial information about the borrower from reasonably reliable third-party documents. Under the Dodd-Frank Act and the QM Rule, loans meeting the definition of "qualified mortgage" are entitled to a presumption that the lender satisfied the ability-to-repay requirements. The presumption is a conclusive presumption/safe harbor for prime loans meeting the QM requirements, and a rebuttable presumption for higher-priced/subprime loans meeting the QM requirements. The definition of a "qualified mortgage" incorporates the statutory requirements, such as not allowing negative amortization or terms longer than 30 years. The QM Rule also adds an explicit maximum 43% debt-to-income ratio for borrowers if the loan is to meet the QM definition, though some mortgages that meet GSE, FHA and VA underwriting guidelines may, for a period not to exceed seven years, meet the QM definition without being subject to the 43% debt-to-income limits. The QM Rule became effective January 10, 2014.

Insured Deposits

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

The FDIC's risk-based premium system provides for quarterly assessments. Each insured institution is placed in one of four risk categories depending on supervisory and capital considerations. Within its risk category, an institution is assigned to an initial base assessment rate which is then adjusted to determine its final assessment rate based on its brokered deposits, secured liabilities and unsecured debt. The FDIC recently amended its deposit insurance regulations to (1) change the assessment base for insurance from domestic deposits to average total consolidated assets minus average tangible equity and (2) lower overall assessment rates. The revised assessments rates are between 2.5 to 9 basis points for banks, in the lowest risk category and between 30 to 45 basis points for banks in the highest risk category. The amendments became effective during the second quarter of 2011 and reduced our insurance premium expense.

In addition, all institutions with deposits insured by the FDIC are required to pay assessments to fund interest payments on bonds issued by the Financing Corporation, a mixed-ownership government corporation established to recapitalize a predecessor to the DIF. These assessments will continue until the Financing Corporation bonds mature in 2019.

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

The FDIC has promulgated risk-based capital rules that are designed to make regulatory capital requirements more sensitive to differences in risk profiles among banks, to account for off-balance sheet exposures, and to minimize disincentives for holding liquid assets. Under those rules, assets and off-balance sheet items are assigned to broad risk categories, each with appropriate risk weights. The resulting capital ratios represent capital as a percentage of total risk-weighted assets.

Assets are given risk weights of 0%, 20%, 50% and 100%. In addition, certain off-balance sheet items are given similar credit conversion factors to convert them to asset equivalent amounts to which an appropriate risk weight will apply. Those computations result in the total risk-weighted assets. Most loans are assigned to the 100% risk category, except for performing first mortgage loans fully secured by residential property, which carry a 50% risk weight. Most investment securities (including, primarily, general obligations of states or other political subdivisions of the United States) are assigned to the 20% category, except for municipal or state revenue bonds, which have a 50% risk weight, direct obligations of the U.S. Treasury and obligations backed by the full faith and credit of the U.S. government, which have a 0% risk weight, and corporate debt securities, which have a 100% risk weight. In converting off-balance sheet items, direct credit substitutes, including general guarantees and standby letters of credit backing financial obligations, are given a 100% risk weight. Transaction-related contingencies such as bid bonds, standby letters of credit backing nonfinancial obligations, and undrawn commitments (including commercial credit lines with an initial maturity of more than one year), have a 50% risk weight. Short-term commercial letters of credit have a 20% risk weight, and certain short-term unconditionally cancelable commitments have a 0% risk weight.

The minimum ratio of total capital to risk-weighted assets required by FDIC regulations (including certain off-balance sheet activities, such as standby letters of credit) is 8.0%. At least 4.0% of the total capital is required to be Tier 1 capital, consisting of common stockholders' equity and qualifying preferred stock or hybrid instruments, less goodwill and certain other intangible assets. The remainder (Tier 2 capital) may consist of (a) the allowance for loan losses of up to 1.25% of risk-weighted assets, (b) excess of qualifying preferred stock, (c) hybrid capital instruments, (d) perpetual debt, (e) mandatory convertible securities, and (f) qualifying subordinated debt and intermediate-term preferred stock up to 50% of Tier 1 capital. Total capital is the sum of Tier 1 and Tier 2 capital less reciprocal holdings of other banking organizations' capital instruments, investments in unconsolidated subsidiaries and any other deductions as determined by the FDIC (determined on a case-by-case basis or as a matter of policy after formal rule-making).

In addition to the risk-based capital guidelines, the FDIC has adopted a minimum Tier 1 capital (leverage) ratio, under which a bank must maintain a minimum level of Tier 1 capital to average total consolidated assets of at least 3.0%, in the case of a bank that has the highest regulatory examination rating and is not contemplating significant growth or expansion. All other banks are expected to maintain a leverage ratio of not less than 4.0%.

The Group of Governors and Heads of Supervision, the oversight body of the Basel Committee on Banking Supervision, adopted Basel III in September 2010, which constitutes a set of capital reform measures designed to strengthen the regulation, supervision and risk management of banking organizations worldwide. In order to implement Basel III and certain additional capital changes required by the Dodd-Frank Act, on July 9, 2013, the FDIC approved, as an interim final rule, the regulatory capital requirements for U.S. state nonmember banks, such as us, substantially similar to final rules issued by the Board of Governors of the Federal Reserve System ("Federal Reserve") and the Office of the Comptroller of the Currency.

The interim final rule includes new risk-based capital and leverage ratios that will be phased-in from 2015 to 2019 for most state nonmember banks, including us. The rule includes a new common equity Tier 1 capital to risk-weighted assets ratio of 4.5% and a common equity Tier 1 capital conservation buffer of 2.5% of risk-weighted assets, which is in addition to the Tier 1 and total risk-based capital requirements. The interim final rule also raises the minimum ratio of Tier 1 capital to risk-weighted assets from 4.0% to 6.0% and requires a minimum leverage ratio of 4.0%. The required minimum ratio of total capital to risk-weighted assets will remain 8.0%. The new risk-based capital requirements (except for the capital conservation buffer) will become effective for the Bank on January 1, 2015. The capital conservation buffer will be phased in over four years beginning on January 1, 2016, with a maximum buffer of 0.625% of risk-weighted assets for 2016, 1.25% for 2017, 1.875% for 2018, and 2.5% for 2019 and thereafter. Failure to maintain the required capital conservation buffer will result in limitations on capital distributions and on discretionary bonuses to executive officers.

The following chart compares the risk-based capital required under existing rules to those prescribed under the interim final rule under the phase-in period described above:

Capital Measure	Current Rules	Final Rules
Tier 1 Leverage Capital	3.0%	4.0%
Common Equity Tier 1 Capital	-	4.5%
Tier 1 Capital	4.0%	6.0%
Capital Conservation Buffer	-	2.5%
Total Capital	8.0%	8.0%

The interim final rule also implements revisions and clarifications consistent with Basel III regarding the various components of Tier 1 capital, including common equity, unrealized gains and losses and instruments that will no longer qualify as Tier 1 capital. The interim final rule also sets forth certain changes for the calculation of risk-weighted assets that the Bank will be required to implement beginning January 1, 2015. Management is currently evaluating the provisions of the interim final rule and its expected impact. Based on our current capital composition and levels, management does not presently anticipate that the interim final rule presents a material risk to our financial condition or results of operations.

Liquidity

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

Dividends

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

Community Reinvestment Act

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

USA PATRIOT Act

Under the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (the "USA PATRIOT Act"), all financial institutions are required to take certain measures to identify their customers, prevent money laundering, monitor customer transactions and report suspicious activity to U.S. law enforcement agencies. Financial institutions also are required to respond to requests for information from Federal banking agencies and law enforcement agencies. Information sharing among financial institutions for the above purposes is encouraged by an exemption granted to complying financial institutions from the privacy provisions of the Gramm-Leach-Bliley Act and other privacy laws. Financial institutions that hold correspondent accounts for foreign banks or provide private banking services to foreign individuals are required to take measures to avoid dealing with certain foreign individuals or entities, including foreign banks with profiles that raise money laundering concerns, and are prohibited from dealing with foreign "shell banks" and persons from jurisdictions of particular concern. The primary Federal banking agencies and the U.S. Treasury Department have adopted regulations to implement several of these provisions. Financial institutions also are required to establish internal anti-money laundering programs. The effectiveness of institutions in combating money laundering activities is a factor to be considered in any application submitted by an insured depository institution under 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 anticipate that the USA PATRIOT Act will have 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 Office of Foreign Assets Control ("OFAC"). The OFAC-administered sanctions targeting countries take many different forms. Generally, the sanctions contain one or more of the following elements: i) restrictions on trade with or investment in a sanctioned country, including prohibitions against direct or indirect imports from and exports to a sanctioned country and prohibitions on "U.S. persons" engaging in financial transactions relating to making investments in, or providing investment-related advice or assistance to, a sanctioned country; and ii) a blocking of assets in which the government or specially designated nationals of the sanctioned country have an interest, by prohibiting transfers of property subject to U.S. jurisdiction (including property in the possession or control of U.S. persons). Blocked assets (e.g., property and bank deposits) cannot be paid out, withdrawn, set off or transferred in any manner without a license from OFAC. Failure to comply with these sanctions could have serious legal and reputational consequences.

Other Legislative Initiatives

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

Item 1A. Risk Factors.

An investment in our common stock involves a high degree of risk. There are risks, many beyond our control, that could cause our financial condition or results of operations to differ materially from management's expectations. Some of the risks that may affect us are described below. Before deciding to invest in our common stock, you should carefully consider the risks described below together with all the information contained herein, including our financial statements and the notes thereto. Any of the risks 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 original investment. Further, to the extent that any of the information contained in this document constitutes forward-looking statements, the risk factors below also are cautionary statements identifying important factors that could cause actual results to differ materially from those expressed in any forward-looking statements made by us or on our behalf. See "Forward-Looking Statements" on Page 1 of this document.

Risks Related to Our Business:

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

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

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

Nationwide economic weakness may adversely affect our business by reducing real estate values in our trade area and stressing the ability of our customers to repay their loans.

Our market area, like the rest of the United States, is currently experiencing post-recessionary economic conditions. In addition, the financial services industry is a major employer in our market area. The financial services industry has been adversely affected by current economic and regulatory factors. As a result, many companies have experienced reduced revenues and have laid off employees. These factors have stressed the ability of both commercial and consumer customers to repay their loans, and may result in higher levels of nonaccrual loans. In addition, real estate values have declined in our trade area. Since the number of our loans secured by real estate represents a material segment of our overall loan portfolio, declines in the market value of real estate impact the value of the collateral securing our loans, and could lead to greater losses in the event of defaults on loans secured by real estate.

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

We have grown since our 2008 recapitalization by focusing on growth through business development opportunities and more recently through our acquisition of HCB. As a result, our assets have grown from \$62.9 million at

December 31, 2008 to $466.8 million at December 31, 2013, representing a compound annual growth rate in excess of 49%. In September 2013, we opened a fifth branch in Somerset County, New Jersey. In addition to our organic growth, on March 7, 2014, we closed upon our acquisition of Heritage Community Bank, whereby we acquired three additional branches and $133.4 million in total assets. 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 recently opened and acquired 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 adopt and effectively implement 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.

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. In light of current economic conditions, our regulators have been seeking higher capital bases for insured depository institutions experiencing strong growth. In addition, the implementation of certain new regulatory requirements, such as the Basel III accord and the Dodd-Frank Act, established higher tangible capital requirements for financial institutions. These developments will likely require us to raise additional capital in the future. We can offer you no assurances 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.

We have a significant concentration in commercial real estate loans and commercial and industrial 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 non-payment and loss than do residential mortgage 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 residential real estate, and loan terms with 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 compared to one-to four-family residential mortgage loans. 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 would materially and adversely affect us.

At December 31, 2013, we had $243.2 million of commercial real estate loans, which represented 71.5% of our total loan portfolio. Our commercial real estate loans include loans secured by owner-occupied and non-owner-occupied 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, 2013, we had $60.4 million of commercial and industrial loans, which represented 17.8% 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 guaranty of the business owner. Compared to real estate, that type of 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. The general consensus is that both the national economy generally and the economy in our service area are improving slowly.

Although the economy in our market areas generally, and the real estate market in particular, is improving slowly, we can give you no assurance that it will continue to grow or that the rate of growth will accelerate to historical levels. Many factors, including continuing European 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 of these loans, which could negatively impact our loan portfolio's performance and asset quality. If we are required to liquidate the collateral securing a loan to satisfy the debt during a period of reduced real estate values, we could incur material losses. Any of these events could increase our costs, require management time and attention, and materially and adversely affect us.

Federal banking agencies have issued guidance regarding high concentrations of commercial real estate loans within bank loan portfolios. The guidance requires financial institutions that exceed certain levels of commercial real estate lending compared with their total capital to maintain heightened risk management practices that address the following key elements: board and management oversight and strategic planning, portfolio management, development of underwriting standards, risk assessment and monitoring through market analysis and stress testing, and maintenance of increased capital levels as needed to support the level of commercial real estate lending. If there is any deterioration in our commercial real estate portfolio or if our regulators conclude that we have not implemented appropriate risk management practices, it could adversely affect our business, and could result in the requirement to maintain increased capital levels. Such capital may not be available at that time, and may result in our regulators requiring us to reduce our concentration in commercial real estate loans.

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

Given the growth in our loan portfolio, many of our commercial real estate loans are unseasoned, meaning that they were originated relatively recently. As of December 31, 2013, we had $243.2 million in commercial real estate loans outstanding, up from $105.0 million at December 31, 2010. This represents an increase of $138.2 million or an average of $46.1 million per year over the past three years. 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.

Regulatory changes allowing the payment of interest on commercial accounts may negatively impact our core deposit strategy and our net interest income.

Our current core deposit strategy includes continuing to increase our non-interest bearing commercial accounts in order to lower our cost of funds. Recent changes effected by the Dodd-Frank Act, however, permit the payment of interest on such accounts, which was previously prohibited. If our competitors begin paying interest on commercial accounts, this may increase competition from other financial institutions for these deposits and negatively affect our ability to continue to increase commercial deposit accounts, may require us to consider paying interest on such accounts, or may otherwise require us to revise our core deposit strategy, any of which could increase our interest expense and therefore our cost of funds and, as a result, decrease our net interest income which would adversely impact our results of operations.

Our lending limit may restrict our growth.

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

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 and our trademarks, including through litigation, could result in costs adversely affecting our business, results of operations, financial condition or prospects.

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

During the last four years it has been the policy of the Federal Reserve to maintain interest rates at historically low levels through its targeted Federal funds rate and the purchase of mortgage-backed securities. As a result, yields on securities we have purchased, and to a lesser extent, market rates on the loans we have originated, have been at levels lower than were available prior to 2008. Consequently, the average yield on our interest earning assets has decreased during the recent low interest rate environment. As a general matter, our interest bearing liabilities re-price or mature more quickly than our interest earning assets, which have contributed to increases in net interest income (the difference between interest income earned on assets and interest expense paid on liabilities) in the short term. However, our ability to lower our interest expense is limited at these interest rate levels, while the average yield on our interest earning assets may continue to decrease. The Federal Reserve has indicated its intention to maintain low interest rates in the near future. Accordingly, our net interest income may decrease, which may have an adverse effect on our profitability. For information with respect to changes in interest rates, see the Risk Factor entitled, "Changes in interest rates may adversely affect our earnings and financial condition".

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 the future, 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, 2013 is adequate to cover known and probable incurred losses included in the portfolio, we cannot assure you that we will not further increase the allowance for loan losses or that our regulators will not require us to increase this allowance. Either of these occurrences could adversely affect our earnings.

We 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, each of which could adversely affect our net income. 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.

Our internal control systems could fail to detect certain events.

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

Risks Related to the Banking Industry Generally:

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

Beginning in mid-2007, there has been significant turmoil and volatility in global financial markets. Nationally, economic factors including inflation, recession, a rise in unemployment, a weakened U.S. dollar, dislocation and volatility in the credit markets, and rising consumer costs persist. Market uncertainty regarding the financial sector increased. In addition to the impact on the economy generally, changes in interest rates, in the shape of the yield curve, or in valuations in the debt or equity markets or disruptions in the liquidity or other functioning of financial markets, most of which have been seen recently, could directly impact us in one or more of the following ways:

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

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

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

A sustained increase in market interest rates could adversely affect our earnings if our cost of funds increases more rapidly than our yield on our interest earning assets, and compresses our net interest margin. In addition, the economic value of equity would 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 interest rate sensitive liabilities. However, interest rate risk management techniques are not exact. A rapid increase or decrease in interest rates could adversely affect our results of operations and financial performance.

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

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

For example, the Dodd-Frank Act may result in substantial new compliance costs. Although signed into law on July 21, 2010, different effective dates apply to specific sections of the Dodd-Frank Act, many of which will not become effective until various Federal regulatory agencies have promulgated rules implementing the statutory provisions. Uncertainty remains as to the ultimate impact of the Dodd-Frank Act, which could have a material adverse impact either on the financial services industry as a whole, or on our business, results of operations and financial condition. The Dodd-Frank Act impacts, among other things:

- the rules and regulations of the CFPB;
- the underwriting and securitization of residential mortgages;
- regulatory capital requirements; and
- deposit insurance assessments.

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

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

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

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

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

The potential impact of changes in monetary policy and interest rates may negatively affect our operations.

Our operating results may be significantly affected by market rates of interest that, in turn, are affected by prevailing economic conditions, by the fiscal and monetary policies of the United States government and by the policies of various regulatory agencies. Our earnings will depend significantly upon our interest rate spread (i.e., the difference between income earned on our loans and investments and the interest paid on our deposits and borrowings). Like many financial institutions, we may be subject to the risk of fluctuations in interest rates, which, if significant, may have a material adverse effect on our interest rate spread and on our results of operations.

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

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

- telecommunications;
- data processing;
- automation;
- internet-based banking, including personal computers, mobile phones and tablets;
- telephone banking;
- 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 via our website, www.firstbanknj.com, including internet banking and electronic bill payment, as well as banking by phone. We also offer ATM cards, wire transfers, and automatic and ACH transfers. The successful operation and further development of these and other new technologies will likely require additional capital investments in the future. In addition, increased use of electronic banking creates opportunities for interruptions in service or security breaches which could expose us to claims by customers or other third parties. We cannot assure you that we will have sufficient resources or access to the necessary technology to remain competitive in the future, or that we will be able to maintain a secure electronic environment.

Risks Related to Our Common Stock:

Our securities are not FDIC insured.

Our securities are not savings or deposit accounts or other obligations of any bank and are not insured by the FDIC, the Deposit Insurance Fund or any other governmental agency and are subject to investment risk, including the possible loss of principal.

We do not expect to pay cash dividends on shares of our common stock.

We have not paid cash dividends on our common stock since the formation of the Bank in 2007, and expect that we will continue to retain earnings to augment our capital base and finance future growth. Therefore, investors should not purchase shares of common stock with a view for a current return on their investment in the form of cash dividends.

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

As of the close of business on March 7, 2014, our properties consisted of leased premises for our corporate headquarters and full-service branch offices as indicated below, except for our Denville branch which we own:

- Our corporate offices and main branch office are located at 2465 Kuser Road, Hamilton, New Jersey. We occupy approximately 12,000 square feet under a lease with a 7-year term that expires on December 31, 2017;
- Our Ewing branch is located at 1340 Parkway Avenue, Ewing, New Jersey. We occupy this 2,900 square foot location pursuant to a lease with a term of five years which expires on April 1, 2014 and includes four 5-year renewal options;
- Our Lawrenceville branch is a 3,600 square foot branch located at 590 Lawrence Square Boulevard South, Lawrenceville, New Jersey. Our lease was recently renewed for ten years with one 5-year renewal option. This lease will expire on November 10, 2023;
- Our Williamstown branch is a 3,500 square foot building located at 1020 N. Black Horse Pike, Williamstown, New Jersey, on property to which the Bank has a 20-year ground lease with six 5-year options;
- Our Somerset branch is composed of 3,100 square feet space that is located at DeMott Lane and New Brunswick Road, Somerset, New Jersey. The lease term is for seven years, which expires on December 31, 2019, with one 7-year renewal option;

- Our two Randolph branches are located at 1206 Sussex Turnpike and 419 Route 10 East in Randolph, New Jersey. The 1206 Sussex Turnpike branch is a 3,300 square foot facility with a lease that expires on July 31, 2015. There are four additional 5-year options remaining on this lease. The 419 Route 10 East branch is a 1,700 square foot facility with a lease that was renewed on December 31, 2013 for six months. There is one additional 6-month renewal option remaining; and
- We own our Denville branch located at 530 E. Main Street in Denville, New Jersey. This facility consists of 4,000 square feet.

