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2017 ANNUAL REPORT

1st Colonial Bancorp, Inc.

1st Colonial Bancorp, Inc.

April 2, 2018

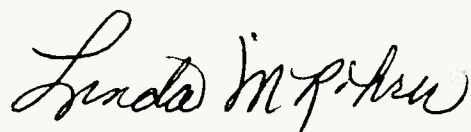
Dear Fellow Shareholders,

The Directors and Officers of 1st Colonial Bancorp are proud to report to you the results of our 2017 performance. It was our largest annual net income since the Bank was chartered in 2000. Contributing to our historic year was a \$42 million increase in average loan balances, which caused a 13% increase in net interest income in 2017. Other significant increases can be readily observed by your study of our annual report, most notably deposit growth.

We are committed to refreshing our core of seasoned professionals in order to continue our success, by recruiting individuals who can aid us in our prudent growth. Of highest importance is an adherence to competitive ethical standards, which of late we have found denigrating in some of our competition.

We are hopeful that with our shareholders continued cooperation in referring to us qualified business, and with our officers' steady calling program, a successful 2018 will result.

Sincerely,



Linda M. Rohrer
Chairman of the Board



Gerard M. Banmiller
President and Chief Executive Officer

1ST COLONIAL BANCORP, INC. AND SUBSIDIARY

Consolidated Financial Statements

December 31, 2017 and 2016

(With Independent Auditors' Report Thereon)



KPMG LLP
1601 Market Street
Philadelphia, PA 19103-2499

Independent Auditors' Report

The Board of Directors
1st Colonial Bancorp, Inc.:

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of 1st Colonial Bancorp, Inc. and its subsidiary, which comprise the consolidated statements of financial condition as of December 31, 2017 and 2016, and the related consolidated statements of operations, comprehensive income, shareholders' equity, and cash flows for the years then ended and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of 1st Colonial Bancorp, Inc. and its subsidiary as of December 31, 2017 and 2016, and the results of their operations and their cash flows for each of the years then ended in accordance with U.S. generally accepted accounting principles.

KPMG LLP

Philadelphia, Pennsylvania
March 30, 2018

1ST COLONIAL BANCORP, INC. AND SUBSIDIARY
Consolidated Statements of Financial Condition

	December 31, 2017	December 31, 2016
Assets	(Dollars in thousands, except share data)	
Cash and due from banks	\$ 28,368	\$ 4,815
Federal funds sold	27	150
Total cash and cash equivalents	28,395	4,965
Investments held to maturity (fair value of \$46,654 at December 31, 2017 and \$36,934 at December 31, 2016)	46,654	36,934
Securities available for sale ("AFS") (amortized cost of \$71,897 at December 31, 2017 and \$77,601 at December 31, 2016)	71,893	77,906
Bank stock, at cost	1,936	2,096
Mortgage loans held for sale	7,169	7,264
Loans	376,514	351,997
Less allowance for loan losses	(4,858)	(4,739)
Net loans	371,656	347,258
Premises and equipment, net	864	1,399
Accrued interest receivable	1,505	1,253
Deferred tax assets	692	892
Bank-owned life insurance	8,434	6,697
Other real estate owned ("OREO")	244	131
Other assets	689	1,025
Total assets	\$ 540,131	\$ 487,820
Liabilities and Shareholders' Equity		
Liabilities:		
Deposits	\$ 496,847	\$ 446,404
Other borrowings	3,166	5,575
Accrued interest payable	100	32
Other liabilities	1,608	1,709
Total liabilities	501,721	453,720
Shareholders' equity:		
Common stock, \$0 par value. Authorized 10,000,000 shares; issued 4,270,113 and 4,212,043 shares as of December 31, 2017 and 2016, respectively, and outstanding of 4,132,237 and 4,074,167 shares at December 31, 2017 and 2016, respectively	-	-
Preferred stock. Authorized 1,000,000 shares, no shares issued	-	-
Additional paid-in capital	30,898	28,281
Retained earnings	8,361	6,483
Accumulated other comprehensive (loss) income	(1)	184
Treasury stock at cost, 137,876 shares	(848)	(848)
Total shareholders' equity	38,410	34,100
Total liabilities and shareholders' equity	\$ 540,131	\$ 487,820

See accompanying notes to consolidated financial statements.

