Section 1: 10-Q (10-Q)

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D. C. 20549
____

FORM 10-Q

(Mark One)

[X] **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended March 31, 2019

[ ] **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from ___________to ________

Commission File Number 0-29030

SB ONE BANCORP

(Exact name of registrant as specified in its charter)

New Jersey	**22-3475473**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
100 Enterprise Drive, Suite 700, Rockaway, NJ	**07866**
(Address of principal executive offices)	(Zip Code)

(844) 256-7328
(Registrant’s telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically every interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).
Yes ☒ No ☐

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

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

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

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

Securities registered pursuant to Section 12(b) of the Act:

Title of Class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, no par value	SBBX	The NASDAQ Stock Market LLC

As of May 2, 2019 there were 9,475,378 shares of common stock, no par value, outstanding.

SB ONE BANCORP
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FORWARD-LOOKING STATEMENTS

We may, from time to time, make written or oral “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995, including statements contained in our filings with the Securities and Exchange Commission (the “SEC”), our reports to shareholders and in other communications by us. This Quarterly Report on Form 10-Q contains “forward-looking statements” which may be identified by the use of such words as “believe,” “project,” “expect,” “anticipate,” “should,” “may,” “will,” “intend,” “planned,” “estimated,” “potential” or similar expressions. Examples of forward-looking statements include, but are not limited to, estimates with respect to our financial condition, results of operation and business that are subject to various factors which could cause actual results to differ materially from these estimates. These factors include, but are not limited to:

- changes in the interest rate environment that reduce margins;
- changes in the regulatory environment;
- the highly competitive industry and market area in which we operate;
- general economic conditions, either nationally or regionally, resulting in, among other things, a deterioration in credit quality;
- changes in business conditions and inflation;
- changes in credit market conditions;
- changes in the securities markets which affect investment management revenues;
- increases in Federal Deposit Insurance Corporation (“FDIC”) deposit insurance premiums and assessments, which could adversely affect our financial condition;
- changes in technology used in the banking business;
- the soundness of other financial services institutions, which may adversely affect our credit risk;
- our controls and procedures may fail or be circumvented;
- new lines of business or new products and services, which may subject us to additional risks;
- changes in key management personnel which may adversely impact our operations;
- the effect on our operations of recent legislative and regulatory initiatives that were or may be enacted in response to the ongoing financial crisis;
- severe weather, natural disasters, acts of war or terrorism and other external events which could significantly impact our business;
- the inability to realize expected cost savings or to implement integration plans and other adverse consequences associated with the acquisition of Community Bank of Bergen County (“Community”);
- the inability to realize expected cost savings or to implement integration plans and other adverse consequences associated with the acquisition of Enterprise Bank, NJ (“Enterprise”); and
- other factors detailed from time to time in our filings with the SEC.

Although we believe that the expectations reflected in such forward-looking statements are reasonable, actual results may differ materially from the results discussed in these forward-looking statements. You are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. We do not undertake any obligation to republish revised forward-looking statements to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

PART I – FINANCIAL INFORMATION

Item 1 – Financial Statements

SB ONE BANCORP
CONSOLIDATED BALANCE SHEETS
(Unaudited)

(Dollars in Thousands)	**March 31, 2019**	**December 31, 2018**
ASSETS		
Cash and due from banks	$ 12,509	$ 11,768
Interest-bearing deposits with other banks	10,494	14,910
Cash and cash equivalents	23,003	26,678
Interest bearing time deposits with other banks	200	200
Securities available for sale, at fair value	192,050	182,139
Securities held to maturity, at amortized cost (fair value of $4,117 and $4,152 at March 31, 2019 and December 31, 2018, respectively)	4,031	4,078
Other Bank Stock, at cost	9,347	11,764
Loans receivable, net of unearned income	1,513,645	1,474,775
Less: allowance for loan losses	9,190	8,775
Net loans receivable	1,504,455	1,466,000
Foreclosed real estate	3,241	4,149
Premises and equipment, net	19,459	19,215
Right-of-use assets, net	2,564	—
Accrued interest receivable	6,589	6,546
Goodwill and intangibles	29,344	29,446
Bank-owned life insurance	36,008	35,778
Other assets	9,838	9,710
Total Assets	$ 1,840,129	$ 1,795,703
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Deposits:		
Non-interest bearing	$ 269,949	$ 259,807
Interest bearing	1,191,375	1,094,132
Total deposits	1,461,324	1,353,939
Short-term borrowings	114,800	175,295
Long-term borrowings	36,708	44,611
Lease liability	2,568	—
Accrued interest payable and other liabilities	7,172	8,555
Subordinated debentures	27,862	27,859
Total Liabilities	1,650,434	1,610,259
Stockholders' Equity:		
Preferred stock, no par value, 1,000,000 shares authorized; none issued	—	—
Common stock, no par value, 10,000,000 shares authorized; 9,470,730 and 9,532,943 shares issued and 9,470,730 and 9,532,943 shares outstanding at March 31, 2019 and December 31, 2018, respectively	150,609	150,419
Treasury stock, at cost; 88,091 shares at March 31, 2019	(1,926)	—
Deferred compensation obligation under Rabbi Trust	1,689	1,647
Retained earnings	40,303	35,192
Accumulated other comprehensive income (loss)	709	(167)
Stock held by Rabbi Trust	(1,689)	(1,647)
Total Stockholders' Equity	189,695	185,444
Total Liabilities and Stockholders' Equity	$ 1,840,129	$ 1,795,703

See Notes to Consolidated Financial Statements

SB ONE BANCORP
CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
(Unaudited)

(Dollars in thousands except per share data)	Three Months Ended March 31, 2019	2018
INTEREST INCOME		
Loans receivable, including fees	$ 18,160	$ 11,900
Securities:		
Taxable	1,175	736
Tax-exempt	448	381
Interest bearing deposits	49	30
Total Interest Income	19,832	13,047
INTEREST EXPENSE		
Deposits	3,864	1,458
Borrowings	1,214	506
Subordinated debentures	315	315
Total Interest Expense	5,393	2,279
Net Interest Income	14,439	10,768
PROVISION FOR LOAN LOSSES	571	508
Net Interest Income after Provision for Loan Losses	13,868	10,260
OTHER INCOME		
Service fees on deposit accounts	330	328
ATM and debit card fees	231	213
Bank-owned life insurance	230	185
Insurance commissions and fees	2,562	1,895
Investment brokerage fees	56	22
Other	224	214
Total Other Income	3,633	2,857
OTHER EXPENSES		
Salaries and employee benefits	6,130	5,058
Occupancy, net	779	602
Data processing	940	791
Furniture and equipment	318	281
Advertising and promotion	132	56
Professional fees	462	329
Director fees	145	147
FDIC assessment	166	110
Insurance	30	95
Stationary and supplies	84	57
Merger-related expenses	—	3,293
Loan collection costs	120	61
Net expenses and write-downs related to foreclosed real estate	65	207
Amortization of intangible assets	102	61
Other	705	446
Total Other Expenses	10,178	11,594
Income before Income Taxes	7,323	1,523
EXPENSE FOR INCOME TAXES	1,500	215
Net Income	5,823	1,308
OTHER COMPREHENSIVE INCOME:		
Unrealized gain (loss) on available for sale securities arising during the period	2,912	(2,167)
Fair value adjustments on derivatives	(1,734)	1,107
Reclassification adjustment for net (gain) on securities transactions included in net income	—	—
Income tax related to items of other comprehensive (loss) income	(302)	277
Other comprehensive income (loss), net of income taxes	876	(783)
Comprehensive income	$ 6,699	$ 525
EARNINGS PER SHARE		
Basic	$ 0.62	$ 0.17
Diluted	$ 0.62	$ 0.17

See Notes to Consolidated Financial Statements

SB ONE BANCORP
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
Three Months Ended March 31, 2019 and 2018
(Unaudited)

(Dollars in Thousands)	Number of Shares Outstanding	Common Stock	Deferred Compensation Obligation Under Rabbi Trust	Retained Earnings	Accumulated Other Comprehensive Income	Stock Held by Rabbi Trust	Treasury Stock	Total Stockholders' Equity
Balance December 31, 2017	6,040,564	$ 65,274	1,399	$ 27,532	$ 1,387	(1,399)	$ —	$ 94,193
Net income	—	—	—	1,308	—	—	—	1,308
Other comprehensive loss	—	—	—	—	(783)	—	—	(783)
Shares issued in merger	1,873,028	51,883	—	—	—	—	—	51,883
Funding of Supplemental Director Retirement Plan	—	—	46			(46)		—
Common stock issued	—	—	—	—	—	—	—	—
Restricted stock granted	20,169	—	—	—	—	—	—	—
Restricted stock forfeited	(4,148)	—	—	—	—	—	—	—
Compensation expense related to stock option and restricted stock grants	—	165	—	—	—	—	—	165
Dividends declared on common stock ($0.06 per share)	—	—	—	(474)	—	—	—	(474)
Balance March 31, 2018	7,929,613	$ 117,322	$ 1,445	$ 28,366	$ 604	$ (1,445)	$ —	$ 146,292
Balance December 31, 2018	9,532,943	$ 150,419	1,647	$ 35,192	$ (167)	(1,647)	$ —	$ 185,444
Net income	—	—	—	5,823	—		—	5,823
Other comprehensive income	—	—	—	—	876	—	—	876
Treasury shares purchased	(88,091)	—	—	—	—		(1,926)	(1,926)
Funding of Supplemental Director Retirement Plan	—	—	42	—	—	(42)	—	—
Restricted stock granted	41,832	—	—	—	—		—	—
Restricted stock forfeited	(15,954)	—	—	—	—	—	—	—
Compensation expense related to stock option and restricted stock grants	—	190	—	—	—		—	190
Dividends declared on common stock ($0.075 per share)	—	—	—	(712)	—		—	(712)
Balance								

March 31, 2019	9,470,730	$	150,609	$	1,689	$	40,303	$	709	$	(1,689)	$	(1,926)	$	189,695

See Notes to Consolidated Financial Statements

SB ONE BANCORP
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

(Dollars in thousands)	Three Months Ended March 31, 2019	Three Months Ended March 31, 2018
Cash Flows from Operating Activities		
Net income	$ 5,823	$ 1,308
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	571	508
Depreciation and amortization	537	454
Net amortization of securities premiums and discounts	501	485
Amortization of subordinated debt issuance costs	3	3
Net realized gain on sale of foreclosed real estate	9	—
Write-downs of and provisions for foreclosed real estate	6	105
Deferred income tax (benefit) expense	(1,534)	488
Earnings on bank-owned life insurance	(230)	(185)
Compensation expense for stock options and stock awards	191	165
(Increase) decrease in assets:		
Accrued interest receivable	(43)	(1,789)
Other assets	1,556	1,081
Decrease in accrued interest payable and other liabilities	(454)	(1,114)
Net Cash Provided by Operating Activities	6,936	1,509
Cash Flows from Investing Activities		
Net cash acquired in acquisition	—	6,651
Securities available for sale:		
Purchases	(9,565)	(79,863)
Sales	—	75,909
Maturities, calls and principal repayments	2,072	1,850
Securities held to maturity:		
Purchases	(200)	(240)
Maturities, calls and principal repayments	239	—
Net increase in loans	(39,026)	(31,674)
Proceeds from the sale of foreclosed real estate	893	—
Purchases of bank premises and equipment	(678)	(64)
Net decrease (increase) in Federal Home Loan Bank stock	2,417	(2,528)
Net Cash Used in Investing Activities	(43,848)	(29,959)
Cash Flows from Financing Activities		
Net increase (decrease) in deposits	107,385	(20,317)
Net (decrease) increase in short-term borrowed funds	(60,495)	57,675
Proceeds from long-term borrowings	46	—
Repayment of long-term borrowings	(7,949)	(5,000)
Purchase of treasury stock	(1,926)	—
Dividends paid	(712)	(474)
Net Cash Provided by Financing Activities	36,349	31,884
Net (decrease) increase in Cash and Cash Equivalents	(563)	3,434
Cash and Cash Equivalents - Beginning	26,678	11,646
Cash and Cash Equivalents - Ending	$ 26,115	$ 15,080
Supplementary Cash Flows Information		
Interest paid	$ 5,252	$ 2,215
Income taxes paid	$ 96	$ 55
Operating Leases		
Operating lease right-of-use asset, net	$ 2,564	$ —
Operating lease liability	$ 2,568	$ —

Supplementary Schedule of Noncash Investing and Financing Activities		
Acquisitions of Community:		
Non-cash assets acquired:		
Other bank stock	—	1,155
Securities available for sale	—	75,909
Loans	—	236,010
Foreclosed real estate	—	1,312
Premises and equipment	—	10,612
Interest receivable	—	824
Bank owned life insurance	—	7,963
Goodwill and intangibles assets	—	23,629
Other assets	—	1,777
Total non-cash assets acquired	—	359,191
Liabilities assumed:		
Deposits	—	(301,157)
Borrowings	—	(12,000)
Other liabilities	—	(844)
Total liabilities assumed	—	(314,001)
Common stock issued for acquisitions	—	(51,883)

See Notes to Consolidated Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACOUNTING POLICIES

Basis of Presentation

The accompanying unaudited consolidated financial statements include the accounts of SB One Bancorp, ("we," "us," "our" or the "Company") and our wholly owned subsidiary SB One Bank (the "Bank"). The Bank's wholly owned subsidiaries are SCB Investment Company, Inc., SCBNY Company, Inc., ClassicLake Enterprises, LLC, GFR Maywood, LLC, PPD Holding Company, LLC, Community Investing Company, Inc., 490 Boulevard Realty Corp., and SB One Insurance Agency Inc. ("SB One Insurance Agency"), a full service insurance agency located in Sussex County, New Jersey with a satellite office located in Bergen County, New Jersey. SB One Insurance Agency's operations are considered a separate segment for financial disclosure purposes. All inter-company transactions and balances have been eliminated in consolidation. The Bank operates seventeen banking offices: seven located in Sussex County, New Jersey, four located in Bergen County, New Jersey, two located in Essex County, New Jersey, one located in Middlesex County, New Jersey, one located in Union County, New Jersey, one located in Warren County, New Jersey, and one located in Queens County, New York.

We are subject to the supervision and regulation of the Board of Governors of the Federal Reserve System (the "FRB"). The Bank's deposits are insured by the Deposit Insurance Fund ("DIF") of the FDIC up to applicable limits. The operations of the Company and the Bank are subject to the supervision and regulation of the FRB, the FDIC and the New Jersey Department of Banking and Insurance (the "Department") and the operations of SB One Insurance Agency are subject to supervision and regulation by the Department.

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information. Accordingly, they do not include all of the information and footnotes required by the accounting principles generally accepted in the United States of America ("U.S. GAAP") for full year financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation have been included and are of a normal, recurring nature. Operating results for the three month period ended March 31, 2019 are not necessarily indicative of the results that may be expected for the year ending December 31, 2019. These unaudited consolidated financial statements should be read in conjunction with the consolidated financial statements and the notes thereto that are included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2018.

New Accounting Standards

In February 2016, FASB issued ASU 2016-02, Leases (Topic 842). Under the new guidance, lessees are required to recognize the following for all leases (with the exception of short-term leases) at the commencement date: (i) a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and (ii) a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. Under the new guidance, lessor accounting is largely unchanged. Public business entities should apply the amendments in ASU 2016-02 for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early application is permitted for all public business entities upon issuance. Lessees (for capital and operating leases) and lessors (for sales-type, direct financing, and operating leases) must apply a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. In July 2018, the FASB issued ASU 2018-10, Codification Improvements to Topic 842, Leases which was issued to clarify and correct untended application of the guidance in ASU 2016-02 (Topic 842). The amendments in this ASU affect aspects of the guidance issued in ASU 2016-02 and provide clarification to related topics, such as 1) Rate implicit in the lease; 2) Reassessment of leases; 3) Transition guidance; and 4) Impairment of net investment in the lease. In July 2018, the FASB also issued ASU 2018-11 Leases (Topic 842) Targeted Improvements, which provides guidance related to comparative reporting requirements for initial adoption and separating lease and non-lease components. Currently, entities are required to adopt the new standard utilizing the modified retrospective approach. This amendment provides entities with an additional transition method which allows entities to initially apply the new leases standard at the adoption date and recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. Currently, ASU 2016-02 provides a practical expedient to lessees to allow them to not separate non-lease components from lease components; however, it does not provide a similar practical expedient to lessors. This amendment provides a practical expedient to lessors which allows them the option to not separate non-lease components from the associated lease components. However, the lessor practical expedient is limited to circumstances in which the non-lease components would otherwise be account for under the new revenue guidance (Topic 606). In addition, both of the following conditions must be met: 1) the timing and pattern of transfer are the same for non-lease components and associated lease components 2) the lease component, if accounted for separately, would be classified as an operating lease. An entity that elects the lessor practical expedient is also required to provide certain disclosures. For entities that early adopted Topic 842 the amendments in these ASUs are effective upon issuance. The Company adopted both ASU No. 2016-02 and ASU No. 2018-11 effective January 1, 2019 and elected to apply the guidance as of the beginning of the period of adoption (January 1, 2019) and not restate comparative periods. The Company also elected certain optional practical expedients, which allow the Company to forego a reassessment of (1) whether any expired or existing contracts are or contain leases, (2) the lease classification for any expired or existing leases, and (3) the initial direct costs for any existing leases. Additionally, the Company elected to adopt the practical expedient use of hindsight to determine right of use asset and lease liability for each lease with a renewal option through their first option date. Adoption of the standard did not result in material changes to the Company's consolidated results of operations. The Company's adoption of the ASU resulted in a right of use asset and lease liability of approximately $2.7 million at January 1, 2019. The impact of the adoption on the Company's operating results was not significant.