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

Our common stock has been listed on the NASDAQ Global Market exchange under the symbol "FRBA" since November 15, 2013. Prior to that time, our stock was thinly traded on the Over-the-Counter Bulletin Board under the same symbol.

The following table sets forth for the period indicated the high and low closing sale prices as reported on the NASDAQ Global Market.

	Sales Price	
	High	Low
2013		
Fourth Quarter	$6.96	$5.62

We have not paid cash dividends on our common stock since the formation of the Bank in 2007, and expect that we will continue to retain earnings to augment our capital base and finance future growth. Therefore, investors should not purchase shares of common stock with a view for a current return on their investment in the form of cash dividends.

Holders of Record

As of March 1, 2014, there were approximately 170 stockholders of record of our common stock.

Initial Public Offering

On November 14, 2013, our registration statement on Form 10 was declared effective by the FDIC, registering our common stock under the Securities Exchange Act of 1934, as amended. In connection with this registration, we executed an Initial Public Offering of our common stock pursuant to which we sold an aggregate of 3,833,334 shares of our common stock at a price of $6.00 per share. As a result of the offering, we received net proceeds of $20.9 million, after deducting $2.1 million in underwriting discounts and expenses.

The Bank intends to use the proceeds to provide additional capital to support growth and provide financial strength during the current uncertain economic environment.

Equity Compensation Plan Information

The following table presents certain information regarding our equity compensation plans as of December 31, 2013.

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	511,500	$ 5.24	140
Equity compensation plans not approved by security holders	-	-	-
Total	511,500	$ 5.24	140

Item 6. Selected Financial Data.

You should read the following selected consolidated financial data in connection with Item 7 “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our consolidated financial statements and the related notes appearing in Item 8 “Financial Statements and Supplementary Data” of this Annual Report on Form 10-K.

We derived the consolidated statements of income data for the years ended December 31, 2013 and 2012, and the consolidated balance sheet data at December 31, 2013 and 2012 from our audited consolidated financial statements appearing in Item 8 of this Annual Report on Form 10-K. We derived the consolidated statements of income data for the years ended December 31, 2011 and 2010, and the consolidated balance sheet data at December 31, 2011 and 2010, from our audited consolidated financial statements that are not included in this Annual Report on Form 10-K. Our historical results are not necessarily indicative of the results to be expected in any future period.

	At or For the Year Ended December 31,			
	2013	**2012**	**2011**	**2010**
	(in thousands)			
SELECTED BALANCE SHEET DATA				
Total assets	$ 466,792	$ 350,782	$ 264,914	$ 211,983
Total loans	339,975	260,039	207,024	154,026
Allowance for loan losses	4,675	4,084	3,307	2,444
Total deposits	399,113	309,048	234,666	187,759
Total stockholders' equity	52,507	31,025	23,982	21,751
Average total assets	396,974	311,809	237,589	216,268
Average common stockholders' equity	34,107	26,348	21,860	21,262
SELECTED INCOME STATEMENT DATA				
Interest income	$ 16,620	$ 14,210	$ 11,562	$ 9,705
Interest expense	3,414	3,278	2,944	3,351
Net interest income	13,206	10,932	8,618	6,354
Provision for loan losses	1,543	1,366	2,080	2,279
Net interest income after provision for loan losses	11,663	9,566	6,538	4,075
Non-interest income	512	394	440	730
Non-interest expense	9,388	7,702	6,662	5,911
Income (loss) before income taxes	2,787	2,258	316	(1,106)
Income tax expense (benefit)	1,079	(330)	(1,787)	2
Net income (loss)	$ 1,708	$ 2,588	$ 2,103	$ (1,108)

	At or For the Year Ended December 31,			
	2013	2012	2011	2010
	(in thousands, except share data)			
COMMON SHARE DATA				
Basic earnings (loss) per share	$ 0.33	$ 0.63	$ 0.54	$ (0.30)
Diluted earnings (loss) per share	0.33	0.63	0.54	(0.30)
Basic weighted average common shares	5,128,061	4,083,012	3,886,965	3,652,211
Diluted weighted average common shares	5,172,233	4,083,012	3,886,965	3,652,211
Book value per common share	$ 6.16	$ 6.62	$ 6.17	$ 5.60
Common shares outstanding	8,520,299	4,686,965	3,886,965	3,886,965
SELECTED PERFORMANCE RATIOS				
Return on average assets	0.43%	0.83%	0.89%	(0.51%)
Return on average equity	5.01%	9.82%	9.62%	(5.21%)
Net interest margin, tax equivalent	3.47%	3.68%	3.74%	3.01%
Efficiency ratio (1)	69.20%	68.00%	75.89%	91.73%
SELECTED ASSET QUALITY RATIOS				
Nonaccrual loans to total loans	0.98%	1.28%	2.76%	2.65%
Nonperforming loans to total loans (2)	0.98%	1.28%	2.78%	2.73%
Nonperforming assets to total assets (3)	1.09%	1.69%	2.41%	1.99%
Allowance for loan losses to total loans	1.38%	1.57%	1.60%	1.59%
Allowance for loan losses to nonaccrual loans	140.14%	122.90%	57.93%	59.98%
Net loan charge offs to average loans	0.32%	0.25%	0.67%	1.28%
CAPITAL RATIOS				
Stockholders' equity to assets	11.25%	8.84%	9.05%	10.26%
Tier 1 leverage capital	11.89%	8.89%	9.29%	10.22%
Tier 1 risk-based capital	14.11%	10.53%	10.31%	13.06%
Total risk-based capital	15.35%	11.78%	11.56%	14.31%

(1) Efficiency ratio is defined as non-interest expense divided by the sum of net interest income and non-interest income excluding net gains or losses on sales of securities and loans held for sale. This measure is not recognized under generally accepted accounting principles in the United States ("U.S. GAAP"), and is therefore considered to be a non-U.S. GAAP financial measure. See the section entitled "Non-U.S. GAAP Financial Measures" for a reconciliation.

(2) Nonperforming loans consist of nonaccrual loans and loans past due 90 days or more and still accruing.

(3) Nonperforming assets consist of nonperforming loans, other real estate owned and other repossessed assets.

Non-U.S. GAAP Financial Measures

The efficiency ratio, a non-U.S. GAAP financial measure that we believe is a widely followed metric in the banking industry, measures operating expenses as a percentage of adjusted total revenue, and is computed by dividing total non-interest expense by the sum of net interest income and non-interest income less net gains or losses on sales of securities and loans held for sale. 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 (total revenue and adjusted total revenue) to derive the non-U.S. GAAP efficiency ratio measure:

	Year Ended December 31,			
	2013	2012	2011	2010
	(dollars in thousands)			
Non-interest expense (numerator)	$ 9,388	$ 7,702	$ 6,662	$ 5,911
Net interest income	$ 13,206	10,932	8,618	6,354
Non-interest income	512	394	440	730
Total revenue	13,718	11,326	9,058	7,084
Less: net gains on sales of securities	(18)	-	(41)	(640)
Less: net gains on sales of loans held for sale	(134)	-	(239)	-
Adjusted total revenue (denominator)	$ 13,566	$ 11,326	$ 8,778	$ 6,444
Efficiency ratio	69.20%	68.00%	75.89%	91.73%

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's financial condition and results of operations for each of the years ended December 31, 2013 and 2012. The discussion and analysis should be read in conjunction with the consolidated financial statements, notes and tables included elsewhere in this report.

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.

Overview

We are a New Jersey state-chartered commercial bank that began operations on April 23, 2007. We are headquartered in Hamilton in Mercer County, New Jersey. We provide a traditional set of lending, deposit and other financial products 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. During 2013, we operated three full-service branches and our corporate offices in our primary market of Mercer County, New Jersey. Our fourth full-service branch facility is located in Williamstown, New Jersey in Gloucester County, and our fifth full-service branch facility is in Somerset County, New Jersey. We also have a wholly-owned subsidiary which holds foreclosed assets.

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

On July 11, 2013, we entered into an Agreement and Plan of Merger with Heritage Community Bank ("HCB"), a state-chartered commercial bank with its headquarters and two branch offices in Randolph, Morris County, New Jersey and a third branch in Denville, Morris County, New Jersey. On March 5, 2014, shareholders of both First Bank and HCB approved our acquisition of HCB. Effective with the closing of the acquisition on March 7, 2014, First Bank acquired $133.4 million in total assets and now serves customers through eight branches in Mercer, Somerset, Morris and Gloucester Counties in New Jersey.

In November 2013, we successfully completed an Initial Public Offering ("IPO"), which raised $20.9 million in net new capital to support the HCB acquisition and our future growth.

We expect to continue to grow our balance sheet organically. Our loan and deposit pipelines remain very active despite increasing competition. We are also interested in exploring additional good acquisition opportunities that would help us achieve additional economies of scale and enhanced earnings per share growth.

Critical Accounting Policies and Estimates

Our consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("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.

We define our critical accounting policies as those accounting principles generally accepted in the United States of America that require us to make subjective estimates and judgments about matters that are uncertain and are likely to have a material impact on our financial condition and results of operations as well as the specific manner in which we apply those principles. We believe our accounting policies governing the determination of the allowance for loan losses, assessment of other than temporary impairment of securities 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 our Audit Committee. We believe the critical accounting policies used in the preparation of our financial statements that require significant estimates and judgments are as follows:

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. Note 1 of the Notes to Consolidated Financial Statements 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, 2013, we determined that all unrealized losses were temporary in nature.

Income Taxes. We are subject to the income tax laws of the United States of America and the State of New Jersey 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. Notes 1 and 10 of the Notes to Consolidated Financial Statements include further explanation of our accounting for income taxes.

Results of Operations

Net Income

Net income for the years ended December 31, 2013 and 2012 was $1.7 million and $2.6 million, respectively, or $0.33 and $0.63 per diluted share, respectively. The decrease in net income reflects the depletion of certain tax benefits during 2012 as our 2013 results were fully taxable. Net income for 2013 included income tax expense of $1.1 million compared to an income tax benefit of $330,000 in 2012. The decline in earnings per share in 2013 was due to lower net income and the new common shares issued as the result of our IPO which was completed in November 2013. There were 3,833,334 common shares issued as a result of that capital raise.

Pre-tax income was $2.8 million for 2013 compared to $2.3 million for 2012. Pre-tax income growth for 2013 compared to 2012 was driven by net interest income growth. Net interest income has grown due to consistent strong loan growth, primarily in commercial loans. We have also experienced strong deposit growth in a lower interest rate environment, which has resulted in lower interest expense and supported net interest income growth. Pressure on loan yields due to refinancing activity and loan originations during a continued low interest rate environment resulted in a lower net interest margin for the comparative period. Partially offsetting the net interest income increase were higher salaries and employee benefits, occupancy and equipment expense, other professional fees and other operating expenses, commensurate with our 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 our 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.

Average Balance Sheets. The following tables set forth an analysis of net interest income by each major category of average interest earning assets and interest bearing liabilities, and the related yields and costs for the years ended December 31, 2013, 2012 and 2011. Average yields for each year are derived by dividing interest income by the average balance of the related assets, and average costs are derived by dividing interest expense by the average balance of the related liabilities. The yields and costs include fees, costs, premiums and discounts, which are considered adjustments to interest rates.

	Year Ended December 31,								
	2013			2012			2011		
	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate
	(dollars in thousands)								
Interest earning assets									
Investment securities (1) (2)	$ 59,118	$ 1,154	1.95%	$ 37,618	$ 728	1.94%	$ 23,789	$ 502	2.11%
Loans (3)	294,751	15,340	5.20%	233,194	13,323	5.71%	182,809	10,909	5.97%
Federal funds sold and interest bearing deposits with banks	21,861	61	0.28%	20,871	66	0.32%	22,690	120	0.53%
Restricted investment in bank stocks	997	34	3.41%	598	24	4.01%	491	20	4.07%
Other investments	5,000	78	1.56%	5,002	69	1.38%	535	11	2.06%
Total interest earning assets (2)	381,727	16,667	4.37%	297,283	14,210	4.78%	230,314	11,562	5.02%
Allowance for loan losses	(4,405)			(3,738)			(2,808)		
Non-interest earning assets	19,652			18,264			10,083		
Total assets	$ 396,974			$ 311,809			$ 237,589		
Interest bearing liabilities									
Interest bearing demand deposits	$ 11,556	40	0.35%	$ 9,290	52	0.56%	$ 6,103	50	0.82%
Money market deposits	71,134	488	0.69%	73,707	476	0.65%	62,180	630	1.01%
Savings deposits	87,471	670	0.77%	56,781	714	1.26%	20,059	247	1.23%
Time deposits	140,669	2,017	1.43%	115,248	1,894	1.64%	104,250	1,897	1.82%
Total interest bearing deposits	310,830	3,215	1.03%	255,026	3,136	1.23%	192,592	2,824	1.47%
Borrowings	11,843	199	1.68%	5,622	142	2.53%	4,257	120	2.82%
Total interest bearing liabilities	322,673	3,414	1.06%	260,648	3,278	1.26%	196,849	2,944	1.99%
Non-interest bearing deposits	39,030			24,174			18,335		
Other liabilities	1,164			639			545		
Stockholders' equity	34,107			26,348			21,860		
Total liabilities and stockholders' equity	$ 396,974			$ 311,809			$ 237,589		
Net interest income/interest rate spread (2)		13,253	3.31%		10,932	3.52%		8,618	3.03%
Net interest margin (4)			3.47%			3.68%			3.74%
Tax-equivalent adjustment (2)		(47)			-			-	
Net interest income		$ 13,206			$ 10,932			$ 8,618	

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

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

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

	Year Ended December 31, 2013 versus 2012 Increase (Decrease) Due to Change (1) in			Year Ended December 31, 2012 versus 2011 Increase (Decrease) Due to Change (1) in		
	Average Volume	Average Rate	Net Change	Average Volume	Average Rate	Net Change
	(in thousands)					
Interest income						
Investment securities	$ 420	$ 6	$ 426	$ 264	$ (38)	$ 226
Loans	3,283	(1,266)	2,017	2,855	(441)	2,414
Federal funds sold and interest bearing deposits with banks	3	(8)	(5)	(9)	(45)	(54)
Restricted investment in bank stocks	14	(4)	10	4	-	4
Other investments	-	9	9	60	(2)	58
Total interest income	3,720	(1,263)	2,457	3,174	(526)	2,648
Interest expense						
Interest bearing demand deposits	11	(23)	(12)	5	(3)	2
Money market deposits	(17)	29	12	161	(315)	(154)
Savings deposits	298	(342)	(44)	462	5	467
Time deposits	384	(261)	123	(37)	34	(3)
Total interest bearing deposits	676	(597)	79	591	(279)	312
Borrowings	117	(60)	57	33	(11)	22
Total interest expense	793	(657)	136	624	(290)	334
Net interest income	$ 2,927	$ (606)	$ 2,321	$ 2,550	$ (236)	$ 2,314

(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.

Net Interest Margin and Net Interest Income. Our tax equivalent net interest margin for 2013 was 3.47% compared to 3.68% for 2012. The net interest margin is calculated by dividing net interest income by average interest earning assets. During 2013 and over the last few years the Federal Open Market Committee has kept the targeted Federal funds sold rate at 25 basis points. As a result of this prolonged lower interest rate environment and increased competition for the years presented we have experienced lower loan yields, specifically commercial loans, and, as a result, a lower net interest margin. Deposit costs have been managed lower for the years presented as well but not enough to offset the decline in average loan yields that was experienced.

Based on the shape of the Treasury yield curve at year-end 2013 we believe there will be continued pressure on our net interest margin until the yield curve steepens further. Additionally, increased competition for loans and deposits may also add pressure on our net interest margin during 2014.

Net interest income on a tax equivalent basis increased $2.3 million, or 21.2%, to $13.3 million for 2013, compared to $10.9 million for 2012. The increase for the comparative years is attributed primarily to loan growth, as the increased volume of average loans was partially offset by lower yields. To a lesser extent, the increase in average investment securities also contributed to higher net interest income in 2013. Partially offsetting the increase in net interest income was the higher volume of interest bearing liabilities and subsequent interest expense. For the comparative years presented, interest income rose primarily due to higher interest income on loans. For 2013, interest income rose $2.5 million, or 17.3%, to $16.7 million from $14.2 million in 2012. Average loans for the comparative annual periods increased 26.4%. Average interest earning assets increased $84.4 million or 28.4% to $381.7 million in 2013 from $297.3 million in 2012.

Interest and fees on loans increased 15.1% to $15.3 million for 2013 compared to $13.3 million for 2012 due primarily to greater loan volume, as loan yields declined 51 basis points to 5.20% for 2013 compared to 5.71% for 2012. Our loan yield is affected by market rates, the level of adjustable rate loans, repayment or re-pricing of higher fixed rate loans, prepayment penalties, the level of nonaccrual loans and other factors. Increased competition in our markets was reflected in competitive terms and interest rates on fixed rate loans, which contributed to our lower commercial loan yield.

Average investment securities increased $21.5 million or 57.2% to $59.1 million in 2013, compared to $37.6 million in 2012, while the portfolio yield increased by 1 basis point to 1.95% for 2013, compared to 1.94% in 2012. The increase in average investment securities was due primarily to investment of excess liquidity from lower yielding overnight invested funds into mortgage-backed securities and to a lesser extent, tax-free municipal bonds. Our investment portfolio yield was basically flat for the years presented despite a difficult yield curve environment during 2013. The purchase of tax-free municipal bonds and mortgage-backed securities, particularly in the second half of 2013 in a comparatively higher yield curve environment, contributed to our investment portfolio yield stability during the year. As a result, interest on investment securities for 2013 increased $426,000 to $1.2 million compared to $728,000 for 2012.

The impact of higher average interest bearing deposits was partially offset by lower interest rates due to the continuing low interest rate environment. As a result, interest expense increased by $79,000 or 2.5% for 2013 compared to 2012. Average interest bearing deposits increased by $55.8 million, or 21.9%, to $310.8 million during 2013, while the cost of interest bearing deposits declined 20 basis points to 1.03% compared to 1.23% in 2012. The increase in average interest bearing deposits was primarily due to an increase in savings and time deposits. Average savings deposits increased $30.7 million or 54.0% to $87.5 million in 2013, compared to $56.8 million in 2012. Average time deposits increased $25.4 million or 22.1% to $140.7 million in 2013 compared to $115.2 million in 2012. Savings and time deposits were competitively priced during 2013 to fund loan growth.

Average non-interest bearing demand deposits increased $14.9 million to $39.0 million in 2013 compared to $24.2 million in 2012. The increase was primarily due to a combination of new business relationships and municipal accounts.

Average borrowed funds increased $6.2 million to $11.8 million for the year ended 2013 compared to $5.6 million for 2012. Interest on borrowed funds decreased 85 basis points to 1.68% for 2013 compared to 2.53% in 2012. We continue to use FHLB advances to provide loan funding and manage interest rate risk. With interest rates continuing to remain low in late 2012 and 2013, we added two new advances. In December 2012, we added a $5.0 million 5-year advance at 1.07% and in 2013 we added a $4.0 million 3-year advance at 1.04%.

In 2014, we expect continued competition for commercial loans and deposits. To achieve our profitability goals in 2014 we will need to increase commercial loans, maintain a stable asset quality profile, and continue to build our lower cost core deposit base.