1ST COLONIAL BANCORP, INC. AND SUBSIDIARY

Consolidated Statements of Operations
For the years ended December 31,

(Dollars in thousands, except share data)

	<u>2017</u>	<u>2016</u>
Interest income:		
Loans	\$ 17,776	\$ 15,284
Federal funds sold and interest-bearing deposits	216	103
Investments:		
Taxable	1,152	1,306
Nontaxable	419	309
Total interest income	<u>19,563</u>	<u>17,002</u>
Interest expense:		
Deposits	2,541	1,924
Other borrowings	17	26
Total interest expense	<u>2,558</u>	<u>1,950</u>
Net interest income	17,005	15,052
Provision for loan losses	852	975
Net interest income after provision for loan losses	<u>16,153</u>	<u>14,077</u>
Other income:		
Gain on sales of mortgage loans held for sale	2,490	2,855
Other income and fees	445	405
Gain on sale of guaranteed portion of SBA loans	397	108
Increase in cash value of bank-owned life insurance	237	194
Service charges on deposit accounts	127	135
Mortgage fee income	121	209
Gain on sale of securities	25	-
Total other income	<u>3,842</u>	<u>3,906</u>
Other expenses:		
Compensation and employee benefits	7,317	6,821
Data processing expense	1,116	751
Professional services	1,002	617
Occupancy and equipment expenses	784	975
Advertising expense	563	611
FDIC assessments	460	395
Loss on real estate owned	66	155
Other operating expenses	1,854	1,825
Total other expenses	<u>13,162</u>	<u>12,150</u>
Income before income tax expense	6,833	5,833
Income tax expense	2,790	2,172
Net income	<u>\$ 4,043</u>	<u>\$ 3,661</u>
Earnings per share:		
Basic earnings per share	\$ 0.98	\$ 0.91
Diluted earnings per share	\$ 0.94	\$ 0.85
Weighted average number of shares outstanding:		
Basic earnings per share	4,119,458	4,022,543
Diluted earnings per share	4,300,243	4,292,897

See accompanying notes to consolidated financial statements.

1ST COLONIAL BANCORP, INC. AND SUBSIDIARY

Consolidated Statements of Comprehensive Income

	For the years ended December 31,					
	2017			2016		
	Before tax amount	Tax expense (benefit)	Net of tax amount	Before tax amount	Tax expense (benefit)	Net of tax amount
(In thousands)						
Net income	\$ 6,833	\$ 2,790	\$ 4,043	\$ 5,833	\$ 2,172	\$ 3,661
Other comprehensive income:						
Net unrealized (losses) gains on AFS investment securities:						
Net unrealized holding (losses) gains arising during the period	(334)	(135)	(199)	315	123	192
Less reclassification adjustment for net (gains) losses on sales realized in net income	(25)	(11)	(14)	-	-	-
Total net unrealized (losses) gains on AFS investment securities	(309)	(124)	(185)	315	123	192
Other comprehensive income	(309)	(124)	(185)	315	123	192
Total comprehensive income	\$ 6,524	\$ 2,666	\$ 3,858	\$ 6,148	\$ 2,295	\$ 3,853

See accompanying notes to consolidated financial statements.

1ST COLONIAL BANCORP, INC. AND SUBSIDIARY

Consolidated Statements of Changes in Shareholders' Equity
For the years ended December 31, 2017 and 2016

(In thousands)	Common stock	Preferred stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income (loss)	Treasury stock	Total shareholders' equity
Balance at December 31, 2015	\$ -	\$ -	\$ 26,735	\$ 4,207	\$ (8)	\$ (848)	\$ 30,086
Stock dividend			1,385	(1,385)			-
Stock issued			38				38
Stock issuance expenses			(5)				(5)
Net unrealized gain on securities available for sale, net of tax					192		192
Stock-based compensation			128				128
Net income				3,661			3,661
Balance at December 31, 2016	\$ -	\$ -	\$ 28,281	\$ 6,483	\$ 184	\$ (848)	\$ 34,100
Stock dividend			2,165	(2,165)			-
Stock issued			256				256
Stock issuance expenses			(2)				(2)
Purchase of treasury stock							-
Net unrealized loss on securities available for sale, net of tax					(185)		(185)
Stock-based compensation			198				198
Net income				4,043			4,043
Balance at December 31, 2017	\$ -	\$ -	\$ 30,898	\$ 8,361	\$ (1)	\$ (848)	\$ 38,410

See accompanying notes to consolidated financial statements.