In June, 2016, the FASB issued ASU 2016-13, Financial Instruments – Credit Losses (Topic 326), which introduces new guidance for the accounting for credit losses on instruments within its scope. The new guidance introduces an approach based on expected losses to estimate credit losses on certain types of financial instruments. It also modifies the impairment model for available-for-sale (AFS) debt securities and provides for a simplified accounting model for purchased financial assets with credit deterioration since their origination. This ASU will be effective for public business entities that are SEC filers in fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. All other entities will have one additional year. Early application of the guidance will be permitted for all entities for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The Company is currently evaluating the impact of the pending adoption of the new standard on its consolidated financial statements. The Company has determined that a third-party vendor will assist with model development, data governance and operational controls to support the adoption of this ASU. Model implementation, including development and validation, is set to begin in the second quarter of 2019, as is the establishment of the control activities required to support the models.

In January 2017, FASB issued ASU 2017-04, Simplifying the Test for Goodwill Impairment (Topic 350). The main objective of this ASU is to simplify the accounting for goodwill impairment by requiring impairment charges be based upon the first step in the current two-step impairment test under Accounting Standards Codification (ASC) 350. Currently, if the fair value of a reporting unit is lower than its carrying amount (Step 1), an entity calculates any impairment charge by comparing the implied fair value of goodwill with its carrying amount (Step 2). This ASU's objective is to simplify how all entities assess goodwill for impairment by eliminating Step 2 from the goodwill impairment test. As amended, the goodwill impairment test will consist of one step comparing the fair value of a reporting unit with its carrying amount. An entity should recognize a goodwill impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value. The standard will be applied prospectively and is effective for annual and interim impairment tests performed in periods beginning after December 15, 2019. Early adoption is permitted for annual and interim goodwill impairment testing dates after January 1, 2017. The Company is currently evaluating the impact of the pending adoption on its consolidated financial statements.

In March 2017, FASB issued ASU 2017-08, Premium Amortization on Purchased Callable Debt Securities (Subtopic 310-20). The update shortens the amortization period for premiums on purchased callable debt securities to the earliest call date. The amendment will apply only to callable debt securities with explicit, noncontingent call features that are callable at fixed prices and on preset dates, apply to all premiums on callable debt securities, regardless of how they were generated, and require companies to reset the effective yield using the payment terms of the debt security if the call option is not exercised on the earliest call date. The ASU does not require an accounting change for securities held at a discount. The discount continues to be amortized to maturity and does not apply when the investor has already incorporated prepayments into the calculation of its effective yield under other GAAP. The amendments in the ASU are effective for public business entities for fiscal years beginning after December 15, 2018, including interim periods within those years. Early adoption is permitted, including adoption in an interim period. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. The Company's adoption of the ASU did not have a significant impact on the Company's consolidated financial statements.

In August 2017, FASB issued ASU 2017-12 Derivatives and Hedging (Topic 815). The objective of the ASU is to improve the financial reporting of hedging relationships to better portray the economic results of an entity's risk management activities in its financial statements and to make improvements to simplify the application of hedge accounting guidance in current GAAP. The amendments in the ASU will, among other things, 1) permit hedge accounting for risk components in hedging relationships involving nonfinancial risk and interest rate risks; 2) change the guidance for designating fair value hedges of interest rate risk and for measuring the change in fair value of the hedged item in fair value hedges of interest rate risk; 3) modify disclosures to include a tabular disclosure related to the effect on the income statement of fair value and cash flow hedges; and 4) eliminate the requirement to disclose the ineffective portion of the change in fair value of hedging instruments. These changes will more closely align the results of cash flow and fair value hedge accounting with risk management activities and the presentation of hedge results in the financial statements. ASU 2017-12 will be effective for public business entities for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. For all other entities, the ASU will be effective for fiscal years beginning after December 15, 2019 and interim periods within fiscal years beginning after December 15, 2020. Early application is permitted in any interim period after issuance of the update with all transition requirements and elections being applied to hedging relationships existing on the date of adoption. The Company's adoption of the ASU will not have a significant impact on the Company's consolidated financial statements.

In June 2018, FASB issued ASU 2018-07 Compensation - Stock Compensation (Topic 718). The main objective of this ASU is to simplify the accounting for share-based payment transactions in current GAAP by expanding the scope to include nonemployee share-based payment transactions. This ASU will apply to all share-based payment transactions in which a grantor acquires goods or services to be used in their own operations by issuing share-based payments. This ASU does not apply to share-based payments used to provide financing to the issuer or awards issued in conjunction with selling goods or services to customers as part of a contract accounted for under Topic 606, Revenue from Contracts with Customers. The amendments in the ASU will require an entity to, among other things, 1) measure nonemployee share-based payment awards at the fair value of the equity instruments that an entity is obligated to issue when the good has been delivered or the service has been rendered; 2) measure equity classified nonemployee share-based payment awards at the grant date; and 3) take into consideration the probability of satisfying performance conditions when accounting for nonemployee share-based payment awards with such conditions. ASU 2018-07 will be effective for public business entities for fiscal years beginning after December 15, 2018, including interim periods within that fiscal year. Early adoption is permitted; however, an entity’s adoption date shall not be earlier than the entity’s adoption date of Topic 606. Per review of the ASU, the Company determined that it does not pertain to its current operations; therefore, no evaluation regarding adoption is required.

In August 2018, FASB issued ASU 2018-13, Fair Value Measurement (Topic 820): Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement. The updates in this ASU are part of the disclosure framework project and modify the disclosure requirements on fair value measurements in Topic 820, Fair Value Measurement. The modifications include removal, modification, and removal of disclosure requirements. The ASU removed the following disclosure requirements: a) The amount of and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy, b) The policy for timing of transfers between levels, c) The valuation process for Level 3 fair value measurements, c) For nonpublic entities, the changes in unrealized gains and losses for the period included in earnings for recurring Level 3 fair value measurements held at the end of the reporting period. The ASU added the following disclosure requirements: a) the changes in unrealized gains and losses for the period included in other comprehensive income for recurring Level 3 fair value measurements held at the end of the reporting period; b) the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements. For certain unobservable inputs, an entity may disclose other quantitative information (such as the median or arithmetic average) in lieu of the weighted average if the entity determines that other quantitative information would be a more reasonable and rational method to reflect the distribution of unobservable inputs used to develop Level 3 fair value measurements. The ASU also modified the following disclosure requirements: a) in lieu of a rollforward for Level 3 fair value measurements, a nonpublic entity is required to disclose transfers into and out of Level 3 of the fair value hierarchy and purchases and issues of Level 3 assets and liabilities; b) for investments in certain entities that calculate net asset value, an entity is required to disclose the timing of liquidation of an investee's assets and the date when restrictions from redemption might lapse only if the investee has communicated the timing to the entity or announced the timing publicly; and c) clarifies that the measurement uncertainty disclosure is to communicate information about the uncertainty in measurement as of the reporting date. ASU 2018-13 will be effective for public business entities for fiscal years and interim periods within those years beginning after December 15, 2019. The Company is currently evaluating the impact of the pending adoption on its consolidated financial statements.

In August 2018, FASB issued ASU 2018-14, Compensation-Retirement Benefits-Defined Benefit Plans - General (Topic 715-20): Disclosure Framework - Changes to the Disclosure Requirements for Defined Benefit Plans, which modifies the disclosure requirements for employers that sponsor defined benefit pension or other postretirement plans. The updates in this ASU are part of the disclosure framework project ASU 2018-14 and modify the disclosure requirements under ASC 715-201 for employers that sponsor defined benefit pension or other postretirement plans. Those modifications include the removal, addition, and of disclosure requirements as well as clarifying specific disclosure requirements. The ASU removed the following disclosures: a) the amounts in accumulated other comprehensive income expected to be recognized as components of net periodic benefit cost over the next fiscal year; b) the amount and timing of plan assets expected to be returned to the employer; c) the disclosures related to the June 2001 amendments to the Japanese Welfare Pension Insurance Law; d) related party disclosures about the amount of future annual benefits covered by insurance and annuity contracts and significant transactions between the employer or related parties and the plan; e) for nonpublic entities, the reconciliation of the opening balances to the closing balances of plan assets measured on a recurring basis in Level 3 of the fair value hierarchy; however, nonpublic entities will be required to disclose separately the amounts of transfers into and out of Level 3 of the fair value hierarchy and purchases of Level 3 plan assets and f) for public entities, the effects of a one-percentage-point change in assumed health care cost trend rates on the (i) aggregate of the service and interest cost components of net periodic benefit costs and (ii) benefit obligation for postretirement health care benefits. The ASU added the following disclosures: x) the weighted-average interest crediting rates for cash balance plans and other plans with promised interest crediting rates and y) an explanation of the reasons for significant gains and losses related to changes in the benefit obligation for the period. The ASU then clarified the following disclosures: 1) the projected benefit obligation (PBO) and fair value of plan assets for plans with PBOs more than plan assets; and 2) the accumulated benefit obligation (ABO) and fair value of plan assets for plans with ABOs more than plan assets. ASU 2018-14 will be effective for public business entities for fiscal years ending after December 15, 2020. The Company is currently evaluating the impact of the pending adoption on its consolidated financial statements.

In October 2018, the FASB issued ASU 2018-16, Derivatives and Hedging (Topic 815)-Inclusion of the Secured Overnight Financing Rate (SOFR) Overnight Index Swap (OIS) Rate as a Benchmark Interest Rate for Hedge Accounting Purposes. The ASU permits the use of the Overnight Index Swap (OIS) Rate based on the Secured Overnight Financing Rate (SOFR) as a U.S. benchmark interest rate for hedge accounting purposes. ASU 2018-16 is effective for fiscal years beginning after December 15, 2018, with early adoption permitted. Early adoption is permitted in any interim period upon issuance of this ASU if an entity already has adopted ASU 2017-12. The amendments in this update should be applied prospectively for qualifying new or redesignated hedging relationships entered into on or after the date of adoption. The Company's adoption of the ASU did not have a significant impact on the Company's consolidated financial statements.

NOTE 2 – ACQUISITIONS

On January 4, 2018 the Company announced the successful closing of the merger with Community Bank of Bergen County, NJ, a New Jersey-chartered bank (“Community”) in an all-stock transaction (the “Community Merger”). The Community Merger enhanced and expanded SB One Bank’s presence in Bergen County, New Jersey with the addition of 3 full service branch locations in that county, which complements SB One Bank’s existing location in Oradell, New Jersey. Under the terms of the agreement, Community merged with and into SB One Bank, with SB One Bank being the surviving entity and each outstanding share of Community common stock was exchanged for 0.97 shares of the Company's common stock. The Company issued 1,873,028 shares of its common stock, having an aggregate fair value of $51.9 million in the Community Merger and paid approximately $2 thousand in cash for fractional shares. Outstanding Community stock options were paid out in cash by the Company for a total payment of $140 thousand. Expenses related to the Community merger totaled $4.0 million and $1.2 million for the years ended December 31 2018 and 2017, respectively.

On December 21, 2018, the Company announced the successful completion of the merger with Enterprise Bank N.J. (“Enterprise”) in an all-stock transaction (the "Enterprise Merger"). The Enterprise Merger is expected to enhance and expand the Company's presence in Union, Middlesex and Essex Counties, New Jersey with the addition of 4 full service branch locations in those counties. Pursuant to the terms of the merger agreement, Enterprise merged with and into SB One Bank and each outstanding share of Enterprise common stock was exchanged for 0.4538 shares of the Company’s common stock. The Company issued 1,573,454 shares of its common stock, having an aggregate fair value of $32.4 million and paid approximately $1 thousand in cash for fractional shares. Outstanding Enterprise stock options were paid out in cash by the Company for a total payment of $1.6 million. Expenses related to the Enterprise merger totaled $1.8 million for the year ended December 31, 2018.

Community

The Community acquisition was accounted for under the acquisition method of accounting. Accordingly, the assets acquired and liabilities assumed in the acquisition were recorded at their estimated fair values based on management's best estimate using information available at the date of the acquisition, including the use of a third party valuation specialist. The following table summarized the estimated fair value of the acquired assets and liabilities assumed at the date of acquisition for Community.

(Dollars in thousands)		January 4, 2018
Cash and cash equivalents	$	6,693
Interest bearing time deposits with other banks		100
Securities available for sale		75,909
Other bank stock		1,155
Loans		236,010
Foreclosed real estate		1,312
Premises and equipment, net		10,612
Accrued interest receivable		824
Goodwill (banking segment)		22,298
Intangibles assets		1,331
Bank-owned life insurance		7,963
Other assets		1,677
Total Assets	$	365,884
Deposits	$	(301,157)
Borrowings		(12,000)
Other liabilities		(844)
Total Liabilities	$	(314,001)
Net consideration paid - common shares issued	$	51,883

The fair values of deposit liabilities with no stated maturities such as checking, money market and savings accounts, were assumed to equal the carrying amounts since these deposits are payable on demand. The fair values of certificates of deposits and IRAs represent the present value of contractual cash flows discounted at market rates for similar certificates of deposit.

The Company has finalized the accounting as a result of the merger with Community.

Fair values of the major categories of assets acquired and liabilities assumed were determined as follows:

Investment securities available-for-sale

The estimated fair values of the investment securities available for sale, primarily comprised of U.S. Government agency mortgage-backed securities, U.S. government agencies and municipal bonds, were determined using open market pricing provided by multiple independent securities brokers. Management reviewed the open market quotes used in pricing the securities. A fair value discount of $261 thousand was recorded on the investments.

Loans

Loans acquired in the Community acquisition were recorded at fair value, and there was no carryover related allowance for loan and lease losses. The fair values of loans acquired from Community were estimated using cash flow projections based on the remaining maturity and repricing terms. Cash flows were adjusted for estimated future credit losses and the rate of prepayments. Projected cash flows were then discounted to present value using a risk-adjusted market rate for similar loans. The fair value of the acquired loans receivable had a gross amortized cost basis of $242.5 million. The table below illustrates the fair value adjustments made to the amortized cost basis in order to present a fair value of the loans acquired. The credit adjustment on purchased credit impaired loans is derived in accordance with ASC 310-30 and represents the portion of the loan balances that has been deemed uncollectible based on the Company’s expectations of future cash flows for each respective loan on a level yield amortization over 3.5 years.

(Dollars in thousands)		
Gross amortized cost basis at January 4, 2018	$	242,471
Fair value adjustment on general pooled loans		(3,737)
Credit fair value adjustment on purchased credit impaired loans		(2,664)
Fair value of acquired loans at January 4, 2018	$	236,070

For loans acquired without evidence of credit quality deterioration, the Company prepared the interest rate loan fair value and credit fair value adjustments. Loans were grouped into general pools by characteristics such as loan type, term, collateral and rate. Market rates for similar loans were obtained from various internal and external data sources and reviewed by management for reasonableness. The average of these rates was used as the fair value interest rate a market participant would utilize. A present value approach was utilized to calculate the interest rate fair value premium of $324 thousand.

Additionally for loans acquired without credit deterioration, a credit fair value adjustment was calculated using a two-part credit fair value analysis: 1) expected lifetime credit migration losses; and 2) estimated fair value adjustment for certain qualitative factors. The expected lifetime losses were calculated using historical losses observed at the Bank, Community and peer banks. The Company also estimated an environmental factor to apply to each loan type. The environmental factor represents potential discount which may arise due to general credit and economic factors. A credit fair value discount of $4.1 million was determined. Both the interest rate and credit fair value adjustments relate to performing loans and loans acquired with evidence of credit quality deterioration will be substantially recognized as interest income on a level yield amortization method over the weighted average life of the loans of 4 years.

The following is a summary of the loans accounted for in accordance with ASC 310-30 that were acquired in the Community acquisition as of the closing date.

(Dollars in thousands)	Acquired Credit Impaired Loans
Contractually required principal and interest at acquisition	$ 6,289
Contractual cash flows not expected to be collected (non-accretable difference)	1,819
Expected cash flows at acquisition	4,470
Interest component of expected cash flows (accretable difference)	846
Fair value of acquired loans	$ 3,624

Bank Premises

The Company acquired three branches of Community, all of which were owned by Community, at a premium of $3.5 million. The fair value of Community's premises was determined based upon independent third-party appraisals performed by licensed appraisers in the market in which the premises are located which will be amortized on a straight line basis over 40 years.

Core Deposit Intangible

The fair value of the core deposit intangible was determined based on a discounted cash flow analysis using a discount rate commensurate with market participants. To calculate cash flows, deposit account servicing costs (net of deposit fee income) and interest expense on deposits were compared to the cost of alternative funding sources available through national brokered CD offering rates. The projected cash flows were developed using projected deposit attrition rates. The core deposit intangible will be amortized over ten years using the sum-of-years digits method.

The core deposit intangible totaled $1.3 million and is being amortized over its estimated useful life of approximately 10 years using an accelerated method of the sum of the years digits. The goodwill will be evaluated annually for impairment. The goodwill is not deductible for tax purposes. The goodwill recognized from the merger with Community was created based on the consideration paid by the Company for enhancing its presence in the Bergen County, NJ area in addition to our expected synergies from the combined operations of the Company and Community.