Provision for Loan Losses

We provide for loan losses by a charge to current income to maintain the allowance for loan losses at an adequate level to absorb probable losses inherent in our loan portfolio, determined according to our documented allowance adequacy methodology.

The provision for loan losses for the year ended December 31, 2013 was $1.5 million compared to $1.4 million for 2012. The provision for loan losses is determined after a detailed review of our loan portfolio which focuses on credit risk ratings, nonaccrual loans and the level of problem credits. Net charge offs were 0.32% and 0.25% of average loans for the years ended December 31, 2013 and 2012, respectively. During 2013, we experienced improving asset quality metrics. In the fourth quarter 2013, however, two charge offs from loans originated prior to the 2008 recapitalization of the Bank led to a higher quarterly provision which resulted in a higher provision for loan losses in 2013 compared to 2012. The provision for loan losses was also impacted by the level of loan growth during the year. At December 31, 2013 and December 31, 2012, the allowance for loan losses to total loans ratio was 1.38% and 1.57%, respectively.

Non-Interest Income

The largest component of our non-interest income is income on bank-owned life insurance ("BOLI"). We also earn non-interest income from service charges and related fees on deposit accounts, title insurance fees and fees for other banking services. Net investment securities gains or losses and gains on sales of loans held for sale also impact our level of non-interest income. For the year ended December 31, 2013, non-interest income represented only 3.0% of our total revenue.

Non-interest income for 2013 totaled $512,000 compared to $394,000 in 2012. The increase in non-interest income in 2013 compared to 2012 was due primarily to a gain on the sale of a Small Business Administration ("SBA") loan of $134,000. In addition, gains on the sale of investment securities, income on BOLI, and other non-interest income also contributed to the increase in non-interest income. Gains on the sale of available for sale securities totaled

$18,000 in 2013. There were no securities gains or losses in 2012. Income on BOLI was $151,000 in 2013, an increase of $9,000 or 6.3% from $142,000 in 2012. In the fourth quarter of 2013 we purchased an additional $3.5 million of BOLI to increase non-interest income. BOLI income is exempt from Federal and state income taxes as long as the policies are held until the death of the insured individuals. Our BOLI portfolio increased to $8.8 million at December 31, 2013. BOLI assets are single premium policies purchased from multiple carriers to 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. Other non-interest income increased $5,000 to $71,000 in 2013. Other non-interest income increased modestly due to higher other service fee income, which includes debit card income, automated teller machine fees and wire transfer fees.

Partially offsetting these increases in 2013 were lower title insurance fees, loan fees and service fees on deposit accounts. Title insurance fees, loan fees, which include residential mortgage loan origination fees, and service fees on deposit accounts totaled $30,000, $33,000 and $75,000, respectively. Title insurance fees, loan fees and service fees on deposit accounts were lower by $29,000, $12,000 and $7,000, respectively, compared to 2012.

As we add new branches and customers, we expect the level of non-interest income to grow through service fees on deposit accounts. With our focus on net interest income generation, however, non-interest income is expected to remain a minor portion of our total 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 as well as expenses associated with the management of problem assets, including OREO.

Non-interest expense has increased as we have grown and invested in our staffing and infrastructure. For 2013, non-interest expense totaled $9.4 million, a $1.7 million or 21.9% increase from $7.7 million in 2012. The year over year increase was primarily due to higher salaries and employee benefits, occupancy and equipment expense, and other professional fees, including expenses associated with our acquisition of HCB.

Salaries and employee benefits is the largest component of non-interest expense. Benefits expense includes the cost of health insurance, other benefit plans and payroll taxes, which have increased as we have employed more personnel as we have grown. Salaries and employee benefits increased $788,000, or 19.9% to $4.8 million for 2013 compared to $4.0 million in 2012. Salary expense rose $673,000 to $3.9 million in 2013, primarily due to new staff hires, including for our new branch in Somerset, New Jersey, merit pay increases and the full year impact of employees hired in 2012. Benefits expense increased 16.9%, principally due to higher benefit costs and payroll taxes associated with the increase in employees. Full-time equivalent employees increased to 59 at December 31, 2013 from 48 at December 31, 2012.

Occupancy and equipment expense increased $319,000, or 29.2% to $1.4 million for 2013 compared to $1.1 million in 2012. Occupancy and equipment expense consists primarily of occupancy related costs such as rent, real estate taxes and maintenance, and expenses associated with equipment. The principal increase was in occupancy expense, primarily due to additional space rented in our corporate headquarters, and, to a lesser extent, the rent and maintenance costs associated with our Somerset branch which opened in September 2013.

Other professional fees increased $266,000, or 89.9%, to $562,000 for 2013 compared to $296,000 in 2012. The increase was primarily due to higher external audit fees, consulting fees and miscellaneous professional fees. External audit fees, including tax services, increased as a result of additional costs associated with being a public company. Higher consulting and miscellaneous professional fees related primarily to expenses associated with our acquisition of HCB and the use of consultants to improve operational efficiencies as we have grown.

To a lesser extent, increased marketing and advertising costs, directors' fees and other expenses also contributed to higher non-interest expense in 2013 compared to 2012. During 2013 we actively marketed deposit products to fund loan growth and strengthen our brand image to build our presence in the markets we serve. Other expenses include loan origination expenses as well as expenses associated with our growth.

We believe that non-interest expenses will increase in 2014 as we continue to grow, which will be reflected in higher salaries and employee benefits and occupancy expense. During 2014 we expect to continue to strengthen our staff as our assets continue to grow.

Our efficiency ratio, a non-U.S. GAAP financial measure that we believe is a widely followed metric in the banking industry, measures operating expenses as a percentage of net revenue, and is computed by dividing total non-interest expense by the sum of net interest income and non-interest income less net gains or losses on sales of securities and loans held for sale. Our efficiency ratio for 2013 was 69.20% compared to 68.00% for 2012. The following table provides a reconciliation between U.S. GAAP financial measures (net interest income, non-interest income and non-interest expense) and the related non-U.S. GAAP measures (total revenue and adjusted total revenue) to derive the non-U.S. GAAP efficiency ratio measure:

	Year Ended December 31,	
	2013	2012
	(dollars in thousands)	
Non-interest expense (numerator)	$ 9,388	$ 7,702
Net interest income	$ 13,206	$ 10,932
Non-interest income	512	394
Total revenue	13,718	11,326
Less: gains on sales of securities	(18)	-
Less: gains on sales of loans held for sale	(134)	-
Adjusted total revenue (denominator)	$ 13,566	$ 11,326
Efficiency ratio	69.20%	68.00%

Income Taxes

In 2013, our income was fully taxable as we depleted tax benefits related to prior net operating loss carryforwards. We recorded income tax expense of $1.1 million for the year ended December 31, 2013 compared to an income tax benefit of $330,000 for the year ended December 31, 2012. The income tax benefit realized in 2012 related to a decrease in our valuation allowance associated with our net deferred tax asset.

Our effective tax rate for 2013 was 38.7%. Our effective tax rate reflects the ownership of tax-exempt BOLI and tax-free municipal securities. Absent these tax-advantaged instruments our effective tax rate would have been 39.9%, the combined Federal and state statutory tax rate for a New Jersey corporation. We expect to institute additional tax strategies to further reduce our effective tax rate in 2014.

Financial Condition

Assets

Total assets increased from $350.8 million at December 31, 2012 to $466.8 million at December 31, 2013, an increase of $116.0 million or 33.1%. The increase was primarily attributable to increases in loans and, to a lesser extent, investment securities. The growth in assets was funded primarily by an increase in deposits of $90.1 million.

We expect moderate asset growth in 2014 based on our commercial loan projections, which will be funded primarily by deposits originated through an expanded branch network and in new markets through the HCB acquisition.

Loans

Our loan portfolio primarily consists of commercial real estate loans and commercial and industrial loans. As a result of our strength as a commercial business lender we have experienced consistent loan growth over the last several years. Our loan portfolio is the highest yielding component of our interest earning asset base.

Total loans at December 31, 2013 were $340.0 million, an increase of $79.9 million or 30.7% compared to $260.0 million at year end 2012. Growth was primarily in commercial real estate and, to a lesser extent, commercial and industrial loans. Average loan growth for 2013 was $61.6 million.

We are experiencing increased competition reflected in aggressive pricing and terms offered by our competitors. We continue to focus our efforts on building new relationships with creditworthy borrowers in our markets and providing quality service to our established loan customers who value our relationship banking philosophy.

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

	December 31,				
	2013	2012	2011	2010	2009
			(in thousands)		
Loans:					
Commercial and industrial	$ 60,407	$ 52,246	$ 33,788	$ 25,287	$ 28,966
Commercial real estate:					
Owner-occupied	80,140	58,685	53,259	34,872	25,705
Investor	122,499	82,668	63,185	46,994	30,734
Construction and development	23,537	13,692	17,657	15,534	14,582
Multi-family	17,028	15,950	10,889	7,618	6,247
Residential real estate:					
Residential mortgage and first lien home equity loans	22,635	19,885	13,395	9,349	8,787
Home equity—second lien loans and and revolving lines of credit	7,851	9,560	5,690	5,117	4,327
Consumer and other	6,366	7,648	9,343	9,377	4,339
	340,463	260,334	207,206	154,148	123,687
Net deferred loan fees and costs	(488)	(295)	(182)	(122)	(86)
Total loans	$ 339,975	$ 260,039	$ 207,024	$ 154,026	$ 123,601

At December 31, 2013, total commercial loans represented 89.3% of total loans. We manage risk associated with our commercial portfolio through underwriting policies and procedures, diversification and loan monitoring efforts. 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.

Commercial and industrial loans consist of lines of credit, term loans, and demand loans. Commercial and industrial loans typically consist of loans to finance equipment, inventory, receivables, and other working capital needs to small- to mid-sized businesses. Commercial and industrial loans grew $8.2 million, or 15.6%, to $60.4 million in 2013 from $52.2 million in 2012. Our commercial and industrial loan portfolio encompasses a wide variety of industry classifications. Industry classifications include real estate-related, construction and services. Loans to the service industry, for example, include loans made to healthcare facilities, professionals and hotels, among others. There are no significant concentrations of loans to any particular sector of the services industry. We will continue to monitor loan concentrations by industry classification and diversify risk as we deem appropriate.

Commercial real estate loans, the largest component of our loan portfolio, are composed of owner-occupied, investor, construction, land development and other land loans, and multi-family loans. Commercial real estate loans grew $72.2 million, or 42.2%, to $243.2 million in 2013 from $171.0 million in 2012. 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 48.2% and 36.6%, respectively. CREI loans grew $39.8 million to $122.5 million in 2013. CREI loans include investor-owned and tenanted investment properties. CREI loans are secured by different types of properties including retail, industrial, office and mixed use. Retail properties make up our largest concentration, comprising $49.8 million of CREI loans. Our retail concentration is further broken down into three categories: single tenant/credit rated, single tenant/non-credit rated and strip mall/multiple tenants. Industrial properties make up our next largest concentration totaling $28.7 million. Loans secured by office buildings totaled $14.0 million. Mixed use properties totaled $14.8 million. Other types of investor loans include medical buildings and hotels. CREO loans grew $21.5 million to $80.1 million in 2013. 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. CREI and CREO loans are offered on a fixed and variable rate basis generally with a 5-year repricing and a term of 5-15 years. 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, land development and other land loans represented 6.9% of the loan portfolio or $23.5 million at December 31, 2013. Multi-family loans consist primarily of loans secured by apartment buildings. Multi-family loans are generally originated on a fixed rate basis for 5-10 year terms. Multi-family loans grew $1.1 million, or 6.8%, to $17.0 million in 2013 from $16.0 million in 2012.

The following tables provide information concerning the maturities and interest rate sensitivity of our commercial and industrial and commercial real estate–construction and development portfolios at December 31, 2013:

	December 31, 2013			
	Due Under 1 Year	Due 1 to 5 Years	Due Over 5 Years	Total
	(in thousands)			
Maturities by Portfolio Type				
Commercial and industrial	$ 23,812	$ 27,829	$ 8,766	$ 60,407
Construction and development	11,706	10,864	967	23,537
Total	$ 35,518	$ 38,693	$ 9,733	$ 83,944
Maturities by Interest Rate Type				
Fixed rate	$ 7,631	$ 29,305	$ 9,008	$ 45,944
Floating rate	27,887	9,388	725	38,000
Total	$ 35,518	$ 38,693	$ 9,733	$ 83,944

Residential real estate loans are composed of loans secured by 1-4 family properties, in two main categories: (i) residential mortgage and first lien home equity loans, and (ii) second lien home equity loans and revolving lines of credit. 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 ("FNMA") and the Federal Home Loan Mortgage Corporation ("FHLMC"). Residential real estate loans totaled $30.5 million at December 31, 2013. Residential real estate loans grew $1.0 million, or 3.5%, in 2013 compared to 2012. Residential mortgage and first lien home equity loans grew $2.8 million to $22.6 million at December 31, 2013. The growth was primarily in fixed rate home equity loans. Second lien home equity loans and revolving lines of credit declined $1.7 million during 2013. Generally, 1-4 family residential loans are made in connection with a broader loan relationship. We are not involved in the sub-prime residential lending market. At December 31, 2013, residential real estate loans represented 9.0% of total loans.

Consumer and other loans include auto loans, personal loans, traditional installment loans and other loans. At December 31, 2013, consumer loans totaled $6.4 million compared to $7.6 million at December 31, 2012. The decline in consumer loans is primarily due to a reduction in manufactured housing loans, a market in which we are no longer actively involved. Consumer and other loans represented less than 2% of total loans at December 31, 2013.

We believe we can achieve loan origination goals in 2014 by utilizing our strength as a commercial lender and continuing to develop business in new markets. Commercial loan growth will remain an important contributor to enhancing our profitability and franchise value.

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

Asset Quality

While the most profitable part of our business is commercial lending, the risk and complexity of that business is also the greatest. Extending credit to our borrowers exposes us to credit risk, which is the risk that the principal balance of a loan and related interest will not be collected due to the inability of the borrower to repay the loan. We seek to manage credit risk by carefully analyzing both the debt service capacity of a borrower and the underlying collateral securing their loan. Through our lending and credit risk 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.

Several important asset quality indicators have improved. Nonperforming assets as a percentage of total assets were 1.09% at the end of 2013 compared to 1.69% at the end of 2012. The majority of our nonperforming assets were originated prior to the 2008 recapitalization of the Bank. Our allowance for loan losses as a percentage of nonperforming loans increased to 140.1% at the end of 2013 compared to 122.9% at the end of 2012. Lastly, our Texas Ratio, which is calculated by dividing our nonperforming assets by the sum of our tangible common equity and allowance for loan losses, was 8.9% at the end of 2013 compared to 16.9% at the end of 2012. For 2013, our net charge offs as a percentage of average loans was 0.32% and 0.25% for 2012.

Asset Classification

Federal 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 classification grid for 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 tables below provide information on our classified assets and assets designated special mention at the dates indicated.

	December 31, 2013			
	Pass	Special Mention	Substandard	Total
	(in thousands)			
Commercial and industrial	$ 58,767	$ -	$ 1,640	$ 60,407
Commercial real estate:				
Owner-occupied	76,180	-	3,960	80,140
Investor	121,574	804	121	122,499
Construction and development	23,537	-	-	23,537
Multi-family	14,549	2,479	-	17,028
Residential real estate:				
Residential mortgage and first lien home equity loans	22,463	-	172	22,635
Home equity–second lien loans and revolving lines of credit	7,706	-	145	7,851
Consumer and other	6,117	-	249	6,366
Total	$ 330,893	$ 3,283	$ 6,287	$ 340,463

	December 31, 2012			
	Pass	Special Mention	Substandard	Total
	(in thousands)			
Commercial and industrial	$ 49,749	$ 600	$ 1,897	$ 52,246
Commercial real estate:				
Owner-occupied	53,970	2,352	2,363	58,685
Investor	81,584	820	264	82,668
Construction and development	13,692	-	-	13,692
Multi-family	13,231	2,719	-	15,950
Residential real estate:				
Residential mortgage and first lien home equity loans	19,351	-	534	19,885
Home equity–second lien loans and revolving lines of credit	9,102	-	458	9,560
Consumer and other	7,348	-	300	7,648
Total	$ 248,027	$ 6,491	$ 5,816	$ 260,334

There were no loans classified as doubtful or loss at December 31, 2013 and 2012.

Delinquent Loans

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

	December 31, 2013					
	30-59 Days Past Due	60-89 Days Past Due	Nonaccrual	Total Past Due	Total Current	Total Loans
	(in thousands)					
Commercial and industrial	$ -	$ -	$ 1,640	$ 1,640	$ 58,767	$ 60,407
Commercial real estate:						
Owner-occupied	1,753	-	1,187	2,940	77,200	80,140
Investor	109	-	121	230	122,269	122,499
Construction and development	-	-	-	-	23,537	23,537
Multi-family	2,943	-	-	2,943	14,085	17,028
Residential real estate:						
Residential mortgage and first lien home equity loans	-	-	172	172	22,463	22,635
Home equity—second lien loans and revolving lines of credit	-	-	145	145	7,706	7,851
Consumer and other	43	-	71	114	6,252	6,366
Total	$ 4,848	$ -	$ 3,336	$ 8,184	$ 332,279	$ 340,463

	December 31, 2012					
	30-59 Days Past Due	60-89 Days Past Due	Nonaccrual	Total Past Due	Total Current	Total Loans
	(in thousands)					
Commercial and industrial	$ 1,527	$ 452	$ 286	$ 2,265	$ 49,981	$ 52,246
Commercial real estate:						
Owner-occupied	612	814	1,486	2,912	55,773	58,685
Investor	113	-	265	378	82,290	82,668
Construction and development	3,308	-	-	3,308	10,384	13,692
Multi-family	488	2,539	-	3,027	12,923	15,950
Residential real estate:						
Residential mortgage and first lien home equity loans	117	-	502	619	19,266	19,885
Home equity—second lien loans and revolving lines of credit	10	-	458	468	9,092	9,560
Consumer and other	149	-	326	475	7,173	7,648
Total	$ 6,324	$ 3,805	$ 3,323	$ 13,452	$ 246,882	$ 260,334

There were no loans past due 90 days or more and still accruing at December 31, 2013 and 2012.

Nonperforming Assets and Troubled Debt Restructured Loans

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

	December 31,				
	2013	2012	2011	2010	2009
	(dollars in thousands)				
Nonaccrual loans:					
Commercial and industrial	$ 1,640	$ 286	$ 224	$ 544	$ 579
Commercial real estate:					
Owner-occupied	1,187	1,486	2,445	2,366	1,099
Investor	121	265	1,573	268	45
Construction and development	-	-	-	98	1,228
Residential real estate:					
Residential mortgage and first lien home equity loans	172	502	673	692	498
Home equity—second lien loans and revolving lines of credit	145	458	461	-	-
Consumer and other	71	326	333	107	113
Total nonaccrual loans	3,336	3,323	5,709	4,075	3,562
Loans past due 90 days or more and still accruing	-	-	52	135	148
Total nonperforming loans	3,336	3,323	5,761	4,210	3,710
Other real estate owned	1,664	2,604	623	-	-
Other repossessed assets	87	-	-	-	-
Total nonperforming assets	$ 5,087	$ 5,927	$ 6,384	$ 4,210	$ 3,710
Performing troubled debt restructured loans	$ 209	$ 32	$ -	$ -	$ -
Nonaccrual loans to total loans	0.98%	1.28%	2.76%	2.65%	2.88%
Nonperforming loans to total loans	0.98%	1.28%	2.78%	2.73%	3.00%
Nonperforming assets to total assets	1.09%	1.69%	2.41%	1.99%	1.68%

Nonperforming assets include nonperforming loans, other real estate owned ("OREO") and other repossessed assets. Nonperforming loans consist of loans on a nonaccrual basis and loans past due 90 days or more and still accruing. Nonperforming loans totaled $3.3 million, or 0.98% of total loans, at December 31, 2013, and $3.3 million, or 1.28% of total loans, at December 31, 2012. Nonperforming loans have remained stable as the loan portfolio has grown.