1ST COLONIAL BANCORP, INC. AND SUBSIDIARY

Consolidated Statements of Cash Flows
For the years ended December 31, 2017 and 2016

(In thousands)	<u>2017</u>	<u>2016</u>
Cash flows from operating activities:		
Net income	\$ 4,043	\$ 3,661
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation and amortization	207	199
Net amortization of premium on securities	458	738
Net (accretion) amortization of deferred fees and costs on loans	(382)	122
Stock-based compensation expense	198	128
Gain on sale of investment securities	(25)	-
Gain on sales of mortgage loans held for sale	(2,490)	(2,855)
Gain on sales of guaranteed portion of SBA loans	(397)	(108)
Provision for loan losses	852	975
Cash disbursed for mortgage banking activities	(88,554)	(103,189)
Cash received for mortgage banking activities	91,139	104,239
Impairment charge on OREO	73	-
(Gains) losses on OREO	(7)	155
Net gains on sales of premises and equipment	(29)	-
Increase in cash value of bank-owned life insurance, net	(237)	(194)
Decrease (increase) deferred income tax benefit	322	(50)
Changes in assets and liabilities:		
Increase in accrued interest receivable	(252)	(56)
Decrease (increase) in other assets	337	(105)
Increase in accrued interest payable	68	22
(Decrease) increase in other liabilities	(101)	113
Total adjustments	<u>1,180</u>	<u>134</u>
Net cash provided by operating activities	<u>5,223</u>	<u>3,795</u>
Cash flows from investing activities:		
Proceeds from maturities and calls of AFS investment securities	1,135	5,200
Proceeds from sales of AFS investment securities	377	-
Proceeds from principal repayment of AFS investment securities	18,783	21,785
Proceeds from maturities of securities held to maturity	38,010	47,877
Purchases of securities available for sale	(15,023)	-
Purchases of securities held to maturity	(47,730)	(47,195)
Redemption (purchase) of Federal Home Loan Bank stock	160	(176)
Proceeds from sale of real estate owned	166	839
Increase in loans receivable, net	(24,816)	(53,799)
Capital expenditures	(230)	(360)
Proceeds from the sale of premises and equipment	587	-
Purchase of life insurance policies	(1,500)	-
Net cash used in investing activities	<u>(30,081)</u>	<u>(25,829)</u>
Cash flows from financing activities:		
Net increase in deposits	50,443	18,108
Net (decrease) increase in short-term borrowings	(2,409)	2,339
Proceeds from exercise of stock options	256	38
Stock issuance costs	(2)	(5)
Net cash provided by financing activities	<u>48,288</u>	<u>20,480</u>
Net increase (decrease) in cash and cash equivalents	23,430	(1,554)
Cash and cash equivalents at beginning of year	<u>4,965</u>	<u>6,519</u>
Cash and cash equivalents at end of year	<u>\$ 28,395</u>	<u>\$ 4,965</u>
Supplemental disclosures:		
Cash paid during the year for:		
Interest	\$ 2,490	\$ 1,903
Income taxes paid	2,630	2,237
Noncash items:		
Net change in unrealized (loss) gain on securities available for sale, net of taxes of \$(124) and \$123 for 2017 and 2016, respectively	\$ (185)	\$ 192
Transfer to real estate owned	345	268

See accompanying notes to the consolidated financial statements.

1ST COLONIAL BANCORP, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

Note 1. Nature of Operations

1st Colonial Bancorp, Inc. (the “Company”, “We” or “Our”) is a Pennsylvania corporation headquartered in Collingswood, New Jersey, and the parent company of 1st Colonial Community Bank (the “Bank”). The Bank opened for business on June 30, 2000, and provides a wide range of business and consumer financial services through its two New Jersey branch offices located in Collingswood and Westville.

The Company was organized as the holding company for the Bank, in connection with the reorganization approved by the Bank’s shareholders at the annual meeting on June 12, 2002. As a bank holding company registered under the Bank Holding Company Act of 1956, the Company is subject to the supervision and regulation of the Board of Governors of the Federal Reserve System (the “FRB”). The Bank was a national bank until November 1, 2012 when it was granted a state charter by the New Jersey Department of Banking and Insurance. The Bank’s deposits are insured by the Federal Deposit Insurance Corporation (“FDIC”). The Company’s operations and those of the Bank are subject to supervision and regulation by FRB, the FDIC, and the New Jersey Department of Banking and Insurance. The principal activity of the Bank is to provide its local communities with general commercial and retail banking services. The Bank is managed as one business segment.

Note 2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying consolidated financial statements include the accounts of the parent company, 1st Colonial Bancorp, Inc. and its wholly owned subsidiary, 1st Colonial Community Bank. Prior period amounts have been reclassified, where necessary, to conform to current year classification.

Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management 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 consolidated financial statements and the reported amounts of income and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents include cash and amounts due from banks and federal funds sold. Generally, federal funds sold are repurchased the following day.

Investments Held to Maturity

Debt securities that management has the positive intent and ability to hold until maturity are classified as held to maturity and are carried at their remaining unpaid principal balance, net of unamortized premiums or unaccreted discounts. Premiums are amortized and discounts are accreted using a method that produces results that approximate level yield over the estimated remaining term of the underlying security.