Time Deposits

The fair value adjustment for time deposits represents a discount from the value of the contractual repayments of fixed-maturity deposits using prevailing market interest rates for similar-term time deposits. The time deposit discount of approximately $965 thousand is being amortized into income on a level yield amortization method over the contractual life of the deposits of 22.5 months and a weighted average life of 16.5 months.

Bank Owned Life Insurance

Community's bank-owned life insurance book value was $8.0 million with no fair value adjustment.

Borrowings

The Company acquired borrowings at Community's carrying value of $12.0 million with no fair value adjustment. The remaining maturity of Community's borrowings was less than thirty days at a weighted average cost of funds equivalent to the current market rate for the similar term borrowing type.

The following table presents certain pro forma information as if Community had been acquired on January 1, 2017 and January 1, 2018. These results combine the historical results of the Company in the Company’s Consolidated Statements of Income and, while certain adjustments were made for the estimated impact of certain fair value adjustments and other acquisition-related activity, they are not indicative of what would have occurred had the acquisition taken place on January 1, 2017 and January 1, 2018. In particular, no adjustments have been made to eliminate the amount of Community’s provision for loan losses that would not have been necessary had the acquired loans been recorded at fair value as of January 1, 2017 and January 1,2 018. The Company expects to achieve further operating cost savings and other business synergies as a result of the acquisition which are not reflected in the pro forma amounts below:

(Dollars in thousands)	Year Ended December 31, 2018		Year Ended December 31, 2017	
Total revenues (net interest income plus non-interest income)	$	54,941	$	47,280
Net Income		9,935		6,257
Basic and diluted earnings per share applicable to common stockholders	$	1.25	$	0.79

Following the closing of the Community Merger on January 4, 2018, the Company reported the results of the combined Company. The Company cannot disaggregate the additional revenue and income before extraordinary items provided by Community since the Company operates as one consolidated entity on its internal systems. The cumulative effect to the Company's net income and net income per share are reported on a consolidated basis for the period ended December 31, 2018.

Enterprise

The Enterprise acquisition was accounted for under the acquisition method of accounting. Accordingly, the assets acquired and liabilities assumed in the acquisition were recorded at their estimated fair values based on management's best estimate using information available at the date of the acquisition, including the use of a third party valuation specialist. The following table summarized the estimated fair value of the acquired assets and liabilities assumed at the date of acquisition for Enterprise.

(Dollars in thousands)		December 21, 2018
Cash and cash equivalents, net of stock options paid in cash	$	9,153
Securities available for sale		2,193
Other bank stock		2,380
Loans		257,170
Foreclosed real estate		1,250
Premises and equipment, net		422
Accrued interest receivable		880
Goodwill (banking segment)		2,204
Intangibles assets		1,039
Other assets		3,064
Total Assets	$	279,755
Deposits	$	(197,321)
Borrowings		(47,106)
Other liabilities		(2,882)
Total Liabilities	$	(247,309)
Net consideration paid - common shares issued	$	32,446

The fair values of deposit liabilities with no stated maturities such as checking, money market and savings accounts, were assumed to equal the carrying amounts since these deposits are payable on demand. The fair values of certificates of deposits and IRAs represent the present value of contractual cash flows discounted at market rates for similar certificates of deposit.

Fair values of the major categories of assets acquired and liabilities assumed were determined as follows:

Investment securities available-for-sale

The estimated fair values of the investment securities available for sale, primarily comprised of U.S. Government agency mortgage-backed securities, U.S. government agencies and municipal bonds, were determined using open market pricing provided by multiple independent securities brokers. Management reviewed the open market quotes used in pricing the securities. A fair value discount of $100 thousand was recorded on the investments.

Loans

Loans acquired in the Enterprise acquisition were recorded at fair value, and there was no carryover related allowance for loan and lease losses. The fair values of loans acquired from Enterprise were estimated using cash flow projections based on the remaining maturity and repricing terms. Cash flows were adjusted for estimated future credit losses and the rate of prepayments. Projected cash flows were then discounted to present value using a risk-adjusted market rate for similar loans. The fair value of the acquired loans receivable had a gross amortized cost basis of $262.1 million. The table below illustrates the fair value adjustments made to the amortized cost basis in order to present a fair value of the loans acquired. There was no credit adjustment for purchased credit impaired loans in the Enterprise acquisition.

(Dollars in thousands)		
Gross amortized cost basis at December 21, 2018	$	262,126
Fair value adjustment on general pooled loans		(4,956)
Fair value of acquired loans at December 21, 2018	$	257,170

For loans acquired without evidence of credit quality deterioration, the Company prepared the interest rate loan fair value and credit fair value adjustments. Loans were grouped into general pools by characteristics such as loan type, term, collateral and rate. Market rates for similar loans were obtained from various internal and external data sources and reviewed by management for reasonableness. The average of these rates was used as the fair value interest rate a market participant would utilize. A present value approach was utilized to calculate the interest rate fair value discount of $1.1 million.

Additionally for loans acquired without credit deterioration, a credit fair value adjustment was calculated using a two-part credit fair value analysis: 1) expected lifetime credit migration losses; and 2) estimated fair value adjustment for certain qualitative factors. The expected lifetime losses were calculated using historical losses observed at the Bank, Enterprise and peer banks. The Company also estimated an environmental factor to apply to each loan type. The environmental factor represents potential discount which may arise due to general credit and economic factors. A credit fair value discount of $3.9 million was determined. Both the interest rate and credit fair value adjustments will be substantially recognized as interest income on a level yield amortization method over the expected life of the loans.

Bank Premises

The Company acquired four branches of Enterprise, all of which were leased by Enterprise, at a discount of $282 thousand. The fair value of Enterprise's premises was determined based upon independent third-party appraisals performed by licensed appraisers in the market in which the premises are located which will be amortized on a straight line basis over 3 years.

Core Deposit Intangible

The fair value of the core deposit intangible was determined based on a discounted cash flow analysis using a discount rate commensurate with market participants. To calculate cash flows, deposit account servicing costs (net of deposit fee income) and interest expense on deposits were compared to the cost of alternative funding sources available through national brokered CD offering rates. The projected cash flows were developed using projected deposit attrition rates. The core deposit intangible will be amortized over ten years using the sum-of-years digits method.

The core deposit intangible totaled $1.0 million and is being amortized over its estimated useful life of approximately 10 years using an accelerated method of the sum of the years digits. The goodwill will be evaluated annually for impairment. The goodwill is not deductible for tax purposes. The goodwill recognized from the merger with Enterprise was created based on the consideration paid by the Company for enhancing its presence in the Bergen County, NJ area in addition to our expected synergies from the combined operations of the Company and Enterprise.

Time Deposits

The fair value adjustment for time deposits represents a discount from the value of the contractual repayments of fixed-maturity deposits using prevailing market interest rates for similar-term time deposits. The time deposit discount of approximately $1.0 million is being amortized into income on a level yield amortization method over the contractual life of the deposits of 11.4 months and a weighted average life of 11.4 months.

Borrowings

The Company acquired borrowings at Enterprise's carrying value of $47.3 million at a weighted average rate of 2.23% with a fair value adjustment of $149 thousand. The fair value of borrowings represents the present value of the borrowings expected contracted payments discounted by market rates for similar borrowings. Market rates were obtained from the Federal Home Loan Bank ("FHLB") of New York as of December 21, 2018.

The following table presents certain pro forma information as if Enterprise had been acquired on January 1, 2017 and January 1, 2018. These results combine the historical results of the Company in the Company's Consolidated Statements of Income and, while certain adjustments were made for the estimated impact of certain fair value adjustments and January 1, 2017 and January 1, 2018. In particular, no adjustments have been made to eliminate the amount of Enterprise's provision for loan losses that would not have been necessary had the acquired loans been recorded at fair value as of January 1, 2017 and January 1, 2018. The Company expects to achieve further operating cost savings and other business synergies as a result of the acquisition which are not reflected in the pro forma amounts below:

(Dollars in thousands)	Year Ended December 31, 2018	Year Ended December 31, 2017
Total revenues (net interest income plus non-interest income)	$ 64,827	$ 46,175
Net Income	12,496	7,283
Basic and diluted earnings per share applicable to common stockholders	$ 1.80	$ 0.84

The merger transaction was accounted for using the acquisition method of accounting and, accordingly, assets acquired, liabilities assumed, and consideration exchanged were recorded at estimated fair values on the acquisition date. Fair values are preliminary and subject to refinement for up to one year after the closing date of the acquisition. Management has not finalized the accounting in connection with the merger and is still in the process of assessing the fair value of loans, other assets and other liabilities which can result in an adjustment to the Company's goodwill and deferred tax asset.

Following the closing of the Enterprise Merger on December 21, 2018, the Company reported the results of the combined Company. The Company cannot disaggregate the additional revenue and income before extraordinary items provided by Enterprise since the Company operates as one consolidated entity on its internal systems. The cumulative effect to the Company's net income and net income per share are reported on a consolidated basis for the period ended December 31, 2018.

NOTE 3 – SECURITIES

Available for Sale

The amortized cost and approximate fair value of securities available for sale as of March 31, 2019 and December 31, 2018 are summarized as follows:

(Dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
March 31, 2019				
U.S. government agencies	$ 23,833	$ 1	$ (345)	$ 23,489
U.S. government-sponsored enterprises	22,958	2	(227)	22,733
State and political subdivisions	61,528	1,688	(18)	63,198
Mortgage-backed securities -				
U.S. government-sponsored enterprises	79,372	555	(337)	79,590
Corporate Debt	3,000	40	—	3,040
	$ 190,691	$ 2,286	$ (927)	$ 192,050
December 31, 2018				
U.S. government agencies	$ 25,161	$ 4	$ (371)	$ 24,794
U.S. government-sponsored enterprises	20,404	38	(80)	20,362
State and political subdivisions	60,457	445	(540)	60,362
Mortgage-backed securities -				
U.S. government-sponsored enterprises	74,670	100	(1,157)	73,613
Corporate Debt	3,000	8	—	3,008
	$ 183,692	$ 595	$ (2,148)	$ 182,139

Securities with a carrying value of approximately $2.4 million and $2.5 million at March 31, 2019 and December 31, 2018, respectively, were pledged to secure public deposits and for borrowings at the Federal Reserve Bank as required or permitted by applicable laws and regulations.

The amortized cost and fair value of securities available for sale at March 31, 2019 are shown below by contractual maturity. Actual maturities may differ from contractual maturities as issuers may have the right to call or prepay obligations with or without call or prepayment penalties. Investments which pay principal on a periodic basis are not included in the maturity categories.

(Dollars in thousands)	Amortized Cost	Fair Value
Due in one year or less	$ —	$ —
Due after one year through five years	1,269	1,281
Due after five years through ten years	6,799	6,934
Due after ten years	56,460	58,023
Total bonds and obligations	64,528	66,238
U.S. government agencies	23,833	23,489
U.S. government-sponsored enterprises	22,958	22,733
Mortgage-backed securities:		
U.S. government-sponsored enterprises	79,372	79,590
Total available for sale securities	$ 190,691	$ 192,050

There were no gross realized gains on sales of securities available for sale and no gross realized losses for the three months ended March 31, 2019. There were no gross gains or gross losses for the three months ended March 31, 2018.

Temporarily Impaired Securities

The following table shows gross unrealized losses and fair value of securities with unrealized losses that are not deemed to be other than temporarily impaired, aggregated by category and length of time that individual available for sale securities have been in a continuous unrealized loss position at March 31, 2019 and December 31, 2018.

	Less Than 12 Months		12 Months or More		Total	
(Dollars in thousands)	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
March 31, 2019						
U.S. government agencies	$ 3,017	$ (10)	$ 18,962	$ (335)	$ 21,979	$ (345)
U.S. government-sponsored enterprises	16,737	(167)	5,021	(60)	21,758	(227)
State and political subdivisions	—	—	3,692	(18)	3,692	(18)
Mortgage-backed securities -						
U.S. government-sponsored enterprises	3,305	(17)	14,739	(320)	18,044	(337)
Total temporarily impaired securities	$ 23,059	$ (194)	$ 42,414	$ (733)	$ 65,473	$ (927)
December 31, 2018						
U.S. government agencies	$ 18,998	$ (316)	$ 2,593	$ (55)	$ 21,591	$ (371)
U.S. government-sponsored enterprises	10,348	(80)	—	—	10,348	(80)
State and political subdivisions	17,164	(204)	18,785	(336)	35,949	(540)
Mortgage-backed securities -						
U.S. government-sponsored enterprises	30,547	(271)	28,773	(886)	59,320	(1,157)
Total temporarily impaired securities	$ 77,057	$ (871)	$ 50,151	$ (1,277)	$ 127,208	$ (2,148)

For each security whose fair value is less than its amortized cost basis, a review is conducted to determine if an other-than-temporary impairment has occurred. As of March 31, 2019, we reviewed our available for sale securities portfolio for indications of impairment. This review included analyzing the length of time and the extent to which the fair value was lower than the cost, the financial condition and near-term prospects of the issuer, including any specific events which may influence the operations of the issuer and the intent and likelihood of selling the security. The intent and likelihood of sale of debt and equity securities are evaluated based upon our investment strategy for the particular type of security and our cash flow needs, liquidity position, capital adequacy and interest rate risk position.

U.S. Government Agencies
At March 31, 2019 and December 31, 2018, the declines in fair value and the unrealized losses for our U.S. government agencies securities were primarily due to changes in spreads and market conditions and not credit quality. At March 31, 2019, there were nineteen securities with a fair value of $22.0 million that had an unrealized loss that amounted to $345 thousand. As of March 31, 2019, we did not intend to sell and it was not more-likely-than-not that we would be required to sell any of these securities before recovery of their amortized cost basis. Therefore, none of the U.S. government agency securities at March 31, 2019 were deemed to be other-than-temporarily impaired ("OTTI").

At December 31, 2018, there were eighteen securities with a fair value of $21.6 million that had an unrealized loss that amounted to $371 thousand.

U.S. Government Sponsored Enterprises
At March 31, 2019 and December 31, 2018, the change in fair value and unrealized losses for our U.S. government sponsored enterprises securities were primarily due to changes in spreads and market conditions and not credit quality. At March 31, 2019, there were ten securities with a fair value of $21.8 million that had an unrealized loss that amounted to $227 thousand. As of March 31, 2019, we did not intend to sell and it was not more-likely-than-not that we would be required to sell any of these securities before recovery of their amortized cost basis. Therefore, none of the U.S. government sponsored enterprise securities at March 31, 2019, were deemed to be OTTI.

At December 31, 2018, there were six securities with a fair value of $10.3 million that had an unrealized loss that amounted to $80 thousand.

State and Political Subdivisions
At March 31, 2019 and December 31, 2018, the change in fair value and unrealized losses for our state and political subdivisions securities were caused by changes in interest rates and spreads and were not the result of credit quality. At March 31, 2019, there were four securities with a fair value of $3.7 million that had an unrealized loss that amounted to $18 thousand. These securities typically have maturity dates greater than 10 years and the fair values are more sensitive to changes in market interest rates. As of March 31, 2019, we did not intend to sell and it was not more-likely-than-not that we would be required to sell any of these securities before recovery of their amortized cost basis. Therefore, none of the state and political subdivision securities at March 31, 2019, were deemed to be OTTI.

At December 31, 2018, there were thirty-four securities with a fair value of $35.9 million that had an unrealized loss that amounted to $540 thousand.

Mortgage-Backed Securities
At March 31, 2019 and December 31, 2018, the change in fair value and unrealized losses for our mortgage-backed securities guaranteed by U.S. government-sponsored enterprises were primarily due to changes in spreads and market conditions and not credit quality. At March 31, 2019, there were fourteen securities with a fair value of $18.0 million that had an unrealized loss that amounted to $337 thousand. As of March 31, 2019, we did not intend to sell and it was not more-likely-than-not that we would be required to sell any of these securities before recovery of their amortized cost basis. Therefore, none of our mortgage-backed securities at March 31, 2019 were deemed to be OTTI.

At December 31, 2018, there were thirty-eight securities with a fair value of $59.3 million that had an unrealized loss that amounted to $1.2 million.

Corporate Debt
At March 31, 2019, there were no securities that had an unrealized loss. These securities typically have maturity dates greater than 5 years and the fair values are more sensitive to changes in market interest rates. As of March 31, 2019, we did not intend to sell and it was more-likely-than-no that we would be required to sell any of these securities before recovery of their amortized cost basis. Therefore, none of our corporate debt securities at March 31, 2019, were deemed to be OTTI.

At December 31, 2018, there were no securities with an unrealized loss.

Held to Maturity Securities

The amortized cost and approximate fair value of securities held to maturity as of March 31, 2019 and December 31, 2018 are summarized as follows:

(Dollars in thousands)	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
March 31, 2019				
State and political subdivisions	$ 4,031	$ 86	$ —	$ 4,117
December 31, 2018				
State and political subdivisions	$ 4,078	$ 74	$ —	$ 4,152

The amortized cost and carrying value of securities held to maturity at March 31, 2019 are shown below by contractual maturity. Actual maturities may differ from contractual maturities as issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

(Dollars in thousands)	Amortized Cost	Fair Value
Due in one year or less	$ 1,239	$ 1,239
Due after one year through five years	251	251
Due after five years through ten years	2,541	2,627
Due after ten years	—	—
Total held to maturity securities	$ 4,031	$ 4,117

Temporarily Impaired Securities

For each security whose fair value is less than its amortized cost basis, a review is conducted to determine if an other-than-temporary impairment has occurred. As of March 31, 2019, there were no securities that had an unrealized loss. This review includes analyzing the length of time and the extent to which the fair value has been lower than the cost, the financial condition and near-term prospects of the issuer, including any specific events which may influence the operations of the issuer and the intent and likelihood of selling the security. The intent and likelihood of sale of debt securities is evaluated based upon our investment strategy for the particular type of security and our cash flow needs, liquidity position, capital adequacy and interest rate risk position. For each security whose fair value is less than their amortized cost basis, a review is conducted to determine if an other-than-temporary impairment has occurred.