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 2013, had the nonaccrual loans and troubled debt restructured loans ("TDRs") described above performed in accordance with their original terms, we would have recorded $212,000 in gross interest income. $7,000 in interest income related to these loans was recognized in income in 2013.

There were no loans 90 days or more past due and still accruing at December 31, 2013 or 2012.

Real estate that is acquired through foreclosure or deed in lieu of foreclosure in partial or total satisfaction of loans is classified as OREO. The properties are recorded at fair value less estimated costs to sell at the date acquired. When a property is acquired, the excess of the loan balance over the fair value is charged to the allowance for loan losses. Any subsequent write downs that may be required to the carrying value of the property are recorded in non-interest expense. At December 31, 2013, OREO totaled $1.7 million compared to $2.6 million at December 31, 2012.

We had other repossessed assets at December 31, 2013 of $87,000. Repossessed assets consist of manufactured housing units. There were no other repossessed assets at December 31, 2012.

Loans whose terms have been restructured because of deterioration in the financial position of the borrower are classified as troubled debt restructured loans. 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, 2013, we had three performing TDRs totaling $209,000 and at December 31, 2012, we had one performing TDR of $32,000.

We account for our impaired loans in accordance with U.S. GAAP. An impaired loan generally is one for which it is probable, based on current information and events, that we will not collect all the amounts due under the contractual terms of the loan agreement. Impairment is measured on a loan-by-loan basis for commercial and industrial loans and commercial real estate loans 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. Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Total impaired loans amounted to $3.5 million and $4.2 million at December 31, 2013 and 2012, respectively.

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

Allowance for Loan Losses

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

Our methodology for evaluating the adequacy of the ALL consists of specific and general components. The specific component relates to loans that are classified as impaired. The general component covers pools of loans by loan class including commercial loans not considered impaired, as well as smaller balance homogeneous loans, such as residential, consumer 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 categories of loans, adjusted for qualitative factors. Qualitative factors include, among other things, lending policies and procedures, and experience, ability and depth of lending management and staff. The formal evaluation process for determining the adequacy of the ALL takes place quarterly.

As part of our formal process, our lending staff reviews, 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 and Chief Financial Officer, as well as loan relationship managers, formally reviews the ratings on all criticized and classified loans. The AQR Committee oversees higher risk performing loans, classified as special mention, 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 borrowing performance, business conditions, nature of collateral or other factors. The AQR Committee reviews changes in risk ratings, approves strategies regarding problem credits and reviews the impaired loan analyses. Risk classifications range from one to ten or from minimal risk to loss. Charge offs are determined based on this review process. The AQR Committee confirms ALL allocations for all impaired loans each quarter. The ALL associated with these loans are based on a thorough analysis of the most probable source of repayment which is normally the liquidation of collateral but could also include discounted future cash flows.

Additional factors used to evaluate the adequacy of the ALL include the amounts and trends of criticized loans and economic data associated with New Jersey's real estate market. After management's evaluation, we present the quarterly ALL determination to the Board of Directors for approval. Results of regulatory examinations may also impact our allowance for loan losses, as a review of the ALL is typically 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 allowance adequacy methodology. For additional information on the allowance for loan losses see Note 1 and Note 4 in 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,	
	2013	2012
	(in thousands)	
Balance - beginning of year	$ 4,084	$ 3,307
Loans charged off:		
Commercial and industrial	169	49
Commercial real estate:		
Owner-occupied	68	160
Investor	143	189
Residential real estate:		
Residential mortgage and first lien home equity loans	160	33
Home equity—second lien loans and revolving lines of credit	390	-
Consumer and other	25	201
Total charge offs	955	632
Recoveries of loans previously charged off:		
Commercial and industrial	(1)	(14)
Commercial real estate:		
Construction and development	-	(24)
Residential real estate:		
Residential mortgage and first lien home equity loans	-	(2)
Home equity—second lien loans and revolving lines of credit	(1)	(3)
Consumer and other	(1)	-
Total recoveries	(3)	(43)
Net charge offs	952	589
Provision for loan losses	1,543	1,366
Balance - end of year	$ 4,675	$ 4,084
Net charge offs to average loans	0.32%	0.25%
Allowance for loan losses to period-end loans	1.38%	1.57%

The ALL is increased by provisions charged to expense. Loans or portions of loans deemed uncollectible are charged off and deducted from the ALL, while recoveries of amounts previously charged off, if any, are added to the allowance. Net loan charge offs were $952,000 for the year ended December 31, 2013 and $589,000 for the year ended December 31, 2012. The ratio of annualized net charge offs to average loans was 0.32% for 2013 and 0.25% for 2012. We recorded provisions of $1.5 million and $1.4 million for 2013 and 2012, respectively.

At December 31, 2013, the ALL totaled $4.7 million, reflecting an increase of $591,000, or 14.5%, from $4.1 million at December 31, 2012. The ratio of the allowance for loan losses to total loans was 1.38% and 1.57% at December 31, 2013 and December 31, 2012, respectively. It is our assessment, based on our reserve methodology, judgment and analysis, that the allowance for loan losses was adequate in relation to our credit risk at December 31, 2013 and 2012.

Allocation of the Allowance for Loan Losses

The following table illustrates the allocation of the ALL among the various categories of loans and provides certain other information as of the dates indicated. The general allocation of the ALL is important to maintain the overall allowance at a level that is adequate to absorb credit losses inherent in the total loan portfolio. The allocation is made for analytical purposes only and is not necessarily indicative of the categories in which future loan losses may occur. The total ALL is available to absorb losses from any category of loans.

	December 31, 2013			December 31, 2012		
	ALL Amount	% of Total ALL	% of Total Loans	ALL Amount	% of Total ALL	% of Total Loans
	(dollars in thousands)					
Commercial and industrial	$ 672	14.37%	0.20%	$ 908	22.23%	0.35%
Commercial real estate:						
Owner-occupied	1,328	28.41%	0.39%	961	23.53%	0.37%
Investor	1,560	33.37%	0.46%	1,143	27.99%	0.44%
Construction and development	381	8.15%	0.11%	263	6.44%	0.10%
Multi-family	321	6.87%	0.09%	344	8.42%	0.13%
Residential real estate:						
Residential mortgage and first lien home equity loans	259	5.54%	0.08%	246	6.02%	0.09%
Home equity—second lien loans and revolving lines of credit	85	1.82%	0.03%	113	2.77%	0.05%
Consumer and other	69	1.47%	0.02%	106	2.60%	0.04%
Total	$ 4,675	100.00%	1.38%	$ 4,084	100.00%	1.57%

Investment Securities

At December 31, 2013, the investment securities portfolio was comprised of obligations of U.S. government agencies, agency mortgage-backed securities, tax-exempt obligations of state and political subdivisions, asset- backed securities and corporate obligations. There were no securities issued by any one issuer exceeding 10% of stockholders' equity, except for securities issued by U.S. government-sponsored agencies, including mortgage-backed securities issued by the Government National Mortgage Association ("GNMA"), the Federal National Mortgage Association ("FNMA") and the Federal Home Loan Mortgage Corporation ("FHLMC").

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. 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. We have no trading securities. Securities not classified as HTM 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 similar factors.

At December 31, 2013, the investment securities portfolio totaled $80.4 million or 17.2% of assets, compared to $50.0 million or 14.2% of assets at December 31, 2012. Agency mortgage-backed securities ("MBS") represented 72.3% of the total investment portfolio at year-end 2013.

The following tables present the amortized cost and estimated market values of our available for sale and held to maturity securities portfolios at December 31, 2013 and 2012:

Investment Securities Available for Sale

	December 31, 2013			
	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	$ 53,846	$ 71	$ (1,447)	$ 52,470
Issued by GNMA	5,817	4	(172)	5,649
Asset-backed securities	997	-	(19)	978
Corporate obligations	5,783	145	(8)	5,920
Total	$ 66,443	$ 220	$ (1,646)	$ 65,017

	December 31, 2012			
	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	$ 30,818	$ 322	$ (27)	$ 31,113
Issued by GNMA	7,742	38	(3)	7,777
Corporate obligations	4,233	142	-	4,375
Total	$ 42,793	$ 502	$ (30)	$ 43,265

Investment Securities Held to Maturity

	December 31, 2013			
	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	$ 204	$ -	$ 2,204
Obligations of state and political subdivisions	13,414	13	(278)	13,149
Total	$ 15,414	$ 217	$ (278)	$ 15,353

	December 31, 2012			
	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	$ 318	$ -	$ 2,318
Obligations of state and political subdivisions	4,693	46	(5)	4,734
Total	$ 6,693	$ 364	$ (5)	$ 7,052

As of December 31, 2013, our AFS securities totaled $65.0 million, an increase of $21.7 million from $43.3 million at December 31, 2012. The growth in the AFS portfolio in 2013 compared to 2012 was due primarily to the purchase of mortgage-backed securities ("MBS"). The AFS portfolio represented 80.8% of the total investment portfolio at December 31, 2013 and was composed primarily of MBS. There was an unrealized loss on AFS securities, net of tax, of $857,000 at December 31, 2013 compared to an unrealized gain, net of tax, of $311,000 at December 31, 2012.

HTM securities totaled $15.4 million at December 31, 2013 compared to $6.7 million at December 31, 2012. The increase in the HTM portfolio in 2013 was due to the purchase of tax-free municipal bonds. The HTM portfolio is primarily composed of tax-free municipal bonds. At December 31, 2013, our tax-free municipal portfolio totaled $13.4 million and was made up of New Jersey school-based bonds further secured through the New Jersey Fund for Support of Free Public Schools. Each bond has an implicit AA rating.

We evaluate all securities with unrealized losses quarterly to determine whether the losses are other than temporary. At December 31, 2013 and 2012, we determined that all unrealized losses were temporary in nature. This conclusion was based on several factors, including the strong credit quality of the securities. We believe that the unrealized losses in the investment portfolio were caused by changes in interest rates, market credit spreads, and perceived and actual changes in prepayment speeds on MBS.

The following table presents the maturity distribution and weighted average yields of our investment securities portfolio for the period presented:

	December 31, 2013			
	Available for Sale		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(in thousands)			
Due after one year through five years	$ 4,283	$ 4,428	$ 2,038	$ 2,034
Due after five years through ten years	1,500	1,492	11,644	11,680
Due after ten years	997	978	1,732	1,639
Residential mortgage-backed securities:				
Issued by FNMA and FHLMC	53,846	52,470	-	-
Issued by GNMA	5,817	5,649	-	-
Total	$ 66,443	$ 65,017	$ 15,414	$ 15,353
Weighted average yield, computed on a tax equivalent basis	1.80%		2.22%	

Mortgage-Backed Securities

We had $58.1 million and $38.9 million of MBS at December 31, 2013 and 2012, respectively. All of the MBS we own were issued by FNMA, FHLMC, or GNMA. MBS have generally been purchased with three to four year average lives. MBS are expected to provide stable cash flows in rising or falling interest rate environments. These securities provide liquidity through the monthly cash flow of principal and interest. Cash flows from the MBS portfolio totaled

$8.5 million and $6.0 million for 2013 and 2012, respectively. Included in our MBS portfolio at December 31, 2013 were $31.8 million of 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.

In 2014, 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 within asset and liability objectives for 2014. We would anticipate the continued purchase of tax-exempt municipal securities to lower our effective income tax rate.

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

Other Investments

Other investments include the Solomon Hess SBA Loan Fund ("Fund"), which we will utilize for the purpose of satisfying our CRA lending 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 (60) days' notice. The investment in this Fund is recorded at cost. At December 31, 2013 and 2012, the balance in the Fund was $5,000,000.

Deposits

Deposits are our primary source of funds to support our earning assets. Total deposits reached $399.1 million at December 31, 2013, an increase of $90.1 million or 29.1% from $309.0 million at December 31, 2012. At December 31, 2013, each of our existing branches at that date held an average of $79.8 million in deposits. We had no brokered deposits at December 31, 2013 or 2012.

In 2013, we expanded our geographic footprint into Somerset, New Jersey, strengthened our brand image through marketing initiatives and marketed our products and services to attract core deposits. In 2014, through our acquisition of HCB, we expanded into Morris County, New Jersey. Increasing our geographic footprint into new markets is an important factor in attracting a lower cost diversified deposit base to fund loans at appropriate margin spreads.

The cost of interest bearing deposits was 1.03% for 2013 compared to 1.23% for 2012. During 2013 we lowered deposit interest rates during a period of lower market interest rates to reduce interest expense and our average cost of funds, while still meeting deposit goals to fund loan growth.

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

	Year Ended December 31,			
	2013		2012	
	Average Balance	Average Rate	Average Balance	Average Rate
	(dollars in thousands)			
Non-interest bearing demand deposits	$ 39,030	-	$ 24,174	-
Interest bearing demand deposits	11,556	0.35%	9,290	0.56%
Money market deposits	71,134	0.69%	73,707	0.65%
Savings deposits	87,471	0.77%	56,781	1.26%
Time deposits	140,669	1.43%	115,248	1.64%
Total deposits	$ 349,860	0.92%	$ 279,200	1.12%

Average total deposits increased $70.7 million, or 25.3%, to $349.9 million for 2013 from $279.2 million in 2012. The average interest rate paid on deposits for 2013 was 0.92% compared to 1.12% for 2012. The average interest rate paid on deposits during 2013 decreased primarily due to a continuing low interest rate environment.

The principal areas of average interest-bearing deposit growth were time deposits and savings deposits. Throughout 2013 we competitively priced our deposits to enhance liquidity and fund loan growth. As a result, we experienced growth in most deposit types during the year. Average time deposits and savings deposits increased 22.1% and 54.0%, respectively.

For 2013, average non-interest bearing deposits increased $14.8 million, or 61.5%, to $39.0 million compared to $24.2 million for 2012. The increase in non-interest bearing deposits was due primarily to attracting new business relationships and expanding public fund municipal balances.

The following table summarizes the maturity distribution of time deposits in denominations of $100,000 or more as of December 31, 2013:

	December 31, 2013 (in thousands)
3 months or less	$ 12,134
3 to 6 months	17,773
6 to 12 months	11,063
Over 12 months	43,799
Total	$ 84,769

Our objective is to continue to attract lower cost deposits enabling us to effectively manage our cost of funds, increase profitability and enhance shareholder value. In an increasingly more competitive deposit marketplace we have continued to increase our deposit base in both existing and new branches. For example, our Somerset, New Jersey branch, which opened in September 2013, had already accumulated $13.4 million in new deposits by year-end 2013.

Borrowings

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

Borrowings totaled $14.0 million and $10.2 million at December 31, 2013 and 2012, respectively. Total borrowings represented 3.0% and 2.9% of total assets at December 31, 2013 and 2012, respectively.

For 2013 and 2012, borrowings averaged $11.8 million and $5.6 million, respectively. The average cost of borrowings for 2013 was 1.68% compared to 2.53% for 2012. Within approved policy guidelines, we may continue to use borrowings as a funding source to achieve business and asset and liability objectives.

Liquidity Risk

Liquidity is a measure of a bank's ability to fund loans, withdrawals or maturities 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.

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

Our principal sources of funds include deposit growth, scheduled amortization and prepayments of loan principal, principal cash flows from mortgage-backed securities, and funds provided by operations. While scheduled loan payments 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.

At December 31, 2013, the amount of liquid assets remained at a level management deemed adequate to ensure that, on a short- and long-term basis, contractual liabilities, depositors' withdrawal requirements, and other operational and customer credit needs could be satisfied. Liquid assets (cash and due from banks, interest bearing deposits with other banks and unpledged securities) were $72.9 million at December 31, 2013, which represented 15.6% of total assets on that date.

Our cash and cash equivalents decreased modestly by $214,000 from $23.9 million at December 31, 2012 to $23.7 million at December 31, 2013. The decrease was due primarily to $114.7 million provided by financing activities, largely an increase in deposits, and $5.7 million from operating activities, offset by $120.7 million in investing activities, largely an increase in loans and investment securities.

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 securities as well as commercial mortgage loans. Based on available qualified collateral as of December 31, 2013, we had the ability to borrow $82.9 million. In addition, we have borrowing capacity of $4.0 million through a correspondent bank.

We believe by continuing to enter into new markets in 2014 we can attract lower cost core deposits and further strengthen liquidity. We have established reliable secondary sources of liquidity that we can use as needed. Our liquidity profile is further enhanced by consistent cash flows generated by our investment portfolio. Based on projected loan and deposit growth, we anticipate having adequate liquidity to meet our funding goals for 2014.

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 counter party 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 contract amounts of off-balance sheet financial instruments as of December 31, 2013 and 2012 for commitments to extend credit were $47.7 million and $42.9 million, respectively, and for letters of credit were $1.3 million and $1.9 million, respectively. 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 15 of the Notes to Consolidated Financial Statements located elsewhere in this document.

Contractual Obligations

For information on the Bank's contractual obligations and commitments, refer to Notes 6, 7 and 8 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. Our Asset and Liability Committee ("ALCO") provides oversight to the asset and liability management process. ALCO recommends policy guidelines regarding exposure to interest rates, and liquidity and capital limits for approval by our Board of Directors. One of the primary goals of asset and liability management is to prudently maximize net interest income while maintaining acceptable levels of interest rate risk. The risk to net interest income is derived from the difference in the maturity and repricing characteristics between assets and liabilities.

Market and Interest Rate Risk

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

The primary goals of our interest rate risk management process are to control exposure to interest rate risk inherent in our balance sheet, determine the appropriate risk level given our strategic objectives, and manage the risk consistent with limits and guidelines approved by ALCO and our Board of Directors. On a quarterly basis, we provide a detailed review 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 level of new and existing business, loan and investment prepayment speeds, deposit flows, interest rate curves and competitive pricing.

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

Interest Rate Sensitivity Analysis

At December 31, 2013 and 2012, 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, including additional monitoring and reporting to the Board, would be required by ALCO and management until guidelines were back within prescribed limits.

We believe that the simulation of net interest income in different interest rate environments provides a more meaningful measure of our interest rate risk position than gap analysis.

Our simulation model measures the volatility of net interest income to changes in market interest rates. We dynamically model our interest income and interest expense over specified time periods under different interest rate scenarios and balance sheet structures. We measure the sensitivity of net interest income over 12- and 24-month time horizons, based on assumptions established by ALCO and approved by our Board of Directors. Policy guidelines have been established for 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. For example, 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 twelve months and within a -22% change over the two year time frame. The net interest income simulation model for December 31, 2013 shows that over the next 12-month period, a +200 basis points rate shock will decrease our net interest income by 1.0%. For the -200 basis points rate shock net interest income over the next year is estimated to decrease 5.0%. As of December 31, 2013, net interest income in year 2 is projected in a +200 basis points rate to decrease 0.1%. We believe our interest rate risk position to be relatively balanced in an increasing or decreasing rate environment at December 31, 2013. We also measure, through simulation analysis, the impact to net interest income based on our 2014 financial plan or growth scenario in both a higher and lower interest rate environment. Assuming a rising interest rate environment, +300 basis points over 12 months with lagging core deposit rates in relation to market rates, net interest income increases 2.0% in year 1. In year 2, assuming interest rates remain flat, net interest income increases 1.7%. Due to the assumptions used in preparing our simulation analysis, actual outcomes could differ significantly from the simulation outcomes.

Economic Value at Risk

We measure long-term interest rate risk through an Economic Value of Equity ("EVE") model. This model involves projecting our asset and liability cash flows to their maturity dates, discounting those cash flows at appropriate interest rates, and then aggregating the discounted cash flows. Our EVE is the estimated net present value of these discounted cash flows. 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 the sensitivity of long-term earnings to changes in interest rates. 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, 2013 and 2012. Our EVE as of December 31, 2013 would decline by 12.9% with a rate shock of +200 basis points and increase by 1.6% with a rate shock of -200 basis points. The policy guideline is -25%. EVE risk was positively impacted by our capital raise in the 4th quarter. We believe our EVE market risk at these dates is within acceptable ranges.