Securities Available for Sale

Securities not classified as held to maturity are classified as available-for-sale and are stated at fair value. Unrealized gains and losses are excluded from earnings and are reported as accumulated other comprehensive (loss) income, net of tax, as a separate component of shareholders’ equity, until realized. Gains and losses are determined using the specific-identification method and are accounted for on a trade-date basis.

Bank Stock

The Bank carries its investments in Atlantic Community Bankers Bank (“ACBB”) stock and Federal Home Loan Bank (“FHLB”) stock at their amortized cost because they do not have a readily determinable fair value. These investments are included in bank stock in the consolidated statements of financial condition.

The Bank is required to maintain an investment in ACBB stock. The Bank had \$40 thousand in ACBB stock at December 31, 2017 and 2016, respectively.

1ST COLONIAL BANCORP, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

The Bank is required to acquire and hold shares of capital stock in the FHLB based upon a percentage of the Bank's FHLB borrowings, unused borrowing capacity, and the amount of residential first mortgage loans sold to the FHLB. The Bank had \$1.9 million and \$2.1 million in FHLB stock at December 31, 2017 and 2016, respectively. The Bank carries its investment in FHLB stock at cost, or par value, and evaluates FHLB stock for impairment based on the ultimate recoverability of par value rather than by recognizing temporary declines in value. As part of the impairment assessment of FHLB stock, management considers, among other things, (i) the significance and length of time any declines in net assets of the FHLB compared to its capital stock, (ii) commitments by the FHLB to make payments required by law or regulations and the level of such payments in relation to its operating performance; (iii) the impact of legislative and regulatory changes on financial institutions and, accordingly, the customer base of the FHLB; and (iv) the liquidity position of the FHLB. The FHLB has access to the U.S. government-Sponsored Enterprise Credit Facility, a secured lending facility that serves as a liquidity backstop, substantially reducing the likelihood that the FHLB would need to sell securities to raise liquidity and, thereby, cause the realization of large economic losses. The FHLB is rated AAA and is likely to remain unchanged based on expectations that the FHLB has a very high degree of government support and was in compliance with all regulatory capital requirements as of December 31, 2017. Based on the above, we have determined there was no other-than-temporary impairment related to our FHLB stock investment as of December 31, 2017.

Mortgage Loans Held for Sale

The Bank originates and sells residential mortgage loans servicing released to the secondary market. This activity enables the Bank to fulfill the credit needs of the community while reducing its overall exposure to interest rate and credit risk. These loans are reported at the lower of their cost or fair market value.

Loans

Loans are stated at the principal amount outstanding, net of deferred loan fees and costs. Interest income is accrued on the principal amount outstanding. Loan origination fees and related direct costs are deferred and amortized to interest income over the term of the respective loan as a yield adjustment.

Loans are reported as non-accrual if they are past due as to principal or interest payments for a period of 90 days or more. Exceptions may be made if a loan is deemed by management to be well collateralized and in the process of collection. Loans that are on a current payment status may also be classified as non-accrual if there is serious doubt as to the borrower's ability to continue interest or principal payments. When a loan is placed on non-accrual all unpaid interest is reversed from interest income. Interest payments received on impaired nonaccrual loans are normally applied against principal. Excess proceeds received over the principal amounts due on impaired non-accrual loans are recognized as income on a cash basis. We recognize income under the accrual basis when the principal payments on the loans become current and the collateral on the loan is sufficient to cover the outstanding obligation to the Company. If these factors do not exist, we do not recognize income. Generally, loans are restored to accrual status when the loan is brought current, has performed in accordance with the contractual terms for a reasonable period of time (generally six months) and the ultimate collectibility of the total contractual principal and interest is no longer in doubt. The past due status of all classes of loans receivable is determined based on contractual due dates for loan payments.

Impaired loans are measured based on the present value of expected future discounted cash flows, the market price of the loan, or the fair value of the underlying collateral if the loan is collateral dependent. For purposes of applying the measurement criteria for impaired loans, the Bank excludes large groups of smaller-balance homogeneous loans, primarily consisting of residential real estate and consumer loans, as well as commercial loans with balances of less than \$100,000. The recognition of interest income on impaired loans is the same as for non-accrual loans discussed above.

A loan modification is deemed a troubled debt restructuring ("TDR") when two conditions are met: 1) the borrower is experiencing financial difficulty and 2) a concession is made by us that would not otherwise be considered for a borrower with similar credit risk characteristics. All loans classified as TDRs are considered to be impaired. TDRs are returned to an accrual status when the loan is brought current, has performed in accordance with the contractual restructured terms for a reasonable period of time (generally six months) and the ultimate collectibility of the total contractual restructured principal and interest is no longer in doubt. Our policy for TDRs is to recognize interest income on currently performing restructured loans under the accrual method.