At December 31, 2018, there were no securities with an unrealized loss.

NOTE 4 – LOANS

The composition of net loans receivable at March 31, 2019 and December 31, 2018 is as follows:

(Dollars in thousands)	March 31, 2019	December 31, 2018
Commercial and industrial	$ 93,567	$ 81,709
Construction	120,340	142,321
Commercial real estate	929,091	878,449
Residential real estate	369,100	370,955
Consumer and other	2,654	2,393
Total loans receivable	1,514,752	1,475,827
Unearned net loan origination fees	(1,107)	(1,052)
Allowance for loan losses	(9,190)	(8,775)
Net loans receivable	$ 1,504,455	$ 1,466,000

Mortgage loans serviced for others are not included in the accompanying consolidated balance sheets. The total amount of loans serviced for the benefit of others was approximately $226 thousand and $229 thousand at March 31, 2019 and December 31, 2018, respectively. Mortgage servicing rights were immaterial at December 31, 2018 and 2017.

Purchased Credit Impaired Loans

The carrying value of loans acquired in the Community acquisition and accounted for in accordance with ASC Subtopic 310-30, “Loans and Debt Securities Acquired with Deteriorated Credit Quality,” was $3.0 million at March 31, 2019, which was $700 thousand less than the balance at the time of acquisition on January 4, 2018. Under ASC Subtopic 310-30, these loans, referred to as purchased credit impaired (“PCI”) loans, may be aggregated and accounted for as pools of loans if the loans being aggregated have common risk characteristics. The Company elected to account for the loans with evidence of credit deterioration individually rather than aggregate them into pools. The difference between the undiscounted cash flows expected at acquisition and the investment in the acquired loans, or the “accretable yield,” is recognized as interest income utilizing the level-yield method over the life of each loan. Contractually required payments for interest and principal that exceed the undiscounted cash flows expected at acquisition, or the “non-accretable difference,” are not recognized as a yield adjustment, as a loss accrual or as a valuation allowance.

Increases in expected cash flows subsequent to the acquisition are recognized prospectively through an adjustment of the yield on the loans over the remaining life, while decreases in expected cash flows are recognized as impairments through a loss provision and an increase in the allowance for loan and lease losses. Valuation allowances (recognized in the allowance for loan and lease losses) on these impaired loans reflect only losses incurred after the acquisition (representing all cash flows that were expected at acquisition but currently are not expected to be received).

The following table presents changes in the accretable yield for PCI loans:

(Dollars in thousands)	Three months ended March 31, 2019	Three months ended March 31, 2018
Accretable yield, beginning balance	$ 539	$ —
Acquisition of impaired loans	—	846
Accretable yield amortized to interest income	(79)	(77)
Reclassification from non-accretable difference	—	—
Accretable yield, ending balance	$ 460	$ 769

NOTE 5 – ALLOWANCE FOR LOAN LOSSES AND CREDIT QUALITY OF FINANCING RECEIVABLES

The following table presents changes in the allowance for loan losses disaggregated by the class of loans receivable for the three months ended March 31, 2019 and 2018:

(Dollars in thousands)	Commercial and Industrial	Construction	Commercial Real Estate	Residential Real Estate	Consumer and Other	Unallocated	Total
Three Months Ended:							
March 31, 2019							
Beginning balance	$ 603	$ 663	$ 5,575	$ 1,371	$ 23	$ 540	$ 8,775
Charge-offs	(45)	—	(5)	(93)	(25)	—	(168)
Recoveries	1	—	1	7	3	—	12
Provision	88	(304)	733	64	18	(28)	571
Ending balance	$ 647	$ 359	$ 6,304	$ 1,349	$ 19	$ 512	$ 9,190
March 31, 2018							
Beginning balance	$ 208	$ 336	$ 5,185	$ 1,032	$ 26	$ 548	$ 7,335
Charge-offs	(11)	—	—	(12)	(11)	—	(34)
Recoveries	1	—	1	10	7	—	19
Provision	191	9	615	(58)	9	(258)	508
Ending balance	$ 389	$ 345	$ 5,801	$ 972	$ 31	$ 290	$ 7,828

The following table presents the balance of the allowance of loan losses and loans receivable by class at March 31, 2019 and December 31, 2018 disaggregated on the basis of our impairment methodology.

	Allowance for Loan Losses			Loans Receivable		
(Dollars in thousands)	Balance	Balance Loans Individually Evaluated for Impairment	Balance Related to Loans Collectively Evaluated for Impairment	Balance	Individually Evaluated for Impairment (a)	Collectively Evaluated for Impairment
March 31, 2019						
Commercial and industrial	$ 647	$ 104	$ 543	$ 93,567	$ 456	$ 93,111
Construction	359	—	359	120,340	—	120,340
Commercial real estate	6,304	445	5,859	929,091	16,666	912,425
Residential real estate	1,349	199	1,150	369,100	4,551	364,549
Consumer and other loans	19	—	19	2,654	—	2,654
Unallocated	512	—	—	—	—	—
Total	$ 9,190	$ 748	$ 7,930	$ 1,514,752	$ 21,673	$ 1,493,079
December 31, 2018						
Commercial and industrial	$ 603	$ 152	$ 451	$ 81,709	$ 372	$ 81,337
Construction	663	—	663	142,321	—	142,321
Commercial real estate	5,575	274	5,301	878,449	15,760	862,689
Residential real estate	1,371	89	1,282	370,955	4,572	366,383
Consumer and other loans	23	—	23	2,393	—	2,393
Unallocated	540	—	—	—	—	—
Total	$ 8,775	$ 515	$ 7,720	$ 1,475,827	$ 20,704	$ 1,455,123

(a) loans individually evaluated for impairment exclude PCI loans.

An age analysis of loans receivable, which were past due as of March 31, 2019 and December 31, 2018, is as follows:

(Dollars in thousands)	30-59 Days Past Due	60-89 days Past Due	Greater Than 90 Days (a)	Total Past Due	Current	Total Financing Receivables	Recorded Investment > 90 Days and Accruing
March 31, 2019							
Commercial and industrial	$ —	$ —	$ 323	$ 323	$ 93,244	$ 93,567	$ —
Construction	—	—	—	—	120,340	120,340	—
Commercial real estate	2,643	1,131	16,238	20,012	909,079	929,091	—
Residential real estate	743	269	4,077	5,089	364,011	369,100	—
Consumer and other	55	1	—	56	2,598	2,654	—
Total	$ 3,441	$ 1,401	$ 20,638	$ 25,480	$ 1,489,272	$ 1,514,752	$ —
December 31, 2018							
Commercial and industrial	$ 491	$ —	$ 372	$ 863	$ 80,846	$ 81,709	$ —
Construction	—	582	—	582	141,739	142,321	—
Commercial real estate	2,282	—	15,760	18,042	860,407	878,449	—
Residential real estate	393	35	4,572	5,000	365,955	370,955	—
Consumer and other	4	1	—	5	2,388	2,393	—
Total	$ 3,170	$ 618	$ 20,704	$ 24,492	$ 1,451,335	$ 1,475,827	$ —

(a) includes loans greater than 90 days past due and still accruing and non-accrual loans, excluding PCI loans.

Loans for which the accrual of interest has been discontinued, excluding PCI loans, at March 31, 2019 and December 31, 2018 were:

(Dollars in thousands)	March 31, 2019	December 31, 2018
Commercial and industrial	$ 323	$ 372
Commercial real estate	16,238	15,760
Residential real estate	4,077	4,572
Total	$ 20,638	$ 20,704

In determining the adequacy of the allowance for loan losses, we estimate losses based on the identification of specific problem loans through our credit review process and also estimate losses inherent in other loans on an aggregate basis by loan type. The credit review process includes the independent evaluation of the loan officer assigned risk ratings by the Chief Credit Officer and a third party loan review company. Such risk ratings are assigned loss component factors that reflect our loss estimate for each group of loans. It is management's and the Board of Directors' responsibility to oversee the lending process to ensure that all credit risks are properly identified, monitored, and controlled, and that loan pricing, terms and other safeguards against non-performance and default are commensurate with the level of risk undertaken and is rated as such based on a risk-rating system. Factors considered in assigning risk ratings and loss component factors include: borrower specific information related to expected future cash flows and operating results, collateral values, financial condition and payment status; levels of and trends in portfolio charge-offs and recoveries; levels in portfolio delinquencies; effects of changes in loan concentrations and observed trends in the economy and other qualitative measurements.

Our risk-rating system is consistent with the classification system used by regulatory agencies and with industry practices. Loan classifications of Substandard, Doubtful or Loss are consistent with the regulatory definitions of classified assets. The classification system is as follows:

- Pass: This category represents loans performing to contractual terms and conditions and the primary source of repayment is adequate to meet the obligation. We have five categories within the Pass classification depending on strength of repayment sources, collateral values and financial condition of the borrower.

- Special Mention: This category represents loans performing to contractual terms and conditions; however the primary source of repayment or the borrower is exhibiting some deterioration or weaknesses in financial condition that could potentially threaten the borrowers' future ability to repay our loan principal and interest or fees due.

- Substandard: This category represents loans that the primary source of repayment has significantly deteriorated or weakened which has or could threaten the borrowers' ability to make scheduled payments. The weaknesses require close supervision by management and there is a distinct possibility that we could sustain some loss if the deficiencies are not corrected. Such weaknesses could jeopardize the timely and ultimate collection of our loan principal and interest or fees due. Loss may not be expected or evident, however, loan repayment is inadequately supported by current financial information or pledged collateral.

- Doubtful: Loans so classified have all the inherent weaknesses of a substandard loan with the added provision that collection or liquidation in full is highly questionable and not reasonably assured. The probability of at least partial loss is high, but extraneous factors might strengthen the asset to prevent loss. The validity of the extraneous factors must be continuously monitored. Once these factors are questionable the loan should be considered for full or partial charge-off.

- Loss: Loans so classified are considered uncollectible, and of such little value that their continuance as active assets is not warranted. Such loans are fully charged off.

The following tables illustrate our corporate credit risk profile by creditworthiness category as of March 31, 2019 and December 31, 2018:

(Dollars in thousands)	Pass	Special Mention	Substandard	Doubtful	Total
March 31, 2019					
Commercial and industrial	$ 92,910	$ 21	$ 636	$ —	$ 93,567
Construction	118,666	1,224	450	—	120,340
Commercial real estate	905,959	5,855	17,277	—	929,091
	$ 1,117,535	$ 7,100	$ 18,363	$ —	$ 1,142,998
December 31, 2018					
Commercial and industrial	$ 80,977	$ 32	$ 700	$ —	$ 81,709
Construction	141,871	—	450	—	142,321
Commercial real estate	855,180	3,908	19,361	—	878,449
	$ 1,078,028	$ 3,940	$ 20,511	$ —	$ 1,102,479

(Dollars in thousands)	Residential Real Estate	Consumer and other
March 31, 2019		
Performing	$ 365,023	$ 2,654
Non-Performing	4,077	—
Total	$ 369,100	$ 2,654
December 31, 2018		
Performing	$ 366,383	$ 2,393
Non-Performing	4,572	—
Total	$ 370,955	$ 2,393

The following table reflects information about our impaired loans, excluding PCI loans, by class as of March 31, 2019 and December 31, 2018:

	March 31, 2019			December 31, 2018		
(Dollars in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance	Related Allowance
With no related allowance recorded:						
Commercial and industrial	$ 77	$ 180	$ —	$ —	$ 10	$ —
Commercial real estate	15,734	16,283	—	13,745	13,745	—
Residential real estate	3,812	4,087	—	2,790	2,790	—
With an allowance recorded:						
Commercial and industrial	379	424	104	372	572	152
Commercial real estate	932	1,145	445	2,015	2,437	274
Residential real estate	739	805	199	1,782	2,329	89
Total:						
Commercial and industrial	456	604	104	372	582	152
Commercial real estate	16,666	17,428	445	15,760	16,182	274
Residential real estate	4,551	4,892	199	4,572	5,119	89
	$ 21,673	$ 22,924	$ 748	$ 20,704	$ 21,883	$ 515

The following table presents the average recorded investment and income recognized for our impaired loans, excluding PCI loans, for the three months ended March 31, 2019 and 2018:

(Dollars in thousands)	For the Three Months Ended March 31, 2019 Average Recorded Investment	For the Three Months Ended March 31, 2019 Interest Income Recognized	For the Three Months Ended March 31, 2018 Average Recorded Investment	For the Three Months Ended March 31, 2018 Interest Income Recognized
With no related allowance recorded:				
Commercial and industrial	$ 79	$ —	$ 10	$ —
Construction	—	—	53	—
Commercial real estate	15,469	124	3,871	12
Residential real estate	3,800	18	2,453	11
Total impaired loans without a related allowance	19,348	142	6,387	23
With an allowance recorded:				
Commercial and industrial	335	5	—	—
Commercial real estate	936	5	930	—
Residential real estate	772	—	110	—
Total impaired loans with an allowance	2,043	10	1,040	—
Total impaired loans	$ 21,391	$ 152	$ 7,427	$ 23

We recognize interest income on performing impaired loans as payments are received. On non-performing impaired loans we do not recognize interest income as all payments are recorded as a reduction of principal on such loans.

Impaired loans include loans modified in troubled debt restructurings where concessions have been granted to borrowers experiencing financial difficulties. These concessions could include a reduction in the interest rate on the loan, payment extensions, postponement or forgiveness of principal, forbearance or other actions intended to maximize collection. The concessions rarely result in the forgiveness of principal or accrued interest. In addition, we attempt to obtain additional collateral or guarantor support when modifying such loans. Non-accruing restructured loans may be returned to accrual status when there has been a sustained period of repayment performance (generally six consecutive months of payments) and both principal and interest are deemed collectible.

The following table presents the recorded investment in troubled debt restructured loans, based on payment performance status:

(Dollars in thousands)	Commercial Real Estate	Commercial & Industrial	Residential Real Estate	Total
March 31, 2019				
Performing	$ 428	$ 133	$ 474	$ 1,035
Non-performing	1,520	—	557	2,077
Total	$ 1,948	$ 133	$ 1,031	$ 3,112
December 31, 2018				
Performing	$ 431	$ —	$ 475	$ 906
Non-performing	1,531	—	517	2,048
Total	$ 1,962	$ —	$ 992	$ 2,954

Troubled debt restructured loans are considered impaired and are included in the previous impaired loans disclosures in this footnote. As of March 31, 2019, we have not committed to lend additional amounts to customers with outstanding loans that are classified as troubled debt restructuring.

There were two troubled debt restructurings during the three months ended March 31, 2019. There were no troubled debt restructurings during the three months ended March 31, 2018.

(Dollars in thousands)	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
March 31, 2019			
Commercial & industrial	1	$ 135	$ 133
Residential real estate	1	48	47

There was no troubled debt restructuring for which there was a payment default within twelve months following the date of the restructuring for the three months ended March 31, 2019. There was no troubled debt restructuring for which there was a payment default within twelve months following the date of the restructuring for the three months ended March 31, 2018.

We may obtain physical possession of residential real estate collateralizing a consumer mortgage loan via foreclosure on an in-substance repossession. As of March 31, 2019, we had four foreclosed residential real estate properties with a carrying value of $1.0 million. As of December 31, 2018, we had five foreclosed residential real estate properties with a carrying value of $1.3 million. In addition, as of March 31, 2019 and December 31, 2018, respectively, we had consumer loans with a carrying value of $504 thousand and $682 thousand collateralized by residential real estate property for which formal foreclosure proceedings were in process.

NOTE 6 – EARNINGS PER SHARE

Basic earnings per share are calculated by dividing net income by the weighted average number of shares of common stock outstanding during the period. Diluted earnings per share reflect additional common shares that would have been outstanding if dilutive potential common shares (unvested restricted stock grants and stock options) had been issued, as well as any adjustment to income that would result from the assumed issuance of potential common shares that may be issued by us. Potential common shares related to stock options are determined using the treasury stock method.

	Three Months Ended March 31, 2019			Three Months Ended March 31, 2018		
(Dollars in thousands, except share and per share data)	Income (Numerator)	Shares (Denominator)	Per Share Amount	Income (Numerator)	Shares (Denominator)	Per Share Amount
Shares Outstanding (weighted average)		9,416,987			7,740,685	
Shares held by Rabbi Trust		99,029			95,843	
Shares liability under deferred compensation agreement		(99,029)			(95,843)	
Basic earnings per share:						
Net earnings applicable to common stockholders	$ 5,823	9,416,987	$ 0.62	$ 1,308	7,740,685	$ 0.17
Effect of dilutive securities:						
Unvested stock awards	—	43,131		—	51,051	
Diluted earnings per share:						
Net income applicable to common stockholders and assumed conversions	$ 5,823	9,460,118	$ 0.62	$ 1,308	7,791,736	$ 0.17

There were 36,396 shares of options outstanding during the three months ended March 31, 2019 and 43,753 shares of options outstanding during the three months ended March 31, 2018, which were not included in the computation of diluted earnings per share because to do so would have been anti-dilutive.