Modeling changes in the simulation and EVE analyses require the making of certain assumptions, which may or may not reflect the manner in which actual yields or costs respond to changes in market interest rates. Although the models discussed above provide an indication of our interest rate risk exposure at a particular point in time, such measurements are not intended to and do not provide a precise forecast of the effect of changes in market interest rates on our net interest income or economic value of equity and may differ from actual results.

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

Capital Management

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

A significant measure of the strength of a financial institution is its stockholders' equity. Stockholders' equity at December 31, 2013 totaled $52.5 million compared to $31.0 million at December 31, 2012. The increase in equity capital in 2013 resulted primarily from the successful completion of our IPO, which resulted in net new capital of $20.9 million. Our tangible common equity ratio was 11.25% as of December 31, 2013 and 8.84% as of December 31, 2012.

Regulatory Capital

We are subject to risk-based capital standards under Federal banking regulations. These banking regulations relate a bank's regulatory capital to the risk profile of its assets and off-balance sheet items, and provide the basis for evaluating capital adequacy. Our Federal regulators have classified and defined capital into the following components: (1) Tier 1 capital, which includes tangible stockholders' equity for common stock, qualifying preferred stock and certain qualifying hybrid instruments, and (2) Tier 2 capital, which includes a portion of the allowance for loan losses, certain qualifying long-term debt, and preferred stock which does not qualify for Tier 1 capital. Minimum capital levels are regulated by risk-based capital adequacy guidelines that require certain capital as a percent of our assets and certain off-balance sheet items adjusted for predefined credit risk factors (risk-weighted assets). Risk-based capital standards require all banks to have Tier 1 capital as a percentage of risk-weighted assets of at least 4.0% and combined Tier 1 and Tier 2 capital as a percentage of risk-weighted assets of at least 8.0%.

In addition to the risk-based guidelines, the regulators require that an institution which meets the regulator's highest performance and operation standards maintain a minimum leverage ratio (Tier 1 capital as a percentage of average tangible assets) of 4.0%. For those institutions with higher levels of risk or that are experiencing or anticipating significant growth, the minimum leverage ratio will be evaluated through the ongoing regulatory examination process.

The following table summarizes our risk-based and leverage capital ratios as well as the required minimum regulatory capital ratios:

	Actual		For Capital Adequacy Purposes		To Be Well-Capitalized Under Prompt Corrective Action Provisions	
	Amount	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
			(dollars in thousands)			
December 31, 2013						
Total risk-based capital	$ 58,039	15.35%	$ 30,246	8.00%	$ 37,808	10.00%
Tier 1 risk-based capital	53,364	14.11%	15,123	4.00%	22,685	6.00%
Tier 1 leverage capital	53,364	11.89%	17,955	4.00%	22,444	5.00%
December 31, 2012						
Total risk-based capital	$ 33,586	11.78%	$ 22,804	8.00%	$ 28,505	10.00%
Tier 1 risk-based capital	30,016	10.53%	11,402	4.00%	17,103	6.00%
Tier 1 leverage capital	30,016	8.89%	13,501	4.00%	16,876	5.00%

Further increasing our capital will be critical to executing organic and merger and acquisition growth strategies in the future.

Recent Accounting Pronouncements

ASU 2013-02, "Comprehensive Income (Topic 220)–Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income." ASU 2013-02 requires entities to provide information about amounts reclassified out of accumulated other comprehensive income by component. The amendments require entities to present, either on the face of the income statement or in the notes significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income but only if the amount reclassified is required by U.S. GAAP to be reclassified to net income in its entirety in the same reporting period. For other amounts that are not required under U.S. GAAP to be reclassified in their entirety to net income, entities are required to cross-reference to other disclosures required under U.S. GAAP that provide additional detail about those amounts. ASU 2013-02 became effective for the Company on January 1, 2013, and did not have a significant impact on the Company's consolidated financial statements, results of operations or liquidity.

ASU 2013-11, "Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists." The amendments in ASU 2013-11 include explicit guidance on the financial statement presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. The amendments in this ASU are expected to reduce diversity in practice by providing guidance on the presentation of unrecognized tax benefits and will better reflect the manner in which an entity would settle at the reporting date any additional income taxes that would result from the disallowance of a tax position when net operating loss carryforwards, similar tax losses, or tax credit carryforwards exist. The amendments in ASU 2013-11 are effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. The Company is currently evaluating the impact of these amendments.

ASU 2014-04, "Receivables–Troubled Debt Restructurings by Creditors (Subtopic 310-40): Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure." ASU 2014-04 clarifies that a in-substance repossession or foreclosure occurs, and a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, upon either (a) the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure or (b) the borrower conveying all interest in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. Additionally, ASU 2014-04 requires interim and annual disclosure of both (a) the amount of foreclosed residential real estate property held by the creditor and (b) the recorded investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure according to local requirements of the applicable jurisdiction. The amendments in ASU 2014-04 are effective for fiscal years, and interim periods within those years, beginning after December 15, 2014. An entity can elect to adopt the amendments using either a modified retrospective transition method or a prospective transition method. Early adoption is permitted. The Company is currently evaluating the impact of these amendments.

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. Unlike most industrial companies, nearly all of our assets and liabilities are monetary. Therefore, interest rates have a greater impact on our performance than do the effects of general levels of inflation. Interest rates do not necessarily move in the same direction or to the same extent as the prices of goods and services.

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

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

Item 8. Financial Statements and Supplementary Data.

The following audited consolidated financial statements are set forth in this Annual Report on Form 10-K on the pages listed in the Index to Consolidated Financial Statements below.

INDEX TO

FIRST BANK AND SUBSIDIARY

CONSOLIDATED FINANCIAL STATEMENTS

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders
First Bank

We have audited the accompanying Consolidated Statements of Financial Condition of First Bank and Subsidiary ("the Company") as of December 31, 2013 and the related Consolidated Statements of Income, Comprehensive Income, Changes in Stockholders' Equity and Cash Flows for the year then ended. These Consolidated Financial Statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the Consolidated Financial Statements referred to above present fairly, in all material respects, the financial position of First Bank and Subsidiary as of December 31, 2013 and the results of their operations and their cash flows for the year then ended, in conformity with U.S. generally accepted accounting principles.

/s/ McGladrey LLP
Blue Bell, Pennsylvania
March 26, 2014

Report of Independent Registered Public Accounting Firm

Board of Directors
First Bank

We have audited the accompanying consolidated statement of financial condition of First Bank and Subsidiary (the "Company") as of December 31, 2012, and the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for the year then ended. The consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the consolidated financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of First Bank and Subsidiary as of December 31, 2012, and the results of their operations and their cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

/s/ ParenteBeard LLC

Wilkes-Barre, Pennsylvania
September 27, 2013

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

	December 31, 2013	December 31, 2012
Assets		
Cash and due from banks	$ 9,787	$ 6,234
Interest bearing deposits with banks	13,927	17,694
Cash and cash equivalents	23,714	23,928
Interest bearing time deposits with banks	4,903	1,469
Investment securities available for sale	65,017	43,265
Investment securities held to maturity (fair value of $15,353 and $7,052 at December 31, 2013 and 2012, respectively)	15,414	6,693
Restricted investment in bank stocks	1,131	824
Other investments	5,000	5,000
Loans, net of deferred fees and costs	339,975	260,039
Less: Allowance for loan losses	4,675	4,084
Net loans	335,300	255,955
Premises and equipment, net	1,787	1,901
Other real estate owned, net	1,664	2,604
Accrued interest receivable	1,232	1,033
Bank-owned life insurance	8,805	5,154
Deferred income taxes	2,352	2,225
Other assets	473	731
Total assets	$ 466,792	$ 350,782
Liabilities and Stockholders' Equity		
Deposits:		
Non-interest bearing	$ 48,186	$ 27,460
Interest bearing	350,927	281,588
Total deposits	399,113	309,048
Long-term borrowings	14,000	10,219
Accrued interest payable	156	139
Other liabilities	1,016	351
Total liabilities	414,285	319,757
Stockholders' Equity:		
Preferred stock, par value $2.00 per share; authorized 5,000,000 shares at December 31, 2013 and 1,000,000 shares at December 31, 2012; no shares issued and outstanding	-	-
Common stock, par value $5 per share; authorized 20,000,000 shares at December 31, 2013 and 10,000,000 shares at December 31, 2012; issued and outstanding 8,520,299 shares at December 31, 2013 and 4,686,965 shares at December 31, 2012	42,602	23,435
Additional paid-in capital	13,052	11,277
Accumulated deficit	(2,290)	(3,998)
Accumulated other comprehensive (loss) income	(857)	311
Total stockholders' equity	52,507	31,025
Total liabilities and stockholders' equity	$ 466,792	$ 350,782

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

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

	Year Ended December 31,	
	2013	**2012**
Interest and Dividend Income		
Investment securities - taxable	$ 969	$ 674
Investment securities - tax-exempt	138	54
Interest bearing deposits and other	173	158
Federal funds sold	-	1
Loans, including fees	15,340	13,323
Total interest and dividend income	16,620	14,210
Interest Expense		
Deposits	3,215	3,136
Borrowings	199	142
Total interest expense	3,414	3,278
Net interest income	13,206	10,932
Provision for loan losses	1,543	1,366
Net interest income after provision for loan losses	11,663	9,566
Non-Interest Income		
Service fees on deposit accounts	75	82
Loan fees	33	45
Title insurance fees	30	59
Income on bank-owned life insurance	151	142
Gains on sale of investment securities	18	-
Gains on sale of loans held for sale	134	-
Other non-interest income	71	66
Total non-interest income	512	394
Non-Interest Expense		
Salaries and employee benefits	4,751	3,963
Occupancy and equipment	1,410	1,091
Legal fees	203	143
Other professional fees	562	296
Regulatory fees	253	234
Directors' fees	231	112
Data processing	413	362
Marketing and advertising	347	214
Travel and entertainment	163	155
Insurance	114	122
Other real estate owned expense, net	385	420
Litigation settlement	-	150
Other expense	556	440
Total non-interest expense	9,388	7,702
Income Before Income Taxes	2,787	2,258
Income tax expense (benefit)	1,079	(330)
Net Income	$ 1,708	$ 2,588
Basic earnings per share	$0.33	$0.63
Diluted earnings per share	$0.33	$0.63
Basic weighted average common shares	5,128,061	4,083,012
Diluted weighted average common shares	5,172,233	4,083,012

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

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

	Year Ended December 31, 2013	Year Ended December 31, 2012
Net income	$ 1,708	$ 2,588
Other comprehensive (loss) income, net of tax:		
Unrealized gains (losses) on investment securities available for sale		
Net unrealized (losses) gains arising during the period	(1,880)	373
Less: reclassification adjustment for net gains included in net income	18	-
Total	(1,898)	373
Less: income tax effect	(730)	160
Total other comprehensive (loss) income	(1,168)	213
Total comprehensive income	$ 540	$ 2,801

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

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

	Common Stock	Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
Balance - December 31, 2011	$ 19,435	$ 11,035	$ (6,586)	$ 98	$ 23,982
Net income	-	-	2,588	-	2,588
Other comprehensive income, net of tax	-	-	-	213	213
Stock-based compensation	-	68	-	-	68
Sale of 800,000 shares of common stock net of issuance costs of $26	4,000	174	-	-	4,174
Balance - December 31, 2012	23,435	11,277	(3,998)	311	31,025
Net income	-	-	1,708	-	1,708
Other comprehensive loss, net of tax	-	-	-	(1,168)	(1,168)
Stock-based compensation	-	61	-	-	61
Sale of 3,833,334 shares of common stock net of issuance costs of $509	19,167	1,714	-	-	20,881
Balance - December 31, 2013	$ 42,602	$ 13,052	$ (2,290)	$ (857)	$ 52,507

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

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

	Year Ended December 31, 2013	Year Ended December 31, 2012
Cash flows from operating activities:		
Net income	$ 1,708	$ 2,588
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	1,543	1,366
Depreciation and amortization of premises and equipment	392	408
Amortization and accretion of premiums/discounts on investment securities, net	319	195
Amortization of deferred loan costs	233	217
Stock-based compensation	61	68
Gains on sales of investment securities available for sale	(18)	-
Origination of loans held for sale	(1,013)	-
Proceeds from sales of loans held for sale	1,147	-
Gains on sales of loans held for sale	(134)	-
Losses (gains) on sales of other real estate owned and other repossessed assets	7	(7)
Writedowns of other real estate owned and other repossessed assets	221	283
Increase in income on bank-owned life insurance	(151)	(142)
Changes in assets and liabilities:		
Decrease (increase) in deferred income taxes	603	(598)
Increase in accrued interest receivable	(199)	(290)
Decrease in other assets	346	651
Increase in accrued interest payable	17	4
Increase (decrease) in other liabilities	665	(357)
Net cash provided by operating activities	5,747	4,386
Cash flows from investing activities:		
Net (increase) decrease in interest bearing time deposits with banks	(3,434)	2,115
Net increase in loans	(81,605)	(56,138)
Purchases of investment securities available for sale	(32,766)	(36,557)
Purchases of investment securities held to maturity	(8,802)	(4,714)
Proceeds from sales of investment securities available for sale	374	-
Proceeds from maturities, calls and paydowns of investment securities available for sale	8,522	10,042
Purchases of restricted stocks	(307)	(282)
Proceeds from sales of other real estate owned and other repossessed assets	1,108	60
Purchases of bank-owned life insurance	(3,500)	-
Purchases of premises and equipment	(278)	(170)
Net cash used in investing activities	(120,688)	(85,644)
Cash flows from financing activities:		
Net increase in deposits	90,065	74,387
Proceeds from long-term borrowings	4,000	5,000
Repayments of long-term borrowings	(219)	(209)
Net proceeds from sale of common stock	20,881	4,174
Net cash provided by financing activities	114,727	83,352
Net (decrease) increase in cash and cash equivalents	(214)	2,094
Cash and cash equivalents at beginning of year	23,928	21,834
Cash and cash equivalents at end of year	$ 23,714	$ 23,928
Supplementary disclosures of cash flow information:		
Cash payments for:		
Interest on deposits and borrowings	$ 3,397	$ 3,274
Income taxes	531	72
Noncash investing activities:		
Transfers of loans to other real estate owned and other repossessed assets	$ 484	$ 2,317

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

Note 1 – Summary of Significant Accounting Policies

Business

First Bank (the "Bank") is a New Jersey chartered commercial bank, incorporated in 2007. The Bank provides a 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, 2013, we operated five (5) full-service branches, including three branches and our corporate headquarters in our primary market of Mercer County, New Jersey. Our fourth branch facility is located in Williamstown, New Jersey, in Gloucester County. In September 2013, we opened our fifth full-service branch in Somerset, New Jersey. The Bank also has a wholly-owned subsidiary which holds foreclosed assets. The Bank is subject to competition from other financial institutions and non-bank providers of financial services. The Bank is subject to regulation by the New Jersey Department of Banking and Insurance and the Federal Deposit Insurance Corporation.

Principles of Consolidation

The consolidated financial statements of First Bank and Subsidiary are prepared on an accrual basis and include the accounts of First Bank's wholly-owned subsidiary, BC1, LLC. All significant intercompany accounts and transactions have been eliminated from the accompanying consolidated financial statements.

Basis of Financial Statement Presentation

The consolidated financial statements have been prepared in conformity with U.S. generally accepted accounting principles ("U.S. GAAP").

Subsequent Events

On July 11, 2013, the Bank entered into an Agreement and Plan of Merger with Heritage Community Bank ("HCB"), a state-chartered commercial bank headquartered in Randolph, Morris County, New Jersey. In December 2013, the Bank received regulatory approval of the merger and on March 5, 2014, the Bank held a Special Meeting of Shareholders and received shareholder approval of the merger. The Bank closed the merger transaction on March 7, 2014 and as a result of the merger acquired assets totaling $133.4 million (unaudited).

Use of Estimates

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.

Significant Group Concentrations of Credit Risk

During 2013 and 2012, our business was generated principally in central New Jersey. We generated additional business in Gloucester, Atlantic and Camden Counties in southern New Jersey. Note 2 discusses the types of securities in which the Bank currently invests. Note 3 discusses the types of lending that the Bank engages in. Although the Bank intends to have a diversified loan portfolio, its debtors' ability to honor their contracts will be influenced by the region's economy. The Bank does not have any significant concentrations to any one industry or customer.

Note 1 – Summary of Significant Accounting Policies (Continued)

Presentation of Cash Flows

For purposes of reporting cash flows, cash and cash equivalents include cash on hand, amounts due from banks, interest bearing deposits with banks, and Federal funds sold. Generally, Federal funds are purchased or sold for one day periods.

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 Bank 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 Bank 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 loses 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 (loss), a separate component of shareholders' 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 (loss), 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 taxes. In estimating other than temporary impairment losses, management considers (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the ability of the Bank to hold its investment, and whether the Bank will be required to sell the security before a recovery in fair value. The Bank recorded no impairment losses on investment securities for the years ended December 31, 2013 and 2012.

Other Investments

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

The Bank recorded no impairment charge on other investments for the years ended December 31, 2013 and 2012.

Restricted Investment in Bank Stocks

Restricted stock, which represents required investments in the common stock of correspondent banks, is carried at cost and as of December 31, 2013 and 2012 consisted of common stock of the Federal Home Loan Bank of New York ("FHLB") and Atlantic Community Bankers Bank ("ACBB").

Management evaluates the restricted stock for impairment in accordance with FASB ASC 320, *Investments in Debt and Equity*. 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.

Note 1 – Summary of Significant Accounting Policies (Continued)

The determination of whether a decline affects the ultimate recoverability of their cost is influenced by criteria such as (1) the significance of the decline in net assets of the FHLB and ACBB as compared to the capital stock amount for the FHLB and ACBB and the length of time this situation has persisted, (2) commitments by the FHLB and ACBB to make payments required by law or regulation and the level of such payments in relation to the operating of the FHLB and ACBB, (3) the impact of legislative and regulatory changes on institutions and, accordingly, on the customer base of the FHLB and ACBB, and (4) the liquidity position of the FHLB or ACBB.

The Bank recorded no impairment charge related to the FHLB or ACBB stocks for the years ended December 31, 2013 and 2012.

Loans

The loan portfolio includes commercial and industrial, commercial real estate, residential, and consumer and other 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 loans are comprised of loans secured by 1–4 family and 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 and deferred fees or 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 Bank 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 credited 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.

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 120 days past due on a contractual basis, earlier in the event of bankruptcy, or if there is an amount deemed uncollectible. The total allowance for loan losses is available to absorb losses from any category of loans.

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

The allowance for loan losses consists of specific and general components. The specific component relates to loans that are classified as impaired. A loan is considered impaired when, based on current information and events, it is probable that the Bank 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

Note 1 – Summary of Significant Accounting Policies (Continued)

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 for commercial and industrial loans, and commercial real estate loans 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, or collateral value or observable market price of the impaired loan is lower than the carrying value of that loan. A general component covers pools of loans by loan class including commercial loans not considered impaired, as well as smaller balance homogeneous loans, such as residential, consumer and other loans. These pools of loans are evaluated for loss exposure based upon historical loss rates for each of these categories 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, including the value of underlying collateral for collateral dependent loans;
- 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 Bank's loan review system, and the degree of oversight by the Bank's Board of Directors;
- existence and effect of any concentrations of credit and changes in the level of such concentrations; and
- effect of external factors, such as competition and legal and regulatory requirements.

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

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

For commercial and industrial loans secured by non-real estate collateral, such as accounts receivable, inventory and equipment, fair values are determined based on the borrower's financial statements, inventory reports, accounts receivable aging or equipment appraisals or invoices. Indications of value from these sources are generally discounted based on the age of the financial information or the quality of the assets.

Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Bank does not separately identify individual residential, consumer, or other loans for impairment disclosures, unless such loans are the subject of a troubled debt restructuring agreement.

Loans whose terms are modified are classified as troubled debt restructurings if the Bank 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 or an extension of a loan's stated maturity date. Nonaccrual troubled debt restructurings are restored to an accrual status if principal and interest payments, under the modified terms, are current for six consecutive months after modification. Loans classified as troubled debt restructurings are designated as impaired.

Note 1 – Summary of Significant Accounting Policies (Continued)

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.

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. Loans not classified are rated pass.

On a quarterly basis the Bank's Asset Quality Review Committee formally reviews the risk ratings on all criticized and classified loans. The Bank 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 allowance for loan losses and may require the Bank 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 comprehensive analysis of the loan portfolio, management believes that the level of the allowance for loan losses at December 31, 2013 and 2012 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 on the consolidated statements of financial 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.

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. The 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 writedowns that may be required to the carrying value of the property are recorded to non-interest expense and a corresponding valuation reserve.

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 (1) the assets have been isolated from the Bank, (2) 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 (3) the Bank 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 Bank may transfer a portion of a financial asset, for example, a participation loan. In order to be eligible 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.

Premises and Equipment, net

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

Note 1 – Summary of Significant Accounting Policies (Continued)

Bank-Owned Life Insurance

The Bank 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.

Advertising Costs

Advertising costs are expensed as incurred.

Income Taxes

Income taxes are accounted for in accordance with FASB 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 Bank determines deferred income taxes using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is based on the tax effects of the differences between the book and tax bases of assets and liabilities, and enacted changes in tax rates and laws are recognized in the period in which they occur.

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

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

The Bank recognizes interest and penalties on income taxes, if any, as a component of the provision for income taxes. There were no interest and penalties recognized for the years ended December 31, 2013 and 2012.

Business Segments

ASC 280, *Segment Reporting*, establishes standards for the way business enterprises report information about operating segments in annual consolidated financial statements. The Bank had one reportable segment in 2013 and 2012 which consisted of community banking. Community banking encompasses the Bank's primary business which includes providing a wide range of commercial and retail and related banking services. The Bank's primary focus within community banking is to grow the loan portfolio, primarily commercial loans in New Jersey, and fund these loans using deposits generated by the Bank's branches.

Off-Balance Sheet Financial Instruments

In the ordinary course of business, the Bank 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 Bank applies FASB 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 represents 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 – Summary of Significant Accounting Policies (Continued)

Comprehensive Income

U.S. GAAP requires that recognized revenue, expenses, and gains and losses be included in net 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.

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

	December 31, 2013	December 31, 2012
	(in thousands)	
Net unrealized (loss) gain on investment securities available for sale	$ (1,426)	$ 472
Less: tax effect	(569)	161
Accumulated other comprehensive (loss) income, net of tax	$ (857)	$ 311

Recent Accounting Pronouncements

ASU 2013-02, "Comprehensive Income (Topic 220)–Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income." ASU 2013-02 requires entities to provide information about amounts reclassified out of accumulated other comprehensive income by component. The amendments require entities to present, either on the face of the income statement or in the notes significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income but only if the amount reclassified is required by U.S. GAAP to be reclassified to net income in its entirety in the same reporting period. For other amounts that are not required under U.S. GAAP to be reclassified in their entirety to net income, entities are required to cross-reference to other disclosures required under U.S. GAAP that provide additional detail about those amounts. ASU 2013-02 became effective for the Company on January 1, 2013, and did not have a significant impact on the Company's consolidated financial statements, results of operations or liquidity.

ASU 2013-11, "Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists." The amendments in ASU 2013-11 include explicit guidance on the financial statement presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. The amendments in this ASU are expected to reduce diversity in practice by providing guidance on the presentation of unrecognized tax benefits and will better reflect the manner in which an entity would settle at the reporting date any additional income taxes that would result from the disallowance of a tax position when net operating loss carryforwards, similar tax losses, or tax credit carryforwards exist. The amendments in ASU 2013-11 are effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. The Company is currently evaluating the impact of these amendments.

ASU 2014-04, "Receivables–Troubled Debt Restructurings by Creditors (Subtopic 310-40): Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure." ASU 2014-04 clarifies that a in-substance repossession or foreclosure occurs, and a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, upon either (a) the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure or (b) the borrower conveying all interest in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. Additionally, ASU 2014-04 requires interim and annual disclosure of both (a) the amount of foreclosed residential real estate property held by the creditor and (b) the recorded investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure according to local requirements of the applicable jurisdiction. The amendments in ASU 2014-04 are effective for fiscal years, and interim periods within those years, beginning after December 15, 2014. An entity can elect to adopt the amendments using either a modified retrospective transition method or a prospective transition method. Early adoption is permitted. The Company is currently evaluating the impact of these amendments.

Reclassifications

Certain reclassifications, none of which are material, have been made to 2012 information to conform to the December 31, 2013 presentation. The reclassifications had no effect on the previously reported results of operations or changes in stockholders' equity.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 2 – Investment Securities

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

	December 31, 2013			
	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	$ 53,846	$ 71	$ (1,447)	$ 52,470
Issued by GNMA	5,817	4	(172)	5,649
Asset-backed securities	997	-	(19)	978
Corporate obligations	5,783	145	(8)	5,920
Total	$ 66,443	$ 220	$ (1,646)	$ 65,017

	December 31, 2012			
	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	$ 30,818	$ 322	$ (27)	$ 31,113
Issued by GNMA	7,742	38	(3)	7,777
Corporate obligations	4,233	142	-	4,375
Total	$ 42,793	$ 502	$ (30)	$ 43,265

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

	December 31, 2013			
	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	$ 204	$ -	$ 2,204
Obligations of state and political subdivisions	13,414	13	(278)	13,149
Total	$ 15,414	$ 217	$ (278)	$ 15,353

Note 2 – Investment Securities (Continued)

	December 31, 2012			
	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	$ 318	$ -	$ 2,318
Obligations of state and political subdivisions	4,693	46	(5)	4,734
Total	$ 6,693	$ 364	$ (5)	$ 7,052

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, 2013			
	Available for Sale		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(in thousands)			
Due after one year through five years	$ 4,283	$ 4,428	$ 2,038	$ 2,034
Due after five years through ten years	1,500	1,492	11,644	11,680
Due after ten years	997	978	1,732	1,639
Residential mortgage-backed securities:				
Issued by FNMA and FHLMC	53,846	52,470	-	-
Issued by GNMA	5,817	5,649	-	-
Total	$ 66,443	$ 65,017	$ 15,414	$ 15,353
Weighted average yield, computed on a tax equivalent basis	1.80%		2.22%	

The following tables provide additional information regarding investment securities available for sale with unrealized losses.

	December 31, 2013					
	Less than 12 months		12 months or longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(in thousands)					
Investment securities available for sale:						
Residential mortgage-backed securities:						
Issued by FNMA and FHLMC	$ 35,141	$ (1,053)	$ 6,969	$ (394)	$ 42,110	$ (1,447)
Issued by GNMA	3,951	(157)	973	(15)	4,924	(172)
Asset-backed securities	978	(19)	-	-	978	(19)
Corporate obligations	1,492	(8)	-	-	1,492	(8)
Total	$ 41,562	$ (1,237)	$ 7,942	$ (409)	$ 49,504	$ (1,646)

Note 2 – Investment Securities (Continued)

	December 31, 2012					
	Less than 12 months		12 months or longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(in thousands)					
Investment securities available for sale:						
Residential mortgage-backed securities:						
Issued by FNMA and FHLMC	$ 8,968	$ (27)	$ -	$ -	$ 8,968	$ (27)
Issued by GNMA	1,486	(3)	-	-	1,486	(3)
Total	$ 10,454	$ (30)	$ -	$ -	$ 10,454	$ (30)

The following tables provide additional information regarding investment securities held to maturity with unrealized losses.

	December 31, 2013					
	Less than 12 months		12 months or longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(in thousands)					
Investment securities held to maturity:						
Obligations of states and political subdivisions	$ 10,337	$ (219)	$ 1,165	$ (59)	$ 11,502	$ (278)

	December 31, 2012					
	Less than 12 months		12 months or longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(in thousands)					
Investment securities held to maturity:						
Obligations of states and political subdivisions	$ 1,542	$ (5)	$ -	$ -	$ 1,542	$ (5)

Investment securities with unrealized losses are evaluated quarterly to determine whether the losses are other than temporary. At December 31, 2013 and 2012, the Bank determined that all unrealized losses were temporary in nature. This conclusion was based on several factors, including the strong credit quality of the securities with unrealized losses, the low level and short time frame of the unrealized losses, which were driven by changes in the yield curve, and because the Bank does not intend to sell the investment securities.

At December 31, 2013, there were 75 issues that made up the investment securities portfolio. There were 46 issues that had unrealized losses for less than 12 months. The 46 issues were made up of 23 obligations of state and political subdivisions, 21 mortgage-backed securities, one corporate and one asset-backed security. The 46 issues had a fair value of $51.9 million with unrealized losses of $1.5 million. There were 8 issues that had unrealized losses for 12 months or longer. The 8 issues were made up of 5 mortgage-backed securities and 3 obligations of state and political subdivisions. The 8 issues had a fair value of $9.1 million with unrealized losses of $468,000.

At December 31, 2012 there were 40 issues that made up the investment securities portfolio. There were 9 issues that had unrealized losses for less than 12 months. The 9 issues were made up of 5 mortgage-backed securities and 4 obligations of state and political subdivisions. The 9 issues had a fair value of $12.0 million with unrealized losses of $35,000. There were no issues that had unrealized losses for 12 months or longer.

Note 2 – Investment Securities (Continued)

There was one security sold in 2013. Proceeds from the sale of the investment security available for sale were $374,000. The gross gain on the sale was $18,000. There were no investment securities sold in 2012.

Investment securities with a carrying value of $19.4 million and $13.7 million at December 31, 2013 and 2012, respectively, were pledged to the FHLB as collateral for advances and for other purposes as required or permitted by law.

Note 3 – Loans

The composition of loans is as follows:

	December 31, 2013	December 31, 2012
	(in thousands)	
Loans:		
Commercial and industrial	$ 60,407	$ 52,246
Commercial real estate:		
Owner-occupied	80,140	58,685
Investor	122,499	82,668
Construction and development	23,537	13,692
Multi-family	17,028	15,950
Residential real estate:		
Residential mortgage and first lien home equity loans	22,635	19,885
Home equity—second lien loans and and revolving lines of credit	7,851	9,560
Consumer and other	6,366	7,648
	340,463	260,334
Net deferred loan fees and costs	(488)	(295)
Total loans	$ 339,975	$ 260,039

From time to time, the Bank sells commercial real estate loans consisting of the guaranteed portion of Small Business Administration ("SBA") loans. For the year ended December 31, 2013, the Bank sold one SBA loan with a principal amount of $1.1 million. There were no loan sales in 2012.

Credit Risk Management and Loan Portfolio Risk Elements

Credit risk management. The Bank adheres to a credit policy designed to minimize credit risk in the entire loan portfolio. The Bank's focus is on commercial lending. The Bank manages risk associated with our commercial portfolio through underwriting policies and procedures, diversification and loan monitoring efforts. The Bank'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. Management reviews and approves these policies and procedures on a regular basis with subsequent approval by the Board of Directors annually. 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.

Note 3 – Loans (Continued)

Commercial real estate loans. Commercial real estate loans are composed of owner-occupied, investor, construction and land 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. Commercial real estate loans may be more adversely impacted by conditions in the real estate markets or in the general economy and accordingly conservative loan to value ratios are required at origination, as well as stress tested to evaluate the impact of market changes relating to key underwriting elements. Construction and development loans are generally secured by the real estate to be developed and may also be secured by additional real estate to mitigate the risk. Sources of repayment for these types of loans may be from pre-committed permanent loans from other lenders, sales of developed property, or an interim commitment from the Bank until permanent financing is obtained.

Residential real estate loans. Residential real estate loans are composed of loans secured by 1-4 family properties including residential mortgages, first lien home equity loans, second lien home equity loans and home equity revolving lines of credit. We generally underwrite residential real estate loans to the same credit standards required by the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation. Generally, 1-4 family residential loans are made in connection with a broader relationship. The Bank underwrites home equity loans to the same credit standards as single family loans. The Bank 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 Bank's internal risk rating system:

	December 31, 2013			
	Pass	Special Mention	Substandard	Total
	(in thousands)			
Commercial and industrial	$ 58,767	$ -	$ 1,640	$ 60,407
Commercial real estate:				
Owner-occupied	76,180	-	3,960	80,140
Investor	121,574	804	121	122,499
Construction and development	23,537	-	-	23,537
Multi-family	14,549	2,479	-	17,028
Residential real estate:				
Residential mortgage and first lien home equity loans	22,463	-	172	22,635
Home equity--second lien loans and revolving lines of credit	7,706	-	145	7,851
Consumer and other	6,117	-	249	6,366
Total	$ 330,893	$ 3,283	$ 6,287	$ 340,463

Note 3 – Loans (Continued)

	December 31, 2012			
	Pass	Special Mention	Substandard	Total
	(in thousands)			
Commercial and industrial	$ 49,749	$ 600	$ 1,897	$ 52,246
Commercial real estate:				
Owner-occupied	53,970	2,352	2,363	58,685
Investor	81,584	820	264	82,668
Construction and development	13,692	-	-	13,692
Multi-family	13,231	2,719	-	15,950
Residential real estate:				
Residential mortgage and first lien home equity loans	19,351	-	534	19,885
Home equity—second lien loans and revolving lines of credit	9,102	-	458	9,560
Consumer and other	7,348	-	300	7,648
Total	$ 248,027	$ 6,491	$ 5,816	$ 260,334

There were no loans classified as doubtful or loss at December 31, 2013 and 2012.

Summary of Past Due Loans

The performance and credit quality of the loan portfolio are also monitored by analyzing the age of the loans as determined by the length of time a payment is past due. The following tables present the classes of the loan portfolio summarized by past due status:

	December 31, 2013					
	30-59 Days Past Due	60-89 Days Past Due	Nonaccrual	Total Past Due	Total Current	Total Loans
	(in thousands)					
Commercial and industrial	$ -	$ -	$ 1,640	$ 1,640	$ 58,767	$ 60,407
Commercial real estate:						
Owner-occupied	1,753	-	1,187	2,940	77,200	80,140
Investor	109	-	121	230	122,269	122,499
Construction and development	-	-	-	-	23,537	23,537
Multi-family	2,943	-	-	2,943	14,085	17,028
Residential real estate:						
Residential mortgage and first lien home equity loans	-	-	172	172	22,463	22,635
Home equity—second lien loans and revolving lines of credit	-	-	145	145	7,706	7,851
Consumer and other	43	-	71	114	6,252	6,366
Total	$ 4,848	$ -	$ 3,336	$ 8,184	$ 332,279	$ 340,463

Note 3 – Loans (Continued)

	December 31, 2012					
	30-59 Days Past Due	60-89 Days Past Due	Nonaccrual	Total Past Due	Total Current	Total Loans
	(in thousands)					
Commercial and industrial	$ 1,527	$ 452	$ 286	$ 2,265	$ 49,981	$ 52,246
Commercial real estate:						
Owner-occupied	612	814	1,486	2,912	55,773	58,685
Investor	113	-	265	378	82,290	82,668
Construction and development	3,308	-	-	3,308	10,384	13,692
Multi-family	488	2,539	-	3,027	12,923	15,950
Residential real estate:						
Residential mortgage and first lien home equity loans	117	-	502	619	19,266	19,885
Home equity—second lien loans and revolving lines of credit	10	-	458	468	9,092	9,560
Consumer and other	149	-	326	475	7,173	7,648
Total	$ 6,324	$ 3,805	$ 3,323	$ 13,452	$ 246,882	$ 260,334

There were no loans past due 90 days or more and still accruing at December 31, 2013 and 2012.

Note 4 – Allowance for Loan Losses

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

	Year Ended December 31, 2013	2012
	(in thousands)	
Balance - beginning of year	$ 4,084	$ 3,307
Loans charged off:		
Commercial and industrial	169	49
Commercial real estate:		
Owner-occupied	68	160
Investor	143	189
Residential real estate:		
Residential mortgage and first lien home equity loans	160	33
Home equity—second lien loans and revolving lines of credit	390	-
Consumer and other	25	201
Total charge offs	955	632
Recoveries of loans previously charged off:		
Commercial and industrial	(1)	(14)
Commercial real estate:		
Construction and development	-	(24)
Residential real estate:		
Residential mortgage and first lien home equity loans	-	(2)
Home equity—second lien loans and revolving lines of credit	(1)	(3)
Consumer and other	(1)	-
Total recoveries	(3)	(43)
Net charge offs	952	589
Provision for loan losses	1,543	1,366
Balance - end of year	$ 4,675	$ 4,084

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 4 – Allowance for Loan Losses (Continued)

The following tables summarize information regarding the allowance for loan losses by impairment methodology and loan portfolio segment:

	December 31, 2013					
	Loan Balances			Allowance for Loan Losses Balances		
	Individually Evaluated For Impairment	Collectively Evaluated For Impairment	Total	Individually Evaluated For Impairment	Collectively Evaluated For Impairment	Total
	(in thousands)					
Commercial and industrial	$ 1,640	$ 58,767	$ 60,407	$ -	$ 672	$ 672
Commercial real estate:						
Owner-occupied	1,187	78,953	80,140	-	1,328	1,328
Investor	121	122,378	122,499	-	1,560	1,560
Construction and development	-	23,537	23,537	-	381	381
Multi-family	-	17,028	17,028	-	321	321
Residential real estate:						
Residential mortgage and first lien home equity loans	173	22,462	22,635	127	132	259
Home equity—second lien loans and revolving lines of credit	145	7,706	7,851	-	85	85
Consumer and other	279	6,087	6,366	-	69	69
Total	$ 3,545	$ 336,918	$ 340,463	$ 127	$ 4,548	$ 4,675

	December 31, 2012					
	Loan Balances			Allowance for Loan Losses Balances		
	Individually Evaluated For Impairment	Collectively Evaluated For Impairment	Total	Individually Evaluated For Impairment	Collectively Evaluated For Impairment	Total
	(in thousands)					
Commercial and industrial	$ 286	$ 51,960	$ 52,246	$ -	$ 908	$ 908
Commercial real estate:						
Owner-occupied	2,362	56,323	58,685	-	961	961
Investor	265	82,403	82,668	-	1,143	1,143
Construction and development	-	13,692	13,692	-	263	263
Multi-family	-	15,950	15,950	-	344	344
Residential real estate:						
Residential mortgage and first lien home equity loans	534	19,351	19,885	-	246	246
Home equity—second lien loans revolving lines of credit	458	9,102	9,560	-	113	113
Consumer and other	326	7,322	7,648	-	106	106
Total	$ 4,231	$ 256,103	$ 260,334	$ -	$ 4,084	$ 4,084

Note 4 – Allowance for Loan Losses (Continued)

The allowance for loan losses and recorded investment in impaired loans are as follows:

	December 31, 2013			December 31, 2012		
	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	$ 1,640	$ 1,740	$ -	$ 286	$ 915	$ -
Commercial real estate:						
Owner-occupied	1,187	1,361	-	2,362	2,514	-
Investor	121	268	-	265	268	-
Residential real estate:						
Residential mortgage and first lien home equity loans	-	-	-	534	596	-
Home equity—second lien loans and revolving lines of credit	145	145	-	458	583	-
Consumer and other	279	310	-	326	503	-
Total	$ 3,372	$ 3,824	$ -	$ 4,231	$ 5,379	$ -
Impaired loans with a valuation allowance:						
Residential mortgage and first lien home equity loans	$ 173	$ 365	$ 127	$ -	$ -	$ -
Total	$ 173	$ 365	$ 127	$ -	$ -	$ -
Total impaired loans:						
Commercial and industrial	$ 1,640	$ 1,740	$ -	$ 286	$ 915	$ -
Commercial real estate:						
Owner-occupied	1,187	1,361	-	2,362	2,514	-
Investor	121	268	-	265	268	-
Residential real estate:						
Residential mortgage and first lien home equity loans	173	365	127	534	596	-
Home equity—second lien loans and revolving lines of credit	145	145	-	458	583	-
Consumer and other	279	310	-	326	503	-
Total	$ 3,545	$ 4,189	$ 127	$ 4,231	$ 5,379	$ -

Note 4 – Allowance for Loan Losses (Continued)

	Year Ended December 31, 2013			Year Ended December 31, 2012		
	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	$ 438	$ -	$ -	$ 304	$ -	$ -
Commercial real estate:						
Owner-occupied	1,314	-	-	2,560	71	89
Investor	236	-	-	1,581	-	-
Residential real estate:						
Residential mortgage and first lien home equity loans	128	-	-	626	-	-
Home equity—second lien loans and revolving lines of credit	446	-	-	459	-	-
Consumer and other	283	7	11	378		
Total	$ 2,845	$ 7	$ 11	$ 5,908	$ 71	$ 89
Impaired loans with a valuation allowance:						
Construction and development	$ -	$ -	$ -	$ 529	$ 42	$ -
Residential mortgage and first lien home equity loans	331	-	-	-	-	-
Total	$ 331	$ -	$ -	$ 529	$ 42	$ -
Total impaired loans:						
Commercial and industrial	$ 438	$ -	$ -	$ 304	$ -	$ -
Commercial real estate:						
Owner-occupied	1,314	-	-	2,560	71	89
Investor	236	-	-	1,581	-	-
Construction and development	-	-	-	529	42	-
Residential real estate:						
Residential mortgage and first lien home equity loans	459	-	-	626	-	-
Home equity—second lien loans and revolving lines of credit	446	-	-	459	-	-
Consumer and other	283	7	11	378	-	-
Total	$ 3,176	$ 7	$ 11	$ 6,437	$ 113	$ 89

Troubled Debt Restructured Loans

Impaired loans generally include nonaccrual loans but also include performing and nonperforming troubled debt restructured loans ("TDRs"). From time to time, the Bank 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 Bank would not otherwise consider, the loan would be classified as a TDR.