NOTE 7 – OTHER COMPREHENSIVE INCOME

Accounting principles generally require that recognized revenue, expenses, 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 equity section of the balance sheet, such items, along with net income, are components of comprehensive income.

The components of other comprehensive income, both before tax and net of tax, are as follows:

	Three Months Ended March 31, 2019			Three Months Ended March 31, 2018		
	Before Tax	Tax Effect	Net of Tax	Before Tax	Tax Effect	Net of Tax
(Dollars in thousands)						
Other comprehensive income (loss):						
Unrealized losses on available for sale securities	$ 2,912	$ 824	$ 2,088	$ (2,167)	$ (588)	$ (1,579)
Fair value adjustments on derivatives	(1,734)	(522)	(1,212)	1,107	311	796
Total other comprehensive (loss) income	$ 1,178	$ 302	$ 876	$ (1,060)	$ (277)	$ (783)

NOTE 8 – GOODWILL AND OTHER INTANGIBLES

The Company had goodwill of $27.3 million as of March 31, 2019 and December 31, 2018. Goodwill at December 31, 2018, included $22.3 million and $2.2 million related to the acquisitions of Community and Enterprise, respectively, $2.3 million related to insurance segment and $486 thousand related to banking segment. The Company reviews its goodwill and intangible assets annually, on September 30, or more frequently if conditions warrant, for impairment. In testing goodwill for impairment, the Company compares the estimated fair value of its reporting unit to its carrying amount, including goodwill. The estimated fair value of each reporting unit exceeded its book value; therefore, no write-down of goodwill was required at September 30, 2018. The estimated fair value of the insurance segment exceeded its carrying value by 17% at September 30, 2018.

The Company recorded a core deposit intangible of $1.3 million for the Community acquisition and $1.1 million for the Enterprise acquisition. The Company amortized $102 thousand and $80 thousand in core deposit intangible for the three months ended March 31, 2019 and 2018, respectively. The estimated future amortization expense for the remainder of 2019 and for each of the succeeding five years ended December 31 is as follows (dollars in thousands):

For the Year Ended	Amortization Expense
2019	$ 303
2020	364
2021	320
2022	277
2023	234
2024	191

NOTE 9 – SEGMENT INFORMATION

Our insurance agency operations are managed separately from the traditional banking and related financial services that we also offer. The insurance agency operation provides commercial, individual, and group benefit plans and personal coverage.

	Three Months Ended March 31, 2019			Three Months Ended March 31, 2018		
(Dollars in thousands)	Banking and Financial Services	Insurance Services	Total	Banking and Financial Services	Insurance Services	Total
Net interest income from external sources	$ 14,439	$ —	$ 14,439	$ 10,768	$ —	$ 10,768
Other income from external sources	1,032	2,601	3,633	925	1,932	2,857
Depreciation and amortization	525	12	537	448	6	454
Income before income taxes	6,057	1,266	7,323	614	909	1,523
Income tax expense (1)	994	506	1,500	(149)	364	215
Total assets	1,834,400	5,729	1,840,129	1,371,795	4,689	1,376,484

(1) Insurance Services calculated at statutory tax rate of 28.1%.

NOTE 10 – STOCK-BASED COMPENSATION

We currently have stock-based compensation plans in place for our directors, officers, employees, consultants and advisors. Under the terms of these plans we may grant restricted shares and stock options for the purchase of our common stock. The stock-based compensation is granted under terms determined by our Compensation Committee. Our standard stock option grants have a maximum term of 10 years, generally vest over periods ranging between one and five years, and are granted with an exercise price equal to the fair market value of the common stock on the date of grant. Restricted stock is valued at the market value of the common stock on the date of grant and generally vests over periods of three to five years. All dividends paid on restricted stock, whether vested or unvested, are paid to the shareholder.

Information regarding our stock option plans for the three months ended March 31, 2019 is as follows:

	Number of Shares	Weighted Average Exercise Price per Share	Weighted Average Contractual Term	Aggregate Intrinsic Value
Options outstanding, beginning of year	69,123	$ 11.10		
Options outstanding, end of quarter	69,123	$ 11.10	6.1	$ 734,164
Options exercisable, end of quarter	50,053	$ 10.92	6.1	$ 540,695
Option price range at end of quarter	$9.97 to $12.83			
Option price of exercisable shares	$9.97 to $12.83			

During each of the three months ended March 31, 2019 and 2018, we expensed $12 thousand in stock-based compensation under stock option awards.

There were no options granted during the three months ended March 31, 2019 and 2018. Expected future expense relating to the unvested options outstanding as of March 31, 2019 is $54 thousand over a weighted average period of 1.1 years. Upon exercise of vested options, management expects to draw on common stock as the source of the shares.

The summary of changes in unvested restricted stock awards for the three months ended March 31, 2019, is as follows:

	Number of Shares	Weighted Average Grant Date Fair Value
Unvested restricted stock, beginning of year	97,465	$ 24.45
Granted	41,832	22.29
Forfeited	(15,954)	24.36
Vested	(28,178)	20.58
Unvested restricted stock, end of period	95,165	$ 24.65

During the three months ended March 31, 2019 and 2018, we expensed $178 thousand and $153 thousand, respectively, in stock-based compensation under restricted stock awards.

At March 31, 2019, unrecognized compensation expense for unvested restricted stock was $2 million, which is expected to be recognized over an average period of 2.4 years.

NOTE 11 – GUARANTEES

We do not issue any guarantees that would require liability recognition or disclosure, other than standby letters of credit. Standby letters of credit are conditional commitments issued by us to guarantee the performance of a customer to a third party. Generally, all letters of credit, when issued, have expiration dates within one year. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. Generally, we hold collateral and/or personal guarantees supporting these commitments. As of March 31, 2019, we had $655 thousand of outstanding letters of credit. Management believes that the proceeds obtained through a liquidation of collateral and the enforcement of guarantees would be sufficient to cover the potential amount of future payments required under the corresponding guarantees. The amount of the liability as of March 31, 2019, for guarantees under standby letters of credit issued is not material.

NOTE 12 – FAIR VALUE OF FINANCIAL INSTRUMENTS

Management uses its best judgment in estimating the fair value of our 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 we could have realized in a sale transaction on the dates indicated. The fair value amounts have been measured as of their respective period 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 period end.

In accordance with U.S. GAAP, we use a hierarchical disclosure framework associated with the level of pricing observability utilized in measuring assets and liabilities at fair value. The three broad levels defined by the hierarchy are as follows:

- Level I - Quoted prices are available in active markets for identical assets or liabilities as of the reported date.
- Level II - Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reported date. The nature of these asset and liabilities include items for which quoted prices are available but traded less frequently, and items that are fair valued using other financial instruments, the parameters of which can be directly observed.
- Level III - Assets and liabilities that have little to no pricing observability as of reported date. These items do not have two-way markets and are measured using management's best estimate of fair value, where the inputs into the determination of fair value require significant management judgment or estimation.

The following table summarizes the fair value of our financial instruments measured on a recurring basis by the above pricing observability levels as of March 31, 2019 and December 31, 2018:

(Dollars in thousands)	Fair Value Measurements	Quoted Prices in Active Markets for Identical Assets (Level I)	Significant Other Observable Inputs (Level II)	Significant Unobservable Inputs (Level III)
March 31, 2019				
U.S. government agencies	$ 23,489	$ —	$ 23,489	$ —
U.S. government-sponsored enterprises	22,733	—	22,733	—
State and political subdivisions	63,198	—	63,198	—
Mortgage-backed securities -				
U.S. government-sponsored enterprises	79,590	—	79,590	—
Corporate debt	3,040	—	3,040	—
Derivative instruments				
Interest rate swaps - asset	1,240	—	1,240	—
Interest rate swaps - liability	(1,639)		(1,639)	
December 31, 2018				
U.S. government agencies	$ 24,794	$ —	$ 24,794	$ —
U.S. government-sponsored enterprises	20,362	—	20,362	—
State and political subdivisions	60,362	—	60,362	—
Mortgage-backed securities -				
U.S. government-sponsored enterprises	73,613	—	73,613	—
Corporate debt	3,008	—	3,008	—
Derivative instruments				
Interest rate swaps - asset	2,114	—	2,114	—
Interest rate swaps - liability	(779)		(779)	

Our available for sale and held to maturity securities portfolios contain investments, which were all rated within our investment policy guidelines at time of purchase, and upon review of the entire portfolio all securities are marketable and have observable pricing inputs.

For financial assets measured at fair value on a nonrecurring basis, the fair value measurements by level within the fair value hierarchy used at March 31, 2019 and December 31, 2018 are as follows:

(Dollars in thousands)	Fair Value Measurements	Quoted Prices in Active Markets for Identical Assets (Level I)	Significant Other Observable Inputs (Level II)	Significant Unobservable Inputs (Level III)
March 31, 2019				
Impaired loans	$ 1,695	$ —	$ —	$ 1,695
December 31, 2018				
Impaired loans	$ 1,785	$ —	$ —	$ 1,785
Foreclosed real estate	730	—	—	730

The following table presents additional qualitative information about assets measured at fair value on a nonrecurring basis and for which Level III inputs were used to determine fair value:

	Qualitative Information about Level III Fair Value Measurements				
(Dollars in thousands)		**Fair Value Estimate**	**Valuation Techniques**	**Unobservable Input**	**Range (Weighted Average)**
March 31, 2019					
Impaired loans	$	1,695	Appraisal of collateral	Appraisal adjustments (1)	0% to (-100.0%) (-7.3%)
December 31, 2018					
Impaired loans	$	1,785	Appraisal of collateral	Appraisal adjustments (1)	0% to (-100.0%) (-7.8%)
Foreclosed real estate		730	Appraisal of collateral	Selling expenses (1)	-7.0% (-7.0%)

(1) Appraisals may be adjusted by management for qualitative factors such as economic conditions and estimated selling expenses. The range and weighted average of selling expenses and other appraisal adjustments are presented as a percentage of the appraisal.

The following information should not be interpreted as an estimate of the fair value of the entire company since a fair value calculation is only provided for a limited portion of our assets and liabilities. Due to a wide range of valuation techniques and the degree of subjectivity used in making the estimates, comparisons between our disclosures and those of other companies may not be meaningful. The following methods and assumptions were used to estimate the fair value of our financial instruments at March 31, 2019 and December 31, 2018:

Securities: The fair value of securities, available for sale (carried at fair value) are determined by obtaining quoted market prices on nationally recognized securities exchanges (Level I), or matrix pricing (Level II), which is a mathematical technique used widely in the industry to value debt securities without relying exclusively on quoted market prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted prices. For certain securities which are not traded in active markets or are subject to transfer restrictions, valuations are adjusted to reflect illiquidity and/or non-transferability, and such adjustments are generally based on available market evidence (Level III). In the absence of such evidence, management's best estimate of market participants' estimate is used. Management's best estimate consists of both internal and external support on certain Level III measurements. Internal cash flow models using a present value formula that includes assumptions market participants would use along with indicative exit pricing obtained from broker/dealers (where available) were used to support fair values of certain Level III investments.

Impaired Loans (Carried at Lower of Cost or Fair Value): Fair value of impaired loans is generally determined based upon independent third-party appraisals of the properties, or discounted cash flows based upon the expected proceeds, less estimated selling costs. These assets are included in Level III fair values, based upon the lowest level of input that is significant to the fair value measurements.

Derivatives (Carried at Fair Value): The fair value of the Company's derivatives is determined using discounted cash flow analysis using observable market-based inputs, which are considered Level 2 inputs.

Other Real Estate Owned (Carried at Fair Value):

Other Real Estate Owned is recorded at estimated fair value, less estimated selling costs when acquired, thus establishing a new cost basis. Fair value is generally based on independent appraisals. These appraisals include adjustments to comparable assets based on the appraisers' market knowledge and experience. When an asset is acquired, the excess of the loan balance over fair value, less estimated selling costs, a writedown is recorded through expense.

The fair values of our financial instruments at March 31, 2019 and December 31, 2018, were as follows:

(Dollars in thousands)	March 31, 2019 Carrying Amount	March 31, 2019 Fair Value	Quoted Prices in Active Markets for Identical Assets (Level I)	Significant Other Observable Inputs (Level II)	Significant Unobservable Inputs (Level III)
Financial assets:					
Cash and cash equivalents	$ 23,003	$ 23,003	$ 23,003	$ —	$ —
Time deposits with other banks	200	200	—	200	—
Securities available for sale	192,050	192,050	—	192,050	—
Securities held to maturity	4,031	4,117	—	4,117	—
Federal Home Loan Bank stock	9,347	9,347	—	9,347	—
Loans receivable, net of allowance	1,504,455	1,472,796	—	—	1,472,796
Accrued interest receivable	6,589	6,589	—	6,589	—
Interest rate swaps	1,240	1,240	—	1,240	—
Financial liabilities:					
Non-maturity deposits	983,158	983,158	—	983,158	—
Time deposits	478,166	474,349	—	474,349	—
Short-term borrowings	114,800	114,919	114,919	—	—
Long-term borrowings	36,708	36,672	—	36,672	—
Subordinated debentures	27,862	26,840	—	26,840	—
Accrued interest payable	1,621	1,621	—	1,621	—
Interest rate swaps	1,639	1,639		1,639	

(Dollars in thousands)	December 31, 2018 Carrying Amount	December 31, 2018 Fair Value	Quoted Prices in Active Markets for Identical Assets (Level I)	Significant Other Observable Inputs (Level II)	Significant Unobservable Inputs (Level III)
Financial assets:					
Cash and cash equivalents	$ 26,678	$ 26,678	$ 26,678	$ —	$ —
Time deposits with other banks	200	200	—	200	—
Securities available for sale	182,139	182,139	—	182,139	—
Securities held to maturity	4,078	4,152	—	4,152	—
Federal Home Loan Bank stock	11,764	11,764	—	11,764	—
Loans receivable, net of allowance	1,466,000	1,428,094	—	—	1,428,094
Accrued interest receivable	6,546	6,546	—	6,546	—
Interest rate swaps	2,114	2,114	—	2,114	—
Financial liabilities:					
Non-maturity deposits	965,065	965,065	—	965,065	—
Time deposits	388,874	383,264	—	383,264	—
Short-term borrowings	175,295	175,366	175,366	—	—
Long-term borrowings	44,611	44,365	—	44,365	—
Subordinated debentures	27,859	26,840	—	26,840	—
Accrued interest payable	1,480	1,480	—	1,480	—
Interest rate swaps	779	779	—	779	—

NOTE 13 – DERIVATIVES

The Company's objectives in using interest rate derivatives are to add stability to interest expense and to manage its exposure to interest rate movements. To accomplish this objective, the Company primarily uses interest rate swaps as part of its interest rate risk management strategy. Interest rate swaps designated as cash flow hedges involve the receipt of variable amounts from a counterparty in exchange for the Company making fixed-rate payments over the life of the agreements without exchange of the underlying notional amount.

The effective portion of changes in the fair value of derivatives designated and that qualify as cash flow hedges are recorded in accumulated other comprehensive income and are subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings. During the three months ended March 31, 2019 such derivatives were used to hedge the variable cash outflows associated with four FHLB borrowings totaling $26.0 million. The Company entered into an interest rate swap agreement to hedge its $12.5 million variable rate (3 Mo Libor +1.44%) junior subordinated debt issued by Sussex Capital Trust II, a non-consolidated wholly-owned subsidiary of the Company, for 10 years at a fixed rate of 3.10%. During the year ended December 31, 2018, the Company entered into four interest rate swap agreements used to hedge the variable cash outflows associated with two future three month FHLB borrowings totaling $75.0 million, with an effective date of September 15, 2018. Two interest rate swaps mature September 15, 2021 with fixed rates of 2.89% and 2.85%, and the other two mature September 15, 2022 with fixed rates of 2.90% and 2.86%. During the quarter ended March 31, 2019, the Company entered into a forward starting interest rate swap agreement with a notional amount totaling $40 million, designated as a cash flow hedge of variable cash flows associated with a $40 million brokered CD, with a 3 years term and a fixed rate of 2.56%. The ineffective portion of the change in fair value of the derivatives is recognized directly in earnings.

During the three months ended March 31, 2019 and 2018, the Company did not record any hedge ineffectiveness.

The table below presents the fair value of the Company's derivative financial instruments as well as their classification on the Consolidated Statements of Income and Comprehensive Income at March 31, 2019 and December 31, 2018:

	March 31, 2019			
	Notional/ Contract Amount	Fair Value	Balance Sheet Location	Expiration Date
(Dollars in thousands)				
Derivatives designated as hedging instruments				
Interest rate swaps by effective date:				
March 15, 2016	$ 12,500	$ 516	Other Assets	March 15, 2026
December 15, 2016	5,000	136	Other Assets	December 15, 2026
June 15, 2017	6,000	145	Other Assets	June 15, 2027
December 15, 2017	10,000	306	Other Assets	December 15, 2027
December 15, 2017	5,000	137	Other Assets	December 15, 2027
September 15, 2018	20,000	(289)	Other Liabilities	September 15, 2021
September 15, 2018	20,000	(439)	Other Liabilities	September 15, 2022
September 15, 2018	17,500	(235)	Other Liabilities	September 15, 2021
September 15, 2018	17,500	(356)	Other Liabilities	September 15, 2022
February 21, 2019	40,000	(320)	Other Liabilities	February 21, 2022
Total	$ 153,500	$ (399)		

(Dollars in thousands)	Notional/ Contract Amount	Fair Value	Balance Sheet Location	Expiration Date
	December 31, 2018			
Derivatives designated as hedging instruments				
Interest rate swaps by effective date:				
March 15, 2016	$ 12,500	$ 768	Other Assets	March 15, 2026
December 15, 2016	5,000	246	Other Assets	December 15, 2026
June 15, 2017	6,000	285	Other Assets	June 15, 2027
December 15, 2017	10,000	554	Other Assets	December 15, 2027
December 15, 2017	5,000	261	Other Assets	December 15, 2027
September 15, 2018	20,000	(176)	Other Liabilities	September 15, 2021
September 15, 2018	20,000	(266)	Other Liabilities	September 15, 2022
September 15, 2018	17,500	(134)	Other Liabilities	September 15, 2021
September 15, 2018	17,500	(203)	Other Liabilities	September 15, 2022
Total	113,500	1,335		

The table below presents the Company's derivative financial instruments that are designated as cash flow hedgers of interest rate risk and their effect on the Company's Consolidated Statements of Income and Comprehensive Income during the three months ended March 31, 2019 and 2018:

(Dollars in thousands)	Amount of Gain Recognized in OCI on Derivatives, net of Tax (Effective Portion)	Location of Gain (Loss) Recognized in Income of Derivatives (Ineffective Portion)	Amount of Gain (Loss) Recognized in Income of Derivatives (Ineffective Portion)
	Three Months Ended March 31, 2019		
Derivatives in cash flow hedges			
Interest rate swaps by effective date:			
March 15, 2016	$ (176)	Not applicable	$ —
December 15, 2016	(77)	Not applicable	—
June 15, 2017	(98)	Not applicable	—
December 15, 2017	(173)	Not applicable	—
December 15, 2017	(87)	Not applicable	—
September 15, 2018	(79)	Not applicable	—
September 15, 2018	(121)	Not applicable	—
September 15, 2018	(71)	Not applicable	—
September 15, 2018	(107)	Not applicable	—
February 21, 2019	(224)	Not applicable	—
Total	$ (1,213)		$ —

	Three Months Ended March 31, 2018		
(Dollars in thousands)	**Amount of Gain Recognized in OCI on Derivatives, net of Tax (Effective Portion)**	**Location of Gain (Loss) Recognized in Income of Derivatives (Ineffective Portion)**	**Amount of Gain (Loss) Recognized in Income of Derivatives (Ineffective Portion)**
Derivatives in cash flow hedges Interest rate swaps by effective date:			
March 15, 2016	$ 234	Not applicable	$ —
December 15, 2016	103	Not applicable	—
June 15, 2017	129	Not applicable	—
December 15, 2017	220	Not applicable	—
December 15, 2017	111	Not applicable	—
Total	$ 797		$ —

The Company has master netting arrangements with its counterparty. All master netting arrangements include rights to offset associated with the Company's recognized derivative assets, derivative liabilities, and cash collateral received and pledged.

Amounts reported in accumulated other comprehensive income related to derivatives are reclassified to interest expense as interest payments made on the Company’s variable rate borrowing positions. During the three months ended March 31, 2019 the Company had $59 thousand of reclassifications to interest income. During the three months ended March 31, 2018, the Company had $24 thousand of reclassifications to interest expense.

As required under the master netting arrangement with its derivatives counterparty, the Company pledged $1.4 million and received $550 thousand of financial collateral at March 31, 2019, and received financial collateral in the amount of $2.8 million at March 31, 2018.

Offsetting derivatives

The following table presents a gross presentation, the effects of offsetting, and a net presentation of the Company’s derivatives in the Consolidated Balance Sheets as of March 31, 2019 and December 31, 2018. The net amounts of derivative liabilities and assets can be reconciled to the tabular disclosure of the fair value hierarchy, see Note 12, Fair Value of Financial Instruments. The tabular disclosure of fair value provides the location that derivative assets and liabilities are presented on the Company’s Consolidated Balance Sheets.

(Dollars in thousands)	Gross Amounts Recognized	Gross Amounts Offset	Net Amounts Presented	Gross Amounts Not Offset: Financial Instruments	Gross Amounts Not Offset: Cash Collateral Pledged	Net Amount
March 31, 2019						
Assets:						
Interest Rate Swaps	$ 1,240	—	$ 512	—	$ 250	$ 262
Total	$ 1,240	—	$ 512	—	$ 250	$ 262
Liabilities:						
Interest Rate Swaps	$ (1,639)	—	$ (911)	—	$ (1,070)	$ 159
Total	$ (1,639)	—	$ (911)	—	$ (1,070)	$ 159
December 31, 2018						
Assets:						
Interest Rate Swaps	$ 2,114	—	$ 1,672	—	$ 2,460	$ (788)
Total	$ 2,114	—	$ 1,672	—	$ 2,460	$ (788)
Liabilities:						
Interest Rate Swaps	$ (779)	—	$ (337)	—	—	$ (337)
Total	$ (779)	—	$ (337)	—	—	$ (337)

NOTE 14 – BORROWINGS

At March 31, 2019, the Bank had secured borrowing potential with the Federal Home Loan Bank of New York ("FHLBNY") for borrowings of up to $343.7 million and a $10.0 million line of credit at Atlantic Central Bankers Bank ("ACBB"). The borrowings at the FHLBNY are secured by a pledge of qualifying residential and commercial mortgage loans, having an aggregate unpaid principal balance of approximately $343.7 million. At March 31, 2019, the Bank had the ability to borrow up to $183.4 million at FHLBNY and $10.0 million at ACBB.

At March 31, 2019 and December 31, 2018, the Company had $114.8 million and $175.3 million, respectively, in short term advances at the FHLBNY, having weighted average interest rates of 2.67% and 2.66%, respectively. These advances are priced at the federal funds rate plus a spread (generally between 20 and 30 basis points), re-price daily and mature within three months.

As of March 31, 2019 and December 31, 2018, respectively, the Company had $36.7 million and $44.6 million in long-term fixed rate advances.

NOTE 15 – REVENUE RECOGNITION

Revenue from Contracts with Customers, ASU 2014-09, and all subsequent amendments to the ASU (collectively, "ASC 606"), (i) creates a single framework for recognizing revenue from contracts with customers that fall within its scope and (ii) revises when it is appropriate to recognize a gain (loss) from the transfer of nonfinancial assets, such as securities and premises and equipment. The majority of the Company's revenues come from interest income and other sources, including loans, leases, securities, and derivatives that are outside the scope of ASC 606. The Company's services that fall within the scope of ASC 606 are presented within other income and are recognized as revenue as the Company satisfies its obligation to the customer. Services within the scope of ASC 606 include deposit service charges on deposits, interchange income, and insurance contracts.

The Company, using a modified retrospective transition approach, determined that there will be no cumulative effect adjustment to retained earnings as a result of adopting the new standard, nor will the standard have a material impact on our consolidated financial statements including the timing or amounts of revenue recognized.

All of the Company's revenue from contracts with customers within the scope of ASC 606 is recognized within other income. The following table presents the Company's sources of other income for the quarter ended March 31, 2019 and 2018. Sources of revenue outside the scope of ASC 606 are noted as such.

(Dollars In Thousands)	Three Months Ended March 31,	
	2019	**2018**
Other income:		
Service fees on deposit accounts	$ 330	$ 328
ATM and debit card fees	231	213
Bank-owned life insurance (1)	230	185
Insurance commissions and fees	2,562	1,895
Investment brokerage fees (1)	56	22
Other	224	214
Total Other Income	$ 3,633	$ 2,857

(1) Not within the scope of ASC 606.

A description of the Company's revenue streams accounted for under ASC 606 is as follows:

Service Fees on Deposit Accounts

The Company earns fees from deposit customers for transaction-based, account maintenance, and overdraft services. Transaction-based fees, which include services such as ATM use fees, stop payment charges, statement rendering, and ACH fees, are recognized at the time the transaction is executed at the point in the time the Company fulfills the customer's request. Account maintenance fees, which relate primarily to monthly maintenance, are earned over the course of a month, representing the period over which the Company satisfies the performance obligation. Overdraft fees are recognized at the point in time that the overdraft occurs. Service charges on deposits are withdrawn from the customer's account balance.

Interchange Income

The Company earns interchange fees from debit and credit card holder transactions conducted through various payment networks. Interchange fees from cardholder transactions are recognized daily, concurrently with the transaction processing services provided by an outsource technology solution and are presented on a net basis.

Insurance commissions and fees

Commission revenues are recognized as of the effective date of the insurance policy or the date on which the policy premium is processed into our systems, whichever is later. Commission revenues related to installment billings are recognized on the latter of effective or invoiced date. Subsequent commission adjustments are recognized upon our receipt of notification from insurance companies concerning matters necessitating such adjustments. Profit-sharing contingent commissions are recognized when determinable, which is generally when such commissions are received from insurance companies, or when we receive formal notification of the amount of such payments.

Other

Other fees consist of revenues that are both in scope and out of scope of ASC 606. Other fee revenues in scope of ASC 606 are made up of wire transfer fees for deposit customers, other agency fee income for SB One Insurance Agency, and other deposit related fees. Revenues for such fees are recognized at the point the fee is incurred by the customer.

NOTE 16 – RIGHT OF USE ASSET AND LEASE LIABILITY

The Company leases corporate and branch office locations. Six of the branch office leases have options to renew. The exercise of lease renewal options is at our sole discretion; therefore, our Right of Use (ROU) assets and lease liabilities include extensions for one option period. The Company has elected certain optional practical expedients, to not restate comparative periods and forego a reassessment, to exclude short-term leases from our ROU assets and lease liabilities. The eleven corporate and branch location leases are classified as operating leases while the remaining leases are all short-term leases. The Company adopted ASU No. 2016-02 on January 1, 2019 and recorded $2.7 million in ROU assets and lease liabilities on adoption.

As our leases do not provide an implicit rate, we use our incremental borrowing rate based on the information available at the lease commencement date in determining the present value of the lease payments. The Company's weighted average incremental borrowing rate used in the calculation of the right-of-use assets and lease liabilities was estimated at 2.59%. At March 31, 2019 the ROU assets and lease liabilities included on the consolidated balance sheet in other assets and other liabilities, respectively totaled $2.6 million.

The weighted average remaining lease term is 6.2 years.

Total lease costs for the three months ended March 31, 2019 was $221 thousand consisting of $123 thousand related to operating leases, $98 thousand related to short term leases. Rent expense for the three months ended March 31, 2018, prior to the adoption of ASU 2016-02, was $166 thousand.

Cash paid on operating leases was $240 thousand for the three months ended March 31, 2019.

Maturities of lease liabilities were as follows:

(Dollars in Thousands)

Year Ending,		Operating Leases
2019	$	901
2020		421
2021		370
2022		386
2023		388
Thereafter		1,514
Total lease payments (a) (b)		3,980
Less imputed interest		(963)
Total	$	3,017

(a) includes short term lease liabilities outside the scope of Topic 842

(b) lease liability maturities include 1st option of extension

As of March 31, 2019, we have one additional operating lease that has not yet commenced of $1.8 million. The operating lease will commence in fiscal year 2019 with a 7 year lease term.

Item 2 - Management's Discussion and Analysis of Financial Condition and Results of Operations

MANAGEMENT STRATEGY

We are a community-oriented financial institution serving northern New Jersey, northeastern Pennsylvania, New York City, New York and Queens County, New York. While offering traditional community bank loan and deposit products and services, we obtain non-interest income through our insurance brokerage operations and the sale of non-deposit products.

We continue to focus on strengthening our core operating performance by improving our net interest income and margin by closely monitoring our yield on earning assets and adjusting the rates offered on deposit products. We have been focused on building for the future and strengthening our core operating results within our risk management framework.

CRITICAL ACCOUNTING POLICIES

Our consolidated financial statements are prepared in accordance with U.S. GAAP and practices within the banking industry. Application of these principles requires management to make estimates, assumptions, and judgments that affect the amounts reported in our consolidated financial statements and accompanying notes. These estimates, assumptions, and judgments are based on information available as of the date of the financial statements; accordingly, as this information changes, the financial statements could reflect different estimates, assumptions, and judgments. Actual results could differ from those estimates.

Critical accounting estimates are necessary in the application of certain accounting policies and procedures, and are particularly susceptible to significant change. Critical accounting policies are defined as those that are reflective of significant judgments and uncertainties, and could potentially result in materially different results under different assumptions and conditions. There have been no material changes to our critical accounting policies during the three months ended March 31, 2019. For additional information on our critical accounting policies, please refer to Note 1 of the consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2018.

COMPARISON OF OPERATING RESULTS FOR THREE MONTHS ENDED MARCH 31, 2019 AND 2018

Overview – For the quarter ended March 31, 2019, the Company reported net income of $5.8 million, or $0.62 per basic and diluted share, for the quarter ended March 31, 2019, an increase of 345.2%, as compared to net income of $1.3 million, or $0.17 per basic and diluted share, for the quarter ended March 31, 2018.

The Company's net income of $5.8 million, or $0.62 per basic and diluted share, increased 58.4%, as compared to net income of $3.7 million, or $0.47 per basic and diluted share, adjusted for tax effected merger-related expenses of $2.4 million, for the quarter ended March 31, 2018. The Company's return on average assets for the quarter ended March 31, 2019, was 1.28%, an increase from 1.10%, adjusted for tax effected merger-related expenses of $2.4 million, for the quarter ended March 31, 2018. The following table summarizes net income excluding merger-related expenses for the three months ended March 31, 2019 and 2018:

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Non-GAAP Reporting

(Dollars In Thousands)

(Unaudited)

	For the Three Months Ended March 31, 2019		For the Three Months Ended March 31, 2018	
Net income (GAAP)	$	5,823	$	1,308
Merger related expenses net of tax (1)		—		2,367
Net income, as adjusted	$	5,823	$	3,675
Average diluted shares outstanding (GAAP) (2)		9,460,118		7,791,736
Diluted EPS, as adjusted	$	0.62	$	0.47
Average assets		1,825,629		1,340,631
Return on average assets, as adjusted		1.28%		1.10%
Return on average equity, as adjusted		12.39%		10.22%

(1) Merger related expense net of tax expense of $926 thousand.

(2) Average diluted shares outstanding includes issuance of 1,873,028 shares of our common stock in connection with the acquisition of Community.

Comparative Average Balances and Average Interest Rates – The following table presents, on a fully tax equivalent basis, a summary of our interest-earning assets and their average yields, and interest-bearing liabilities and their average costs for the three month periods ended March 31, 2019 and 2018:

	Three Months Ended March 31,					
(Dollars in thousands)	2019			2018		
Earning Assets:	Average Balance	Interest	Average Rate (2)	Average Balance	Interest	Average Rate (2)
Securities:						
Tax exempt (3)	$ 62,654	$ 675	4.37%	$ 54,987	$ 575	4.24%
Taxable	142,137	1,175	3.35%	120,776	736	2.47%
Total securities	204,791	1,850	3.66%	175,763	1,311	3.03%
Total loans receivable (1) (4)	1,500,604	18,160	4.91%	1,063,727	11,900	4.54%
Other interest-earning assets	14,691	49	1.35%	12,397	30	0.98%
Total earning assets	$ 1,720,086	$ 20,059	4.73%	$ 1,251,887	$ 13,241	4.29%
Non-interest earning assets	114,358			96,249		
Allowance for loan losses	(8,815)			(7,505)		
Total Assets	$ 1,825,629			$ 1,340,631		
Sources of Funds:						
Interest bearing deposits:						
NOW	$ 255,959	$ 446	0.71%	$ 259,677	$ 398	0.62%
Money market	240,936	1,178	1.98%	96,463	248	1.04%
Savings	221,608	327	0.60%	221,946	77	0.14%
Time	436,376	1,913	1.78%	265,139	735	1.12%
Total interest bearing deposits	1,154,879	3,864	1.36%	843,225	1,458	0.70%
Borrowed funds	188,983	1,214	2.61%	111,886	506	1.83%
Junior subordinated debentures	27,860	315	4.59%	27,849	315	4.59%
Total interest bearing liabilities	$ 1,371,722	$ 5,393	1.59%	$ 982,960	$ 2,279	0.94%
Non-interest bearing liabilities:						
Demand deposits	259,363			208,694		
Other liabilities	6,481			5,112		
Total non-interest bearing liabilities	265,844			213,806		
Stockholders' equity	188,063			143,865		
Total Liabilities and Stockholders' Equity	$ 1,825,629			$ 1,340,631		
Net Interest Income and Margin(5)		14,666	3.46%		10,962	3.55%
Tax-equivalent basis adjustment		(227)			(194)	
Net Interest Income		$ 14,439			$ 10,768	

(1) Includes loan fee income.

(2) Average rates on securities are calculated on amortized costs.

(3) Full taxable equivalent basis, using an effective tax rate of 30.09% in 2019 and 2018 and adjusted for TEFRA (Tax and Equity Fiscal Responsibility Act) interest expense disallowance

(4) Loans outstanding include non-accrual loans.

(5) Represents the difference between interest earned and interest paid, divided by average total interest-earning assets.

Net Interest Income – Net interest income is the difference between interest and deferred fees earned on loans and other interest-earning assets and interest paid on interest-bearing liabilities. Net interest income is directly affected by changes in volume and mix of interest-earning assets and interest-bearing liabilities that support those assets, as well as changing interest rates when differences exist in repricing dates of assets and liabilities.