At December 31, 2013, the Bank had three TDRs totaling $209,000 which were performing pursuant to the terms of their modification. At December 31, 2012, the Bank had one TDR of $32,000 which was performing pursuant to the terms of its modification.

Note 4 – Allowance for Loan Losses (Continued)

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

	Year Ended December 31,					
	2013			2012		
	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
	(dollars in thousands)					
Consumer and other	2	$ 212	$ 214	1	$ 31	$ 32

Regarding the two consumer and other loans that were restructured as TDRs in 2013, one loan for $118,000 had an interest rate reduction and the other loan for $94,000 had an extension of term. The one consumer and other loan that was restructured as a TDR in 2012 had an interest rate reduction.

TDRs are individually evaluated for impairment and are included in impaired loans. There were no TDRs that subsequently defaulted during 2013 and 2012. There was no related allowance for any TDR included within the allowance for loan losses as of December 31, 2013 and 2012.

Note 5 – Premises and Equipment

The components of premises and equipment are as follows:

	December 31,	
	2013	2012
	(in thousands)	
Premises and equipment:		
Leasehold improvements	$ 2,441	$ 2,383
Furniture and fixtures	350	299
Equipment and software	1,315	1,146
	4,106	3,828
Less: accumulated depreciation	(2,319)	(1,927)
Premises and equipment, net	$ 1,787	$ 1,901

Depreciation expense on premises and equipment included in non-interest expense in the consolidated statements of income for the years ended December 31, 2013 and 2012 was $392,000 and $408,000, respectively.

Note 6 – Deposits

The components of deposits are as follows:

	December 31,	
	2013	2012
	(in thousands)	
Non-interest bearing demand	$ 48,186	$ 27,460
Interest bearing demand	13,312	11,177
Money market and savings	172,149	145,428
Time, $100 and over	84,769	59,049
Time, other	80,697	65,934
Total deposits	$ 399,113	$ 309,048

There were no brokered deposits at December 31, 2013 and 2012.

Note 6 – Deposits (Continued)

At December 31, 2013, the contractual maturities of time deposits were as follows:

	Amount (in thousands)
2014	$ 79,311
2015	54,366
2016	14,467
2017	6,876
2018	10,446
	$ 165,466

Note 7 – Borrowings

Long-term borrowings consist of Federal Home Loan Bank advances. The advances mature as follows:

	December 31, 2013 (in thousands)
2016	$ 9,000
2017	5,000
Total	$ 14,000

At December 31, 2013, the Bank had three outstanding advances, all with fixed interest rates. Two of the advances are due in 2016 and 2017 and had initial terms of five years, are collateralized by investment securities and carry interest rates of 2.41% and 1.07%, respectively. The other advance is due in 2016 and has an initial term of three years, is collateralized by commercial mortgage loans and carries an interest rate of 1.04%.

At December 31, 2012, the Bank had three outstanding advances, all with fixed interest rates. The advance due in 2013 was amortizing, collateralized by investment securities and carried an interest rate of 4.58%. The advances due in 2016 and 2017 are collateralized by investment securities and carry interest rates of 2.41% and 1.07%, respectively.

Borrowings totaled $14.0 million with a weighted average rate of 1.54% at December 31, 2013 and $10.2 million with a weighted average rate of 1.80% at December 31, 2012. For 2013 and 2012, borrowings averaged $11.8 million and $5.6 million, respectively. The average cost of borrowings for 2013 was 1.68% compared to 2.53% for 2012. The maximum borrowings outstanding in 2013 was $14.0 million in 2013 and $10.2 million in 2012.

As a member of the FHLB, the Bank 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, 2013, the Bank had the ability to borrow $82.9 million. The Bank's borrowing facility includes $44.3 million of unpledged securities and $38.6 million of commercial real estate collateral. At December 31, 2012, the Bank had $27.2 million in unpledged securities available as collateral for borrowing.

The Bank has a line of credit with ACBB in the amount of $4.0 million. There was no borrowing on this facility at December 31, 2013 and 2012.

Note 8 – Lease Commitments

The Bank has lease agreements for its five branches and corporate office space. The Bank's lease agreements include costs related to real estate taxes, insurance, utilities and maintenance costs in addition to the base rent.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 8 – Lease Commitments (Continued)

Future minimum lease payments by year and in the aggregate, under lease agreements, are as follows:

	December 31, 2013 (in thousands)
2014	546
2015	552
2016	557
2017	650
2018	240
Thereafter	1,604
Total	$ 4,149

Total lease rental expense was $676,000 and $422,000 for the years ended December 31, 2013 and 2012, respectively.

In November 2010, we entered into a lease that was subsequently assigned to North Buffalo Advisors II, LLC, an entity in which two members of our Board of Directors have a significant ownership interest, for our corporate office space and branch office in Hamilton, New Jersey. Directors Patrick M. Ryan and Maria K. Jinks, D.C. own 22.5% and 17.5% of North Buffalo Advisors II, LLC, respectively. The lease has a term of seven years with options to extend. Minimum lease payments due to the lessor are $313,000, $321,000, $324,000 and $413,000 for 2014, 2015, 2016 and 2017, respectively, and $0 thereafter.

In January 2009, we entered into a lease with Serenity Point, LLC, an entity for which Samuel D. Marrazzo, a member of our Board of Directors, is President. The lease was entered into before Mr. Marrazzo became a member of the Board and is for our branch facility in Ewing, New Jersey. The lease has a term of five years and includes four 5-year renewal options. Minimum lease payments due to the lessor are $13,000 for 2014 and $0 thereafter.

Note 9 – Stockholders' Equity

In November 2013, the Bank sold 3,833,334 shares of the Bank's common stock in an Initial Public Offering at a price of $6.00 per share. As a result, the Bank realized $20.9 million in proceeds, net of underwriting discounts and offering expenses of $2.1 million.

During 2012, the Bank sold 800,000 shares of the Bank's common stock at a price of $5.25 per share to First Bank shareholders and members of the public. The offering resulted in proceeds of $4.2 million, net of offering costs of $26,000.

In 2008, the Bank sold 2,444,916 units which consisted of one share of common stock and one quarter warrant at $7.90 per unit, which resulted in net proceeds of $19.2 million. One full warrant enabled the holder to purchase one share of common stock at an exercise price of $9.00 per share. A total of 611,204 warrants were issued as part of the recapitalization. The warrants had a term of five years from the date of issuance. The warrants expired in October 2013. No warrants were exercised.

In its initial stock offering in 2007, the Bank issued 241,502 warrants. Of these warrants, 96,620 were issued to organizers with a fair value of $205,250. These warrants are immediately exercisable at $10.00 per share and expire ten years from the issue date. Unissued organizer warrants of 144,882 expired in 2012. No organizer warrants were exercised in 2013 or 2012.

Note 10 – Income Taxes

The components of income tax expense (benefit) consist of the following for the years ended December 31, 2013 and 2012:

	Year Ended December 31, 2013	2012
	(in thousands)	
Federal income tax:		
Current	$ 291	$ 266
Deferred	537	(463)
Total	828	(197)
State income tax:		
Current	185	2
Deferred	66	(135)
Total	251	(133)
Total income tax expense (benefit)	$ 1,079	$ (330)

The components of the net deferred tax asset are as follows:

	December 31, 2013	2012
	(in thousands)	
Deferred tax asset:		
Allowance for loan losses	$ 1,226	$ 1,140
Organization costs	11	12
Net operating losses	-	1,022
Net deferred loan fees	195	118
Nonacrual interest	185	193
Unrealized losses on investment securities available for sale	569	-
Other	296	141
Total deferred tax asset	2,482	2,626
Deferred tax liability:		
Cash basis adjustment	(76)	(151)
Unrealized gains on investment securities available for sale	-	(161)
Depreciation	(26)	(89)
Other	(28)	-
Total deferred tax liability	(130)	(401)
Net deferred tax asset	$ 2,352	$ 2,225

At December 31, 2013, the Bank had no net operating loss carryforwards available for Federal or state income tax purposes. At December 31, 2012, the Bank had net operating loss carryforwards available for Federal income tax purposes of $2.0 million expiring through 2031 and $1.6 million for state purposes expiring through 2017. The Bank's Federal income tax returns are open for examination from 2010 and 2009 for state income tax returns.

The decrease in valuation allowance at December 31, 2012 was the result of utilized net operating loss carryforwards to offset taxable earnings and management's estimate of net operating loss carryforwards more likely than not to be utilized in the foreseeable future.

Note 10 – Income Taxes (Continued)

Reconciliations of the statutory Federal income tax at a rate of 34% to the income tax expense (benefit) reported in the consolidated statements of income are as follows:

	Year Ended December 31,	
	2013	2012
Federal income tax at statutory rate	34.0%	34.0%
State income tax, net of federal benefit	5.9%	-3.9%
Changes in taxes resulting from:		
Net tax-exempt income	-1.5%	-
Decrease in valuation allowance	-	-46.0%
Bank-owned life insurance income	-1.9%	-2.1%
Stock-based compensation expense	0.4%	1.0%
Non-deductible expenses	1.9%	-
Other	-0.1%	2.4%
Total	38.7%	-14.6%

Note 11 – Earnings Per Share

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

	Year Ended December 31,	
	2013	2012
	(in thousands, except per share data)	
Net income available to common stockholders	$ 1,708	$ 2,588
Basic weighted average common shares outstanding	5,128	4,083
Plus: Effect of dilutive common stock equivalents	44	-
Diluted weighted average common shares outstanding	5,172	4,083
Earnings per share:		
Basic	$0.33	$0.63
Diluted	$0.33	$0.63
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:		
Stock options	89	93
Warrants	-	708

Note 12 – Stock-Based Compensation

In 2009, the Bank adopted both the First Bank 2009 Stock Option Plan–A (the "A Plan") and the First Bank 2009 Stock Option Plan–B (the "B Plan"). The A Plan authorizes the Board of Directors to grant options to purchase up to an aggregate of 409,640 shares of the Bank's common stock, up to 170,547 of which may be non-qualified options. Under the B Plan, the Bank may grant non-qualified options to purchase up to 102,000 shares of common stock, as of the effective date of the Plans, to officers, other employees and directors. Shares granted under the Plan to directors are non-qualified options. The shares granted under the Plan to officers and other employees can be non-qualified options or incentive stock options ("ISOs"), subject to the limitations under Section 422 of the Internal Revenue Code.

Awards Authorized	Cumulative Granted Awards Net of Cancellations	Awards Available for Grant
511,640	511,500	140

All options granted under the Plans have a term that shall not exceed ten years and a vesting period of three years. The exercise price of the options granted under the Plans as ISOs are to be granted at an exercise price of not less than 100% of the fair market value of the Bank's common stock on the date of grant. All non-qualified options must have an exercise price of at least 100% of fair market value at the date of grant. Fair market value is to be determined by the Board of Directors in good faith.

The tables below reflect the activity in the Bank's stock option plans for each of the periods presented.

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (years)	Aggregate Intrinsic Value
Outstanding at December 31, 2012	429,500	$ 5.06		
Granted	88,500	6.07		
Expired	(2,666)	5.00		
Forfeited	(3,834)	5.16		
Outstanding at December 31, 2013	511,500	$ 5.24	7.8	564,000
Exercisable at December 31, 2013	339,645	$ 5.03		

Note 12 – Stock-Based Compensation (Continued)

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (years)	Aggregate Intrinsic Value
Outstanding at December 31, 2011	338,500	$ 5.00		
Granted	117,500	5.23		
Forfeited	(26,500)	5.00		
Outstanding at December 31, 2012	429,500	$ 5.06	8.5	83,000
Exercisable at December 31, 2012	201,334	$ 5.00		

Range of Exercise Prices	Number of Options Outstanding	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price	Number of Options Exercisable	Weighted Average Exercise Price
$ 0.00 - 5.00	310,500	6.9	$ 5.00	302,161	$ 5.00
5.01 - 5.25	112,500	8.5	5.24	37,484	5.24
5.26 - 6.07	88,500	10.0	6.07	-	-
Total	511,500	7.8	$ 5.24	339,645	$ 5.03

The fair value of these options was estimated at the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions:

	Year Ended December 31, 2013	Year Ended December 31, 2012
Expected volatility	33.80%	30.00%
Dividend yield	0.00%	0.00%
Expected life	6.0 years	6.0 years
Risk-free rate	1.87%	1.45%
Fair Value	$ 2.18	$ 0.56

As our stock was thinly traded prior to the IPO, volatility percentages were based on the average expected volatility of similar public financial institutions in the Bank's market area.

Stock-based compensation expense related to outstanding stock options was approximately $61,000, and $68,000 for the years ended December 31, 2013 and 2012, respectively. As of December 31, 2013, there was $232,000 of unrecognized compensation cost related to non-vested stock options which is expected to be recognized over an average remaining vesting period of 1.84 years. As of December 31, 2012, there was $187,000 of unrecognized compensation cost related to non-vested stock options which is expected to be recognized over an average remaining vesting period of 1.78 years.

Note 13 – Benefit Plans

Employee 401(k) Plan

The Bank has a 401(k) savings plan covering all employees who elect to participate. Under the plan, the Bank matches 50% of employee contributions for all participants, not to exceed 3% of their salary. The Bank expensed $45,000 for the year ended December 31, 2013. The Bank did not match employee contributions prior to 2013.

Director Deferred Fee Plan

The Bank'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 lump sum, at the discretion of each director. For the years ended December 31, 2013 and 2012, respectively, $3,000 and $400, respectively, was contributed to the DDFP by the Bank and charged to operations.

Note 14 – Transactions with Executive Officers, Directors and Principal Stockholders

The Bank 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"), on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other customers of the Bank. The following table summarizes activity with respect to related party loans:

	Year Ended December 31,	
	2013	2012
	(in thousands)	
Balance - beginning of year	$ 6,047	$ 6,670
New loans	4,395	63
Repayments and other changes	888	686
Balance - end of year	$ 9,554	$ 6,047

None of our related party loans were past due or on nonaccrual status as of December 31, 2013 and 2012.

Deposits of related parties totaled $12.3 million and $10.0 million, respectively, at December 31, 2013 and 2012.

The Bank leases its corporate office space and main office branch in Hamilton, New Jersey from North Buffalo Advisors II, LLC, an entity in which two members of our Board of Directors have a significant ownership. The amended lease has a term of seven years with options to extend. Under the terms of the lease, the Bank is currently obligated to pay $26,076 per month. The Bank's 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 Bank leases its Ewing branch facility from Serenity Point, LLC, an entity for which a member of our Board of Directors is President. The lease has a term of five years and includes four 5-year renewal options. Under the terms of the lease, the Bank is currently obligated to pay $4,471 per month. The Bank's lease agreement includes costs related to real estate taxes, insurance, utilities and maintenance costs in addition to the base rent.

Note 15 – Other Commitments and Contingencies

The Bank 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.

Note 15 – Other Commitments and Contingencies (Continued)

The Bank'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 Bank uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments.

At December 31, 2013 and 2012, total commitments to extend credit amounted to $47.7 million and $42.9 million, respectively. At December 31, 2013 and 2012, the Bank had performance standby letters of credit of $1.3 million and $1.9 million, respectively. These letters of credit are primarily related to performance guarantees on real estate development.

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 Bank evaluates each customer's creditworthiness on a case-by-case basis. The majority of the Bank'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.

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

Note 16 – Litigation Settlement

In 2009, another financial institution commenced a legal action against First Bank alleging the Bank had breached a loan participation agreement between the two parties. The plaintiffs in that action were seeking to require the Bank to purchase back the loan participation in the amount of $659,000. The Bank defended this action in 2010 and 2011. A settlement was reached in April 2012 under which the Bank agreed to pay $150,000 to the plaintiff in full and complete settlement of the pending action.

Note 17 – Capital and Regulatory Matters

The Bank 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 consolidated financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. The guidelines require all banks to maintain a minimum ratio of total risk-based capital to total risk-weighted assets of 8.0%, maintain a minimum ratio of Tier 1 capital to total risk-weighted assets of 4.0% and Tier 1 capital to average assets of 4.0%. The Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors. Management believes, as of December 31, 2013 and 2012, that the Bank met all capital adequacy requirements to which it is subject.

Note 17 – Capital and Regulatory Matters (Continued)

The Bank's capital amounts, ratios and regulatory minimum capital ratios are presented below:

	Actual		For Capital Adequacy Purposes		To Be Well-Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(dollars in thousands)			
December 31, 2013						
Total risk-based capital	$ 58,039	15.35%	$ 30,246	8.00%	$ 37,808	10.00%
Tier 1 risk-based capital	53,364	14.11%	15,123	4.00%	22,685	6.00%
Tier 1 leverage capital	53,364	11.89%	17,955	4.00%	22,444	5.00%
December 31, 2012						
Total risk-based capital	$ 33,586	11.78%	$ 22,804	8.00%	$ 28,505	10.00%
Tier 1 risk-based capital	30,016	10.53%	11,402	4.00%	17,103	6.00%
Tier 1 leverage capital	30,016	8.89%	13,501	4.00%	16,876	5.00%

First Bank is considered "well-capitalized" under the FDIC's Prompt Corrective Action Capital Provisions.

The Bank 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 the Bank's surplus may not be less than 50% of the Bank's capital account. In addition, as a policy, the FDIC and NJ DOBI will not permit a de novo bank to pay cash dividends until it has earned back its pre-opening costs and initial operating losses.

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

Management uses its best judgment in estimating the fair value of the Bank'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 Bank 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 Bank follows FASB ASC Topic 820, *Fair Value Measurement*, which establishes a fair value hierarchy that prioritizes the inputs to valuation methods used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). 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.

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

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

	December 31, 2013			
	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	$ 52,470	$ -	$ 52,470	$ -
Issued by GNMA	5,649	-	5,649	-
Asset-backed securities	978	-	978	-
Corporate obligations	5,920	-	5,920	-
Total	$ 65,017	$ -	$ 65,017	$ -

	December 31, 2012			
	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	$ 31,113	$ -	$ 31,113	$ -
Issued by GNMA	7,777	-	7,777	-
Corporate obligations	4,375	-	4,375	-
Total	$ 43,265	$ -	$ 43,265	$ -

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

	December 31, 2013			
	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	$ 3,418	$ -	$ -	$ 3,418
Other real estate owned	1,158	-	-	1,158
Total	$ 4,576	$ -	$ -	$ 4,576

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

	December 31, 2012			
	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	$ 4,231	$ -	$ -	$ 4,231
Other real estate owned	1,634	-	-	1,634
Total	$ 5,865	$ -	$ -	$ 5,865

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, 2013				
	Fair Value	Valuation Method	Unobservable Input	Range (3)	Weighted Average (3)
			(dollars in thousands)		
Impaired loans	$ 3,418	Fair value of collateral (1)	Appraised Value (2)	0% - 12%	10%
Other real estate owned	1,158	Fair value of collateral (1)	Appraised Value (2) Sales Price	5% - 16%	8%

	Quantitative Information about Level 3 Fair Value Measurements December 31, 2012				
	Fair Value	Valuation Method	Unobservable Input	Range (3)	Weighted Average (3)
			(dollars in thousands)		
Impaired loans	$ 4,231	Fair value of collateral (1)	Appraised Value (2)	0% - 42%	15%
Other real estate owned	1,634	Fair value of collateral (1)	Appraised Value (2) Sales Price	5% - 11%	7%

(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.

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

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.

The following information should not be interpreted as an estimate of the fair value of the entire Bank since a fair value calculation is only provided for a limited portion of the Bank's assets and liabilities. Due to a wide range of valuation techniques and the degree of subjectivity used in making the estimates, comparisons between the Bank's disclosures and those of other companies may not be meaningful. The following methods and assumptions were used to estimate the fair values of the Bank's financial instruments at December 31, 2013 and 2012.

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 other banks is estimated using a discounted cash flow analysis and rate that approximates certificates of deposit with comparable remaining terms.

Investment Securities

The fair value of securities is determined by 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.

Restricted Investment in Bank Stocks (Carried at Cost)

The carrying amount of restricted investment in bank stocks, which includes stocks of the Federal Home Loan Bank of New York and Atlantic Community Bankers Bank, approximates fair value, and considers the limited marketability of such securities.

Other Investments (Carried at Cost)

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

Loans (Carried at Cost)

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

Impaired Loans (Generally Carried at Fair Value)

Impaired loans are generally measured based on the fair value of the loan's collateral. Fair value is generally determined based upon independent third-party appraisals of the properties, or discounted cash flows based upon the expected proceeds. These assets are included as Level 3 fair values, based upon the lowest level of input that is significant to the fair value measurements. Impaired loans, which are measured for impairment using the fair value of the collateral, for collateral dependent loans, with no related allowance at December 31, 2013 had total unpaid principal balances of $3,824,000 less partial charge offs of $452,000. Impaired loans with a related allowance of $127,000 at December 31, 2013 had total unpaid principal balances of $365,000 less partial charge offs of $192,000. Impaired loans with no related allowance at December 31, 2012 included loans with total unpaid principal balances of $5,379,000 less partial charge offs of $1,148,000.

Other Real Estate Owned (Carried at Fair Value)

Other real estate owned and other repossessed assets are measured at fair value less costs to sell. Fair value is determined by sales agreements or appraisals by qualified licensed appraisers. Costs to sell are based on estimation per the terms and conditions of the sales agreements or appraisals.

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

Accrued Interest Receivable and Payable (Carried at Cost)

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

Deposits (Carried at Cost)

The fair value of nonmaturity deposits (e.g., interest and non-interest checking, savings and money market accounts) is, by definition, equal to the amount payable on demand at the reporting date (i.e., carrying amount). Fair value for time deposits is estimated using a discounted cash flow calculation that applies interest rates currently being offered in the market on time deposits to a schedule of aggregated expected monthly maturities on time deposits.

Long-term Borrowings (Carried at Cost)

Long-term 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 credit risk characteristics, terms and remaining maturity. These 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

Fair value for off-balance sheet financial instruments (lending commitments and letters of credit are disclosed in Note 15) 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 is considered immaterial.

The fair values of the Bank's financial instruments are provided in the following tables as of the dates indicated:

	December 31, 2013				
			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 due from banks	$ 9,787	$ 9,787	$ 9,787	$ -	$ -
Interest bearing deposits with banks	13,927	13,927	-	13,927	-
Interest bearing time deposits with banks	4,903	4,902	-	4,902	-
Investment securities available for sale	65,017	65,017	-	65,017	-
Investment securities held to maturity	15,414	15,353	-	15,353	-
Restricted investment in bank stocks	1,131	1,131	-	1,131	-
Other investments	5,000	5,000	-	5,000	-
Net loans	335,300	341,456	-	-	341,456
Accrued interest receivable	1,232	1,232	-	1,232	-
Financial Liabilities:					
Demand, savings and money market deposits	233,647	233,647	-	233,647	-
Time deposits	165,466	166,475	-	166,475	-
FHLB advances	14,000	14,042	-	14,042	-
Accrued interest payable	156	156	-	156	-

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

	December 31, 2012				
			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 due from banks	$ 6,234	$ 6,234	$ 6,234	$ -	$ -
Interest bearing deposits with banks	17,694	17,649	-	17,649	-
Interest bearing time deposits with banks	1,469	1,472	-	1,472	-
Investment securities available for sale	43,265	43,265	-	43,265	-
Investment securities held to maturity	6,693	7,052	-	7,052	-
Restricted investment in bank stocks	824	824	-	824	-
Other investments	5,000	5,000	-	5,000	-
Net loans	255,955	261,622	-	-	261,622
Accrued interest receivable	1,033	1,033	-	1,033	-
Financial Liabilities:					
Demand, savings and money market deposits	184,065	184,065	-	184,065	-
Time deposits	124,983	126,783	-	126,783	-
FHLB advances	10,219	10,483	-	10,483	-
Accrued interest payable	139	139	-	139	-

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

Not applicable.

Item 9A. Controls and Procedures.

(a) Evaluation of disclosure controls and procedures

First Bank's Chief Executive Officer and Chief Financial Officer, (collectively, the "Certifying Officers") have evaluated the effectiveness of the Bank's disclosure controls and procedures (as defined in Rules 13a-15(e) of the Securities Exchange Act of 1934). Based on that evaluation, management concluded that the Bank's disclosure controls and procedures are effective as of December 31, 2013.

(b) Management's report on internal control over financial reporting

The Bank's management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rule 13a-15(f) under 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 internal 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: (1) transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States; (2) receipts and expenditures are being made only in accordance with authorizations of management and the Directors of the Bank; and (3) unauthorized use, or disposition of the Bank's assets that could have a material effect on the Bank's financial statements are prevented or timely detected.

Management conducted a review and assessment of the effectiveness of the Bank's internal control over financial reporting as of December 31, 2013 utilizing the framework established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). That review and assessment, included a review of financial information contained in the Quarterly Report on Form 10Q filed for the period ended September 30, 2013 on December 24, 2013. Subsequent to filing this Form 10Q, management identified an error in the consolidated statements of income and consolidated statements of comprehensive income for the three month period ended September 30, 2012. The error was due to a spreadsheet error which resulted in other expense being overstated by $150,000 for the three month period ended September 30, 2012. This error also caused net income and earnings per share to be understated for the same period. The error did not affect the consolidated financial statements for the nine months ended September 30, or for any period in 2013. As a result, management concluded that a material weakness existed due to ineffective internal controls (policies and procedures) around the use of spreadsheets that were used in the preparation of financial statements and ineffective procedures in the review and verification employed in the preparation of financial statements.

A “material weakness” in internal control over financial reporting 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 a company’s annual or interim financial statements will not be prevented or detected in a timely basis by the company’s internal controls.

(c) Changes to Internal Controls over Financial Reporting

The Bank has implemented certain changes in its internal controls during the period covered by this report to address the material weakness discussed above. Specifically, management took the following steps to remediate such material weakness:

- the process for ensuring mathematical accuracy and tie out of financial statements to supporting spreadsheets and other documentation was strengthened by use of “preparer-reviewer” processes;
- retention of evidence of the preparer and of management’s independent review of the financial statements; and
- engaging highly qualified and experienced financial consultants to assist in the review and testing of December 31, 2013 financial statements.

Item 9B. Other Information.

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance.

Information required by this part is included in the definitive Proxy Statement for the Company's 2014 Annual Meeting under the captions "ELECTION OF DIRECTORS" and "SECTION 16(A) BENEFICIAL OWNERSHIP REPORTS COMPLIANCE," each of which is incorporated herein by reference. It is expected that such Proxy Statement will be filed with the FDIC within 120 days of December 31, 2013.

Item 11. Executive Compensation.

Information concerning executive compensation is included in the definitive Proxy Statement for the Company's 2014 Annual Meeting under the captions "EXECUTIVE COMPENSATION" and "DIRECTOR COMPENSATION", which is incorporated by reference herein. It is expected that such Proxy Statement will be filed with the FDIC within 120 days of December 31, 2013.

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

Information concerning security ownership of certain beneficial owners and management is included in the definitive Proxy statement for the Company's 2014 Annual Meeting under the caption "SECURITY OWNERSHIP OF MANAGEMENT", which is incorporated herein by reference. It is expected that such Proxy statement will be filed with the FDIC within 120 days of December 31, 2013.

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

Information concerning certain relationships and related transactions is included in the definitive Proxy Statement for the Company's 2014 Annual Meeting under the caption "INTEREST OF MANAGEMENT AND OTHERS IN CERTAIN TRANSACTIONS", which is incorporated herein by reference. It is expected that such Proxy statement will be filed with the FDIC within 120 days of December 31, 2013.

Item 14. Principal Accountant Fees and Services.

The information concerning principal accountant fees and services as well as related pre-approval policies under the caption "RATIFICATION OF INDEPENDENT AUDITORS" in the Proxy Statement for the Company's 2014 Annual Meeting of Shareholders is incorporated by reference herein. It is expected that such Proxy Statement will be filed with the FDIC within 120 days of December 31, 2013.

PART IV

Item 15. Exhibits, Financial Statement Schedules

(a) The following portions of the Company's 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, 2013 and 2012

ii. Consolidated Statements of Income for the Years Ended December 31, 2013 and 2012

iii. Consolidated Statements of Comprehensive Income for the Years Ended December 31, 2013 and 2012

iv. Consolidated Statements of Changes in Stockholders' Equity for the Years Ended December 31, 2013 and 2012

v. Consolidated Statements of Cash Flows for the Years Ended December 31, 2013 and 2012

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 Index:

Exhibit No.	Description
Exhibit 3(i)	Certificate of Incorporation, as amended on July 20, 2011 and August 7, 2013 (1)
Exhibit 3(ii)	Bylaws (1)
Exhibit 10.1	Severance Agreement of Patrick L. Ryan dated as of May 8, 2012 (1) (2)
Exhibit 10.2	Severance Agreement of Peter J. Cahill dated as of May 8, 2012 (1) (2)
Exhibit 10.3	Severance Agreement of Stephen F. Carman dated as of May 8, 2012 (1) (2)
Exhibit 10.4	First Bank 2009-A Stock Option Plan (1) (2)
Exhibit 10.5	First Bank 2009-B Stock Option Plan (1) (2)
Exhibit 10.6	Severance Agreement with Ryan Manville (2) (3)
Exhibit 10.7	2014 Equity Compensation Plan-C (4)
Exhibit 10.8	2014 Equity Compensation Plan-D (4)
Exhibit 21	Subsidiaries of the Registrant
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
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
Exhibit 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

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(1) Filed as a part of the Registrant's registration statement on Form 10 filed on October 1, 2013.
(2) Management contract or compensatory plan, contract or arrangement.
(3) Incorporated by reference to Exhibit 10.1 of the Registrant's 8-K filed with the FDIC on March 12, 2014.
(4) Incorporated by reference to Annex E and Annex F of the Registrant's Proxy Statement filed with the FDIC on February 7, 2014.

Exhibit 21

SUBSIDIARIES OF THE REGISTRANT
(as of March 7, 2014)

Name of Subsidiary	Jurisdiction of Incorporation or Formation
BC1, LLC	New Jersey
HCBOREO 1, LLC	New Jersey
HCBOREO 2, LLC	New Jersey

Exhibit 31.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO RULE 13A-14(A) OR RULE 15D-14(A) AND SECTION 302
OF THE SARBANES-OXLEY ACT OF 2002

I, Patrick L. Ryan, Chief Executive Officer of First Bank, certify that:

1. I have reviewed this Annual Report on Form 10-K of First Bank;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15-d-15(f)) for the registrant and we have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiary, 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 26, 2014

/s/ Patrick L. Ryan
Patrick L. Ryan
President and Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO RULE 13A-14(A) OR RULE 15D-14(A) AND SECTION 302
OF THE SARBANES-OXLEY ACT OF 2002

I, Stephen F. Carman, Chief Financial Officer of First Bank, certify that:

1. I have reviewed this Annual Report on Form 10-K of First Bank;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15-d-15(f)) for the registrant and we have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiary, 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 26, 2014

/s/ Stephen F. Carman
Stephen F. Carman
Executive Vice President, Treasurer and Chief Financial Officer
(Principal Financial 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, 2013, 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 26, 2014

/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 Officer)

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 in the Township of Hamilton, State of New Jersey, on March 26, 2014.

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 below by the following persons on behalf of the Registrant and in the capacities indicated below on March 26, 2014.

Signature	Title
/s/ Leslie E. Goodman Leslie E. Goodman	Chairman
/s/ Patrick L. Ryan Patrick L. Ryan	Director, Principal Executive Officer
/s/ Stephen F. Carman Stephen F. Carman	Principal Financial and Accounting Officer
/s/ Patrick M. Ryan Patrick M. Ryan	Vice Chairman
/s/ Paul E. Fitzgerald Paul E. Fitzgerald	Vice Chairman
/s/ Elbert G. Basolis, Jr. Elbert G. Basolis, Jr.	Director
/s/ David H. Gibbons David H. Gibbons	Director
/s/ Peter D. Halstead Peter D. Halstead	Director
/s/ Maria K. Jinks, D.C. Maria K. Jinks, D.C.	Director
/s/ Glenn M. Josephs Glenn M. Josephs	Director
/s/ Peter Kenny Peter Kenny	Director
/s/ Samuel D. Marrazzo Samuel D. Marrazzo	Director
/s/ Raymond Nisivoccia Raymond Nisivoccia	Director
/s/ John E. Strydesky John E. Strydesky	Director

The Board of Directors

BACK ROW From left to right: Samuel D. Marrazzo, Glenn M. Josephs, Patrick L. Ryan, Elbert G. Basolis Jr., Peter D. Halstead, John E. Strydesky.

FRONT ROW From left to right: Patrick M. Ryan, Sidney L. Hofing (1935-2013), Leslie E. Goodman, Maria K. Jinks, David H. Gibbons, Paul E. Fitzgerald.

NOT SHOWN Peter Kenny and Raymond Nisivoccia *(added to Board of Directors on March 7, 2014)*

First Bank Officers

President & CEO
Patrick L. Ryan

Executive Vice Presidents
Peter J. Cahill
Chief Lending Officer

Stephen F. Carman
Treasurer / Chief Financial Officer

Paul E. Fitzgerald
Northern Region Market President

Peter Kenny*
District President

Ryan Manville
Chief Operating Officer

First Senior Vice Presidents
Susan M. Paglione
Senior Business Development Officer

Marian Sorrentino
Bank Secrecy Act and Security Officer

Senior Vice Presidents
Edward Mahnken, Jr.*
Financial Reporting

John P. Samborski
Commercial Lending-Relationship Manager

Anthony Santoro
Commercial Lending-Relationship Manager

Alexis A. Schoerner*
Regional Branch Manager

Vice Presidents
Russell Benson*
Commercial Lending-Relationship Manager

Joseph F. Browarski
Commercial Lending-Relationship Manager

Elizabeth F. Camishion
IT Support Specialist

Kimberly Cerasi
Human Resources & Corporate Secretary

Scott W. Civil
Commercial Lending-Relationship Manager

Brian T. Collins
Commercial Lending-Relationship Manager

Michael B. Cook
Commercial Lending-Relationship Manager

Marianne E. DeSimone
Commercial Lending-Relationship Manager

David J. DiStefano
Commercial Lending-Relationship Manager

Nancy C. German
Deposit Operations Officer

Stephen J. Mauger
Controller

Jamie Payne Ruggiero*
Commercial Lending-Relationship Manager

Lynne S. Mauro
Legal & Compliance Officer

Gregorio Perri, Jr.
Consumer Lending Manager

John C. Pettit
Branch Manager / BDO

Frank P. Puleio
Business Development Officer

Katherine M. Rowley
Branch Manager

Assistant Vice Presidents
Kristin Bachik
Branch Manager

Kimberly Dargay
Branch Manager

Christopher M. Kelly
Commerical Lending-Relationship Manager

Carol Monaghan
Branch Manager

Kathryn Rosa*
Compliance Specialist

Sandra Ryan*
Branch Manager

Stacy L. Schwartz
Deposit Operations Analyst

Sharon Unger
Assistant Branch Manager/IRA Specialist

Temicka Wiggins*
Commercial Lending-Relationship Manager

Assistant Treasurers
Sharon E. Bokma
Assistant Branch Manager

Michael P. Cahill
Business Banker

Brent J. Gardner*
Consumer Loan Officer

Kathleen M. Kirkham
Assistant Branch Manager

Cristina Oliveira*
Executive Administrator

Traci L. Sundberg
Assistant Branch Manager

* *Previously with Heritage Community Bank*

Shareholder Information

CORPORATE HEADQUARTERS

First Bank
2465 Kuser Road
Hamilton, NJ 08690
(609) 643-4211
www.firstbanknj.com

ANNUAL SHAREHOLDERS' MEETING

The Annual Shareholders' Meeting will be held at 10:00 a.m. on Tuesday, April 29, 2014 at:
The Stone Terrace
2275 Kuser Road,
Hamilton, New Jersey 08690

INVESTOR RELATIONS

Shareholders seeking information about us may obtain press releases and government filings by visiting www.firstbanknj.com.
Additional inquiries can be directed to:
Chief Financial Officer
2465 Kuser Road
Hamilton, New Jersey 08690
or by calling (609) 643-0136.

SHAREHOLDER ACCOUNT INQUIRIES

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

STOCK REGISTRAR AND TRANSFER AGENT

Registrar and Transfer Company
10 Commerce Drive
Cranford, NJ 07016-3572
(800) 368-5948
Email access is available through Registrar and Transfer Company's web page at www.rtco.com
You may also apply to access your account information online.

STOCK LISTING

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

First Bank Office Locations

Administrative Offices

2465 Kuser Road, Hamilton, NJ 08690
609.643.4211

Ewing

1340 Parkway Avenue
Ewing, NJ 08628
609.643.0470

Hamilton

2465 Kuser Road
Hamilton, NJ 08690
609.528.4400

Lawrence

590 Lawrence Square Blvd. South
Lawrence, NJ 08648
609.587.3111

Somerset

225 DeMott Lane
Somerset, NJ 08873
732.649.1999

Williamstown

1020 North Black Horse Pike
Williamstown, NJ 08094
856.728.3400

PREVIOUS HERITAGE COMMUNITY BANK BRANCHES

Main Office

1206 Sussex Turnpike
Randolph, NJ 07869
973.895.5800

Route 10

419 Route 10 East
Randolph, NJ 07869
973.384.9041

Denville

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

FIRSTBANK

WELCOME HOME.