Net interest income on a fully tax equivalent basis increased $3.7 million, or 33.8%, to $14.7 million for the first quarter of 2019, as compared to $11.0 million for the same period in 2018. The increase in net interest income was largely due to a $468.2 million, or 37.4%, increase in average interest earning assets, principally loans receivable, which increased $436.9 million, or 41.1%, driven by organic loan and deposit growth and the December 2018 closing of the Enterprise acquisition. The aforementioned was partly offset by a decrease in the net interest margin of nine basis points to 3.46% for the first quarter of 2019, as compared to the same period in 2018. The decrease was primarily driven by the effects of higher market rates on interest bearing liabilities costs, which increased 65 basis points, and was partially offset by an increase in earning asset yields, which grew 0.44% during the comparison period. The increase in interest earning asset yields was partially attributed to the addition of the Enterprise loan portfolio and the increase in purchase accounting loan accretion of $674.5 thousand to $986.0 thousand for the first quarter of 2019, as compared to $259.9 thousand for the same period in 2018.

Interest Income – Our total interest income, on a fully tax equivalent basis, increased $6.8 million, or 51.5%, to $20.0 million for the quarter ended March 31, 2019, as compared to the same period last year. The increase was primarily due to higher average earning assets, which increased $468.2 million for the quarter ended March 31, 2019, as compared to the same period in 2018. The average yield increased 44 basis points to 4.73% for the quarter ended March 31, 2019, as compared to 4.29% for the same period last year.

Our total interest income earned on loans receivable increased $6.3 million, or 52.6%, to $18.2 million for the first quarter of 2019, as compared to the same period in 2018. The increase was primarily driven by an increase in average balance of loans receivable of $436.9 million, or 41.1%, for the three months ended March 31, 2019, as compared to the same period last year. The average yield increased 37 basis points to 4.91% for the quarter ended March 31, 2019, as compared to 4.54% for the same period last year. The increases in average yield were largely driven by purchase accounting accretion resulting from the acquisitions of Community and Enterprise.

Our total interest income earned on securities, on a fully tax equivalent basis, increased $539 thousand, to $1.9 million for the quarter ended March 31, 2019 from $1.3 million for the same period in 2018. The increase in interest income earned on securities was mainly due to a 16.5% increase on the average balance. The average yield for the quarter ended March 31, 2019 increased 63 basis points to 3.66% as compared to the same period in 2018.

Other interest-earning assets include federal funds sold and interest bearing deposits in other banks. Our interest earned on total other interest-earning assets increased $19 thousand to $49 thousand for the first quarter of 2019 as compared to the same period last year. The average balances in other interest-earning assets increased $2.3 million to $14.7 million in the first quarter of 2019 from $12.4 million during the first quarter a year earlier. The average yield for the quarter ended March 31, 2019 increased 37 basis points to 1.35% as compared to 0.98% in the same period in 2018 which was mainly driven by the deposits held at the Federal Reserve Bank and Wilmington Trust.

Interest Expense – Our interest expense for the three months ended March 31, 2019 increased $3.1 million, or 136.6%, to $5.4 million from $2.3 million for the same period in 2018. The increase was principally due to higher average balances in interest-bearing liabilities, which increased $388.8 million, or 39.6%, to $1.4 billion for the first quarter of 2019 from $983.0 million for the same period in 2018. In addition the increase was due to a 65 basis points increase in the average rate to 1.59% for the quarter ended March 31, 2019, as compared to 0.94% for the same period last year.

Our interest expense on deposits increased $2.4 million, or 165.0%, for the quarter ended March 31, 2019, as compared to the same period last year. The increase was largely attributed to the increase in the average balance of total interest bearing deposits, which increased $311.7 million during the first quarter of 2019, as compared to the same period in 2018. The average rate increased 66 basis points to 1.36% for the quarter ended March 31, 2019, as compared to 0.70% for the same period last year. The average rate excluding purchase accounting accretion increased 71 basis points to 1.47% for the quarter ended March 31, 2019, as compared to 0.76% for the same period last year.

Our interest expense on borrowed funds increased $708 thousand, or 139.9%, for the quarter ended March 31, 2019, as compared to the same period last year. The increase was largely attributed to a $77.1 million increase in the average balance of borrowed funds during the first quarter of 2019, as compared to the same period in 2018. The average rate increased 78 basis points to 2.61% as compared to 1.83% in the same period in 2018.

Our interest expense on all of the Company`s subordinated debt remained the same for the quarter ended March 1, 2019, as compared to the same period last year.

Provision for Loan Losses – Provision for loan losses increased $63 thousand, or 12.4%, to $571 thousand for the first quarter of 2019, as compared to $508 thousand for the same period in 2018. The provision for loan losses reflects management's judgment concerning the risks inherent in our existing loan portfolio and the size of the allowance necessary to absorb the risks, as well as the activity in the allowance during the periods. Management reviews the adequacy of its allowance on an ongoing basis and will provide additional provisions, as management may deem necessary.

Non-Interest Income – Our non-interest income increased $776 thousand, or 27.2%, to $3.6 million for the first quarter of 2019, as compared to the same period in 2018. The growth was largely due to an increase of $667 thousand, or 35.2%, in insurance commissions and fees relating to SB One Insurance Agency largely attributable to a $365 thousand increase in contingency commission income. In addition, bank owned life insurance and investment brokerage fees, increased $45 thousand and $34 thousand, respectively.

Non-Interest Expense – Our non-interest expenses decreased $1.4 million to $10.2 million for the first quarter of 2019, as compared to the same period in 2018. Non-interest expenses, adjusted for merger-related expenses of $3.3 million, increased $1.9 million to $10.2 million for the first quarter of 2019 as compared to $8.3 million, for the same period in 2018. The increase in non-interest expenses occurred largely in salaries and employee benefits of $1.1 million, driven by growth in staff, inclusive of the addition of Enterprise employees resulting from the merger, and a bonus payment to employees for $255 thousand. Additionally, occupancy increased $177 thousand, fraud and check loss increased $166 thousand, and data processing increased $149 thousand. The growth in operating expenses was largely due to the acquisition of Enterprise and to support the Company's growth.

Income Taxes – Our income tax expense, which includes both federal and state tax expenses, increased $1.3 million, or 597.7%, to $1.5 million for the first quarter of 2019, as compared to the same period last year. The Company's effective tax rate for the first quarter of 2019 was 20.5%, as compared to 14.1% for the first quarter of 2018.

COMPARISON OF FINANCIAL CONDITION AT MARCH 31, 2019 TO DECEMBER 31, 2018

Total Assets – At March 31, 2019, our total assets were $1.8 billion, an increase of $44.5 million, or 2.5%, as compared to total assets of $1.8 billion at December 31, 2018. The increase was mainly attributable to an increase in loans receivable of $38.9 million, or 2.6%, to $1.5 billion.

Cash and Cash Equivalents – Our cash and cash equivalents decreased by $3.7 million to $23.0 million at March 31, 2019, or 1.3% of total assets, from $26.7 million, or 1.5% of total assets, at December 31, 2018.

Securities Portfolio – At March 31, 2019, the securities portfolio, which includes available for sale and held to maturity securities, was $196.1 million, compared to $186.2 million at December 31, 2018. Available for sale securities were $192.1 million at March 31, 2019, compared to $182.1 million at December 31, 2018. The available for sale securities are held primarily for liquidity, interest rate risk management and profitability. Accordingly, our investment policy is to invest in securities with low credit risk, such as U.S. government agency obligations, state and political obligations and mortgage-backed securities. Held to maturity securities were $4.0 million at March 31, 2019 and $4.1 million at December 31, 2018.

Net unrealized gain in the available for sale securities portfolio was $2.9 million at March 31, 2019 as compared to a net unrealized loss of $1.6 million at December 31, 2018.

We conduct a regular assessment of our investment securities to determine whether any securities are OTTI. Further details of the composition of the securities portfolio and discussion of the results of the most recent OTTI assessment are in Note 3 – Securities to our unaudited consolidated financial statements.

The unrealized losses in our securities portfolio are mostly driven by changes in spreads and market interest rates. All of our securities in an unrealized loss position have been evaluated for other-than-temporary impairment as of September 30, 2018 and we do not consider any security OTTI. We evaluated the prospects of the issuers in relation to the severity and the duration of the unrealized losses. In addition, we do not intend to sell, and it is more likely than not that we will not have to sell, any of our securities before recovery of their cost basis.

Other investments, which consisted primarily of FHLB stock, decreased $2.4 million to $9.3 million at March 31, 2019 as compared to $11.8 million at December 31, 2018. We also held $200 thousand in time deposits with other financial institutions at March 31, 2018 and at December 31, 2018.

Loans – The loan portfolio comprises our largest class of earning assets. Total loans receivable, net of unearned income, increased $38.9 million, or 2.6%, to $1.5 billion at March 31, 2019, as compared to $1.5 billion at December 31, 2018. During the three months ended March 31, 2019, the Company also had $62.3 million of commercial loan production, which was partly offset by $7.6 million in commercial loan payoffs.

The following table summarizes the composition of our gross loan portfolio by type:

(Dollars in thousands)	March 31, 2019	December 31, 2018
Commercial and industrial loans	$ 93,567	$ 81,709
Construction	120,340	142,321
Commercial real estate	929,091	878,449
Residential real estate	369,100	370,955
Consumer and other	2,654	2,393
Total gross loans	$ 1,514,752	$ 1,475,827

Loan and Asset Quality – The ratio of non-performing assets ("NPAs"), which include non-accrual loans, loans 90 days past due and still accruing, troubled debt restructured loans currently performing in accordance with renegotiated terms and foreclosed real estate, to total assets decreased to 1.35% at March 31, 2019 as compared to 1.43% at December 31, 2018. NPAs exclude $3.0 million of Purchased Credit-Impaired ("PCI") loans acquired through the Community acquisition. NPAs decreased $845 thousand to $24.9 million at March 31, 2019, as compared to $25.8 million at December 31, 2018. Non-accrual loans, excluding $3.0 million of PCI loans, decreased $66 thousand, or 0.32%, to $20.6 million at March 31, 2019, as compared to $20.7 million at December 31, 2018. Loans past due 30 to 89 days totaled $4.8 million at March 31, 2019, representing an increase of $1.0 million, or 27.9%, as compared to $3.8 million at December 31, 2018. The top 5 NPAs totaled $12.1 million at March 31, 2019, made up of 4 non-accrual loans totaling $10.8 million, or 52.6% of total non-accrual loans, and one foreclosed real estate property in the amount of $1.3 million acquired in the Enterprise acquisition. The top 5 NPAs totaled 48.5% of total NPAs at March 31, 2019.

We continue to actively market our foreclosed real estate properties, the value of which decreased $908 thousand to $3.2 million at March 31, 2019 as compared to $4.1 million at December 31, 2018. The decrease in foreclosed real estate properties was largely attributed to the sale of three properties totaling $902 thousand. At March 31, 2019, the Company's foreclosed real estate properties had an average carrying value of approximately $360 thousand per property.

Management continues to monitor our asset quality and believes that the NPAs are adequately collateralized and anticipated material losses have been adequately reserved for in the allowance for loan losses. However, given the uncertainty of the current real estate market, additional provisions for losses may be deemed necessary in future periods. The following table provides information regarding risk elements in the loan portfolio at each of the periods presented:

(Dollars in thousands)	March 31, 2019	December 31, 2018
Non-accrual loans	$ 20,638	$ 20,704
Non-accrual loans to total loans	1.36%	1.40%
NPAs	$ 24,914	$ 25,759
NPAs to total assets	1.35%	1.43%
Allowance for loan losses as a % of non-accrual loans	44.53%	42.38%
Allowance for loan losses to total loans	0.61%	0.60%

A loan is considered impaired, in accordance with the impairment accounting guidance, when based on current information and events, it is probable that we will be unable to collect all amounts due from the borrower in accordance with the contractual terms of the loan. Total impaired loans were $21.7 million and $20.7 million at March 31, 2019 and December 31, 2018, respectively. The Company also had PCI loans from the acquisition of Community with a carrying value of $3.0 million at March 31, 2019. Impaired loans include loans modified in troubled debt restructurings where concessions have been granted to borrowers experiencing financial difficulties. These concessions could include a reduction in the interest rate on the loan, payment extensions, forgiveness of principal, forbearance or other actions intended to maximize collection. Not all impaired loans and restructured loans are on non-accrual, and therefore not all are considered non-performing loans. Restructured loans still accruing totaled $1.0 million and $906 thousand at March 31, 2019 and December 31, 2018, respectively.

We also continue to monitor our portfolio for potential problem loans. Potential problem loans are defined as loans which cause management to have serious concerns as to the ability of such borrowers to comply with the present loan repayment terms and which may cause the loan to be placed on non-accrual status. As of March 31, 2019, we had seven loans totaling $2.5 million that we deemed potential problem loans. Management is actively monitoring these loans.

Further detail of the credit quality of the loan portfolio is included in Note 5 – Allowance for Loan Losses and Credit Quality of Financing Receivables to our unaudited consolidated financial statements.

Allowance for Loan Losses – The allowance for loan losses consists of general, allocated and unallocated components. The allocated component relates to loans that are classified as impaired. For those loans that are classified as impaired, an allowance is established when the discounted cash flows, collateral value or observable market price of the impaired loan is lower than the carrying value of that loan. The general component covers non-impaired loans and is based on historical charge-off experience and expected losses derived from our internal risk rating process. The unallocated component covers the potential for other adjustments that may be made to the allowance for pools of loans after an assessment of internal or external influences on credit quality that are not fully reflected in the historical loss or risk rating data.

Management regularly assesses the appropriateness and adequacy of the loan loss reserve in relation to credit exposure associated with individual borrowers, overall trends in the loan portfolio and other relevant factors, and believes the reserve is reasonable and adequate for each of the periods presented.

At March 31, 2019, the total allowance for loan losses increased $415 thousand, or 4.7%, to $9.2 million, or 0.86% of the Company's legacy loan portfolio, at March 31, 2019 as compared to $8.8 million at December 31, 2018. The Company's outstanding credit mark recorded on the legacy Community portfolio of $197.7 million totaled $5.0 million at March 31, 2019. The Company's outstanding credit mark recorded on the legacy Enterprise portfolio of $259.7 million totaled $3.2 million at March 31, 2019. The Company's combined coverage of allowance for loan loss and credit mark on the legacy Community and Enterprise portfolios totaled $17.3 million, or 1.13% of the overall loan portfolio, at March 31, 2019. The Company recorded $571 thousand in provision for loan losses for the three months ended March 31, 2019 as compared to $508 thousand for the three months ended March 31, 2018. Additionally, the Company recorded net charge-offs of $163 thousand for the three months ended March 31, 2019, as compared to $15 thousand in net charge-offs for the three months ended March 31, 2018. The allowance for loan losses as a percentage of non-accrual loans increased to 44.6% at March 31, 2019 from 43.5% at December 31, 2018.

The table below presents information regarding our provision and allowance for loan losses for the three months ended March 31, 2019 and 2018:

(Dollars in thousands)	**March 31, 2019**	**March 31, 2018**
Balance, beginning of period	$ 8,775	$ 7,335
Provision	571	508
Charge-offs	(168)	(34)
Recoveries	12	19
Balance, end of period	$ 9,190	$ 7,828

The table below presents details concerning the allocation of the allowance for loan losses to the various categories for each of the periods presented. The allocation is made for analytical purposes and it is not necessarily indicative of the categories in which future credit losses may occur. The total allowance is available to absorb losses from any category of loans.

	March 31, 2019		**December 31, 2018**	
(Dollars in thousands)	**Amount**	**Percentage of Loans In Each Category To Gross Loans**	**Amount**	**Percentage of Loans In Each Category To Gross Loans**
Commercial and industrial	$ 647	6.2%	$ 603	6.6%
Construction	359	7.9%	663	6.9%
Commercial real estate	6,304	61.3%	5,575	66.2%
Residential real estate	1,349	24.4%	1,371	20.2%
Consumer and other loans	19	0.2%	23	0.1%
Unallocated	512	—%	540	—%
Total	$ 9,190	100.0%	$ 8,775	100.0%

Bank-Owned Life Insurance ("BOLI") – Our BOLI carrying value amounted to $36.0 million at March 31, 2019 and $35.8 million at December 31, 2018. The increase of $230 thousand is largely due to net earnings on BOLI policies.

Goodwill and Other Intangibles – Goodwill represents the excess of the purchase price over the fair market value of net assets acquired. At March 31, 2019 and December 31, 2018, we had recorded goodwill totaling $27.3 million. Our recorded goodwill includes the acquisition of Tri-State in 2001, the 2006 acquisition of deposits and the acquisitions of Community and Enterprise. In accordance with U.S. GAAP, goodwill is not amortized, but evaluated at least annually for impairment. Any impairment of goodwill results in a charge to income. We recorded a core deposit intangible of $1.3 million and $1.1 million for the Community and Enterprise acquisitions, respectively. For the period ended March 31, 2019, we amortized $102 thousand in core deposit intangible. We periodically assess whether events and changes in circumstances indicate that the carrying amounts of goodwill and intangible assets may be impaired. The estimated fair value of each reporting unit exceeded its book value; therefore, no write-down of goodwill was required at September 30, 2018. The goodwill related to the acquisition of Community was not reviewed for impairment at September 30 as the merger took place within the last twelve months. The goodwill related to the insurance agency is not deductible for tax purposes.

Deposits – Our total deposits increased $107.4 million, or 7.9%, to $1.5 billion at March 31, 2019, from $1.4 billion at December 31, 2018. The growth in deposits was mostly due to an increase in interest bearing deposits of $97.2 million, or 8.9%, and non-interest bearing deposits of $10.1 million, or 3.9%, at March 31, 2019, as compared to December 31, 2018, respectively.

Borrowings – Our borrowings consist of short-term and long-term advances from the FHLB. The advances are secured under terms of a blanket collateral agreement by a pledge of qualifying mortgage loans. We had $151.5 million and $219.9 million in borrowings at the FHLB, at a weighted average interest rate of 2.52% at March 31, 2019 and December 31, 2018, respectively. The long-term borrowings at March 31, 2019 consisted of $31.7 million of fixed rate advances and $5.0 million of advances with quarterly convertible puts that allow us to put the advance back to the FHLB quarterly after one year from issuance. During the quarter ended March 31, 2016, the Company entered into forward starting interest rate swap agreements related to four of its FHLB borrowings. Please refer to Liquidity and Capital Resources – *Off-Balance Sheet Arrangements*.

Subordinated Debentures – On June 28, 2007, Sussex Capital Trust II (the "Trust"), a Delaware statutory business trust and our non-consolidated wholly owned subsidiary, issued $12.5 million of variable rate capital trust pass-through securities to investors. The Trust purchased $12.9 million of variable rate junior subordinated deferrable interest debentures from us. The debentures are the sole asset of the Trust. The terms of the junior subordinated debentures are the same as the terms of the capital securities. We have also fully and unconditionally guaranteed the obligations of the Trust under the capital securities. The interest rate is based on the three-month LIBOR plus 144 basis points and adjusts quarterly. The rate at March 31, 2019 was 4.05%. During the quarter ended March 31, 2016, the Company entered into an interest rate swap agreement related to the junior subordinated debentures where the Company pays a fixed rate of 3.10% and receives the three-month LIBOR plus 144 basis points. Please refer to Liquidity and Capital Resources – *Off-Balance Sheet Arrangements*. The capital securities are currently redeemable by us at par in whole or in part. The capital securities must be redeemed upon final maturity of the subordinated debentures on September 15, 2037. The proceeds of these trust preferred securities, which have been contributed to the Bank, are included in the Bank's capital ratio calculations and treated as Tier I capital. During the quarter ended December 31, 2016, the Company completed the private placement of the subordinated notes. The subordinated notes have a maturity date of December 22, 2026 and bear interest at the rate of 5.75% per annum, payable quarterly, for the first five years of the term, and then at a variable rate that will reset quarterly to a level equal to the then current 3-month LIBOR plus 350 basis points over the remainder of the term.

In accordance with FASB ASC 810, *Consolidations*, our wholly owned subsidiary, the Trust, is not included in our consolidated financial statements.

Equity – Stockholders' equity, inclusive of accumulated other comprehensive income, net of income taxes, was $189.7 million, an increase of $4.3 million when compared to December 31, 2018. The Company completed the mergers with Community and Enterprise in 2018 which were the primary drivers in an increase in book value per common share of 3.1% from $19.45 at December 31, 2018 to $20.03 at March 31, 2019. At March 31, 2019, the leverage, Tier I risk-based capital, total risk-based capital and common equity Tier I capital ratios for the Bank were 10.21%, 12.09%, 12.70% and 12.09%, respectively, all in excess of the ratios required to be deemed "well-capitalized."

LIQUIDITY AND CAPITAL RESOURCES

A fundamental component of our business strategy is to manage liquidity to ensure the availability of sufficient resources to meet all financial obligations and to finance prospective business opportunities. Liquidity management is critical to our stability. Our liquidity position over any given period of time is a product of our operating, financing and investing activities. The extent of such activities is often shaped by such external factors as competition for deposits and loan demand.

Traditionally, financing for our loans and investments is derived primarily from deposits, along with interest and principal payments on loans and investments. At March 31, 2019, total deposits amounted to $1.5 billion, an increase of $107.4 million, or 7.9%, from December 31, 2018. At March 31, 2019 and December 31, 2018, borrowings from the FHLB and subordinated debentures totaled $179.4 million and $247.8 million, respectively, and represented 19.8% and 13.8% of total assets, respectively.

Loan production continued to be our principal investing activity. Total loans receivable, net of unearned income, at March 31, 2019, amounted to $1.5 billion, an increase of $38.9 million, or 2.6%, compared to December 31, 2018.

Our most liquid assets are cash and due from banks and federal funds sold. At March 31, 2019, the total of such assets amounted to $23.0 million, or 1.3%, of total assets, compared to $26.7 million, or 1.5% of total assets at December 31, 2018. Another significant liquidity source is our available for sale securities portfolio. At March 31, 2019, available for sale securities amounted to $192.0 million, compared to $182.1 million at December 31, 2018.

In addition to the aforementioned sources of liquidity, we have available various other sources of liquidity, including federal funds purchased from other banks and the FRB discount window. The Bank also has the capacity to borrow an additional $183.4 million through its membership in the FHLB and $10.0 million at ACBB at March 31, 2019. Management believes that our sources of funds are sufficient to meet our present funding requirements.

In July 2013, the FRB, the Office of the Comptroller of the Currency (the "OCC") and the FDIC approved final rules (the "Capital Rules") that established a new capital framework for U.S. banking organizations. The Capital Rules generally implement the Basel Committee on Banking Supervision's (the "Basel Committee") December 2010 final capital framework referred to as "Basel III" for strengthening international capital standards. In addition, the Capital Rules implement certain provisions of the Dodd-Frank Act, including the requirements of Section 939A to remove references to credit ratings from the federal banking agencies' rules.

At March 31, 2019, the Bank's Tier I, Total and Common Equity Tier I ("CET1") capital ratios were 12.09%, 12.70% and 12.09%, respectively. In addition to the risk-based guidelines, the Bank's regulators require that banks which meet the regulators' highest performance and operational standards maintain a minimum leverage ratio (Tier I capital as a percentage of tangible assets) of 4.0%. As of March 31, 2019, the Bank had a leverage ratio of 10.21%. The Bank's risk based and leverage ratios are in excess of those required to be considered "well-capitalized" under FDIC regulations.

The Capital Rules also requires a "capital conservation buffer," composed entirely of CET1, on top of these minimum risk-weighted asset ratios. The capital conservation buffer is designed to absorb losses during periods of economic stress. Banking institutions with a ratio of CET1 to risk-weighted assets above the minimum but below the capital conservation buffer will face constraints on dividends, equity and other capital instrument repurchases and compensation based on the amount of the shortfall. Beginning January 1, 2016, the capital standards applicable to the Company will include an additional capital conservation buffer of 0.625%, increasing 0.625% each year thereafter. When fully phased-in on January 1, 2019, the Company will include an additional capital conservation buffer of 2.5% of CET1, effectively resulting in minimum ratios inclusive of the capital conservation buffer of (i) CET1 to risk-weighted assets of at least 7%, (ii) Tier 1 capital to risk-weighted assets of at least 8.5%, and (iii) total capital to risk-weighted assets of at least 10.5%. As of March 31, 2019, the Bank had a capital conservation buffer of 4.70%.

The Capital Rules substantially revised the risk-based capital requirements applicable to bank holding companies and their depository institution subsidiaries. The risk-based capital guidelines are designed to make regulatory capital requirements sensitive to differences in risk profiles among banks and bank holding companies, to account for off-balance sheet exposures and to minimize disincentives for holding liquid, low-risk assets. The capital guidelines apply on a consolidated basis to bank holding companies with consolidated assets of $1 billion or more, and to certain bank holding companies with less than $1 billion in assets if they are engaged in substantial non-banking activity or meet certain other criteria.

We have no investment or financial relationship with any unconsolidated entities that are reasonably likely to have a material effect on liquidity or the availability of capital resources, except for the trust preferred securities of the Trust. We are not aware of any known trends or any known demands, commitments, events or uncertainties, which would result in any material increase or decrease in liquidity. Management believes that any amounts actually drawn upon can be funded in the normal course of operations.

Off-Balance Sheet Arrangements **–** Our consolidated financial statements do not reflect off-balance sheet arrangements that are made in the normal course of business. These off-balance sheet arrangements consist of unfunded loans and letters of credit made under the same standards as on-balance sheet instruments. At March 31, 2019, these unused commitments totaled $300.0 million and consisted of $130.6 million in commitments to grant commercial real estate, construction and land development loans, $40.7 million in home equity lines of credit, $128.1 million in other unused commitments and $655 thousand in letters of credit. These instruments have fixed maturity dates, and because many of them will expire without being drawn upon, they do not generally present any significant liquidity risk to us. Management believes that any amounts actually drawn upon can be funded in the normal course of operations.

During the first quarter of 2016, the Company entered into interest rate swap agreements with notional amounts totaling $38.5 million, of which all are designated as cash flow hedges. The Company entered into $26.0 million in forward starting interest rate swap agreements coinciding with the maturity of five FHLB advances over the next 21 months that had an average rate of 4.03%. The forward interest rate swaps have a term of 10 years at an average fixed rate of 1.97% and will hedge short term wholesale funding. Additionally, the Company entered into a $12.5 million interest rate swap agreement to coincide with a junior subordinated debt issued by Sussex Capital Trust II, for a term of 10 years at a fixed rate of 3.10%.

During the second quarter of 2018, the Company entered into two interest rate swap agreements with notional amounts totaling $40 million, of which all are designated as cash flow hedges. The Company entered into $20.0 million in two different forward starting interest rate swap agreements coinciding with the maturity of two FHLB advances over 36 and 48 months both beginning on September 15, 2018. The forward interest rate swap with a 3 year term has a fixed rate of 2.89% and the forward interest rate swap with a 4 year term has a fixed rate of 2.90%.

During the third quarter of 2018, the Company entered into two interest rate swap agreements with notional amounts totaling $35 million, of which all are designated as cash flow hedges. The Company entered into $17.5 million in two different forward starting interest rate swap agreements coinciding with the maturity of two FHLB advances over 36 and 48 months both beginning on September 15, 2018. The forward interest rate swap with a 3 year term has a fixed rate of 2.85% and the forward interest rate swap with a 4 year term has a fixed rate of 2.86%.

During the quarter ended March 31, 2019, the Company entered into a forward starting interest rate swap agreement with a notional amount totaling $40 million, designated as a cash flow hedge. The Company entered into a $40 million in a brokered CD. The forward interest rate swap with a 3 year term has a fixed rate of 2.56%.

Item 3 - Quantitative and Qualitative Disclosures about Market Risk

Not applicable.

Item 4 - Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Management, including our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”)) as of the end of the period covered by this report. Based upon the evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective to ensure that information required to be disclosed in the reports we file and submit under the Exchange Act is (i) recorded, processed, summarized and reported as and when required and (ii) accumulated and communicated to our management, including the Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely discussion regarding required disclosure.

Changes in Internal Control over Financial Reporting

There have been no changes in our internal control over financial reporting identified in connection with the evaluation that occurred during our last fiscal quarter that have materially affected, or that are reasonably likely to materially affect, our internal control over financial reporting.

PART II – OTHER INFORMATION

Item 1 - Legal Proceedings

We are not involved in any legal proceedings other than routine legal proceedings occurring in the ordinary course of business. Management believes that such proceedings are, in the aggregate, immaterial to our financial condition and results of operations.

Item 1A - Risk Factors

For a summary of risk factors relevant to our operations, see Part 1, Item 1A, "Risk Factors" in our 2018 Annual Report on Form 10-K.

Item 2 - Unregistered Sales of Equity Securities and Use of Proceeds

The following table provides information with respect to any purchase of shares of our common stock made by or on behalf of us or any "affiliated purchaser," as defined in Rule 10b-18(a)(3) under the Exchange Act, during the three months ended March 31, 2019:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Program	Number of Shares that May Yet Be Purchased Under the Program(1)
January 1, 2019 through January 31, 2019	—	$ —	—	—
February 1, 2019 through February 28, 2019	61,900	22.03	61,900	408,100
March 1, 2019 through March 31, 2019	26,191	21.45	26,191	381,909
Total	88,091	$ 21.74	88,091	

(1) On February 1, 2019, the Board of Directors authorized a continuation of the stock repurchase program, under which we may repurchase up to 470,000 shares. The stock repurchase program expires on January 22, 2020, unless completed sooner or otherwise extended.

There were no sales by us of unregistered securities during the three months ended March 31, 2018.

Item 3 - Defaults Upon Senior Securities

Not applicable.

Item 4 - Mine Safety Disclosures

Not applicable.

Item 5 - Other Information

Not applicable.

Item 6 - Exhibits

The exhibits required to be filed as part of this Quarterly Report on Form 10-Q are listed below.

EXHIBIT INDEX

Exhibit Number	Description
2.1	Agreement and Plan of Merger, dated as of April 10, 2017, by and between Sussex Bancorp, Sussex Bank and Community Bank of Bergen County, NJ (incorporated by reference to Exhibit 2.1 of the Current Report on Form 8-K filed with the SEC on April 11, 2017).
2.2	Agreement and Plan of Merger, dated as of June 19, 2018, by and between SB One Bancorp, SB One Bank and Enterprise Bank N.J. (incorporated by reference to Exhibit 2.1 of the Current Report on Form 8-K filed with the SEC on June 20, 2018).
3.1	Restated Certificate of Incorporation (incorporated by reference to Exhibit 3.1 to the Quarterly Report on 10-Q filed with the SEC on August 15, 2011).
3.2	Amendment to Restated Certificate of Incorporation (incorporated by reference to Exhibit 3.1 to the Current Report on Form 8-K filed with the SEC on May 4, 2018).
3.3	Second Amendment to Restated Certificate of Incorporation (incorporated by reference to Exhibit 3.1 to the Current Report on Form 8-K filed with the SEC on April 30, 2019).
3.4	Second Amended and Restated By-laws (incorporated by reference to Exhibit 3.2 to the Current Report on Form 8-K filed with the SEC on May 4, 2018).
10.1	Employment Agreement, dated March 27, 2019, by and between the Company, SB One Bank and Adriano Duarte (incorporated by reference to Exhibit 10.1 to the Current Report on Form -K filed with the SEC on May 3, 2019).
31.1	Rule 13a-14(a)/15d-14(a) Certification of the Chief Executive Officer.
31.2	Rule 13a-14(a)/15d-14(a) Certification of the Chief Financial Officer.
32.1*	Section 1350 Certifications of the Chief Executive Officer and Chief Financial Officer.
101	Financial statements from the Quarterly Report on Form 10-Q of SB One Bancorp for the quarter ended March 31, 2019, formatted in XBRL (eXtensible Business Reporting Language): (i) the Consolidated Balance Sheets; (ii) the Consolidated Statements of Income and Comprehensive Income; (iii) the Consolidated Statements of Stockholders' Equity; (iv) the Consolidated Statements of Cash Flows and (v) Notes to Unaudited Consolidated Financial Statements.

____

* Furnished herewith and not deemed to be "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and shall not be deemed to be incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Exchange Act.

SIGNATURES

In accordance with the requirements of the Securities Exchange Act of 1934, as amended, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: May 9, 2019

SB ONE BANCORP

By: /s/ Adriano M. Duarte
Adriano M. Duarte
Chief Financial Officer and Executive Vice President
(Principal Financial and Accounting Officer)

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Section 2: EX-31.1 (EXHIBIT 31.1)

Exhibit 31.1

I, Anthony Labozzetta, certify that:

1. I have reviewed this quarterly report on Form 10-Q of SB One Bancorp;

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 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

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: May 9, 2019

By: /s/ Anthony Labozzetta

Anthony Labozzetta
President and Chief Executive Officer
(Principal Executive Officer)

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Section 3: EX-31.2 (EXHIBIT 31.2)

Exhibit 31.2

I, Adriano M. Duarte, certify that:

1. I have reviewed this quarterly report on Form 10-Q of SB One Bancorp;

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 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

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: May 9, 2019

By: /s/ Adriano M. Duarte

Adriano M. Duarte

Chief Financial Officer and
Executive Vice President
(Principal Financial and Accounting Officer)

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Section 4: EX-32.1 (EXHIBIT 32.1)

Exhibit 32.1

STATEMENT FURNISHED PURSUANT TO SECTION 906 OF THW SARBANES-OXLEY ACT OF 2002, 18 U.S.C. SECTION 1350

In connection with the Quarterly Report on Form 10-Q of SB One Bancorp (the “Company”) for the quarter ended March 31, 2019 (the “Report”), I, Anthony Labozzetta, President and Chief Executive Officer, and I, Adriano M. Duarte, Chief Financial Officer and Executive Vice President, each certify as follows:

A) the Report fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934, as amended (15 U.S.C. 78m or 78o(d)), and

B) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of the dates and for the periods covered by the Report.

This statement is authorized to be attached as an exhibit to the Report so that this statement will accompany the Report at such time as the Report is filed with the Securities and Exchange Commission, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350. Pursuant to Securities and Exchange Commission Release 33-8238, dated June 5, 2003, this certification is being furnished and shall not be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or incorporated by reference in any registration statement of the Company filed under the Securities Act of 1933, as amended, except to the extent that the Company specifically incorporates it by reference. A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

Date: May 9, 2019

By: /s/ Anthony Labozzetta
Anthony Labozzetta
President and Chief Executive Officer
(Principal Executive Officer)

By: /s/ Adriano M. Duarte
Adriano M. Duarte
Chief Financial Officer and
Executive Vice President
(Principal Financial and Accounting Officer)

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