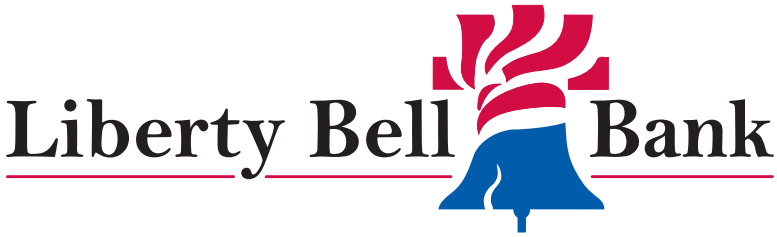

2016 Annual Report

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Liberty Bell Bank

Financial Statements
December 31, 2016

Contents

RSM

RSM US LLP

Independent Auditor's Report

To the Board of Directors and Shareholders
Liberty Bell Bank
Evesham, New Jersey

Report on the Financial Statements
We have audited the accompanying financial statements of Liberty Bell Bank which comprise the balance sheets as of December 31, 2016 and 2015, and the related statements of operations, comprehensive income, shareholders' equity, and cash flows for the years then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

Opinion
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Liberty Bell Bank as of December 31, 2016 and 2015, and the results of its operations and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

RSM US LLP

Blue Bell, Pennsylvania
March 27, 2017

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Liberty Bell Bank

Balance Sheets
December 31, 2016 and 2015

	2016	2015
Assets		
Cash and cash due from banks	**$ 1,286,574**	$ 1,280,232
Interest-bearing deposits with other banks	**12,803,742**	15,769,520
Cash and cash equivalents	**14,090,316**	17,049,752
Investment securities available for sale, at fair value	**10,896,708**	17,422,169
Loans (net of allowance for loan losses of $1,254,957 and $1,399,234 at December 31, 2016 and 2015, respectively)	**119,467,900**	110,711,348
Other real estate owned	**1,851,533**	2,610,920
Bank premises and equipment, net	**2,311,087**	2,462,117
Federal home loan bank stock, at cost	**263,000**	244,700
Accrued interest receivable and other assets	**695,370**	901,466
Total assets	**$ 149,575,914**	$ 151,402,472
Liabilities and Shareholders' Equity		
Liabilities:		
Deposits:		
Noninterest-bearing	**$ 20,609,111**	$ 18,110,042
Interest-bearing	**115,549,628**	120,018,020
Total deposits	**136,158,739**	138,128,062
Repurchase agreements	**776,574**	798,001
Federal Home Loan Bank advances	**2,500,000**	2,500,000
Accrued interest payable and other accrued liabilities	**410,374**	438,553
Total liabilities	**139,845,687**	141,864,616
Commitments and contingencies (Notes 7 and 14)		
Shareholders' equity:		
Common stock, $2 par value, 15,000,000 shares authorized; issued and outstanding 8,766,897 shares at both December 31, 2016 and 2015, respectively	**17,533,794**	17,533,794
Preferred stock, $2 par value, 2,000,000 shares authorized; no shares issued	**-**	-
Additional paid-in capital	**9,933,144**	9,949,606
Accumulated deficit	**(17,575,719)**	(17,777,571)
Accumulated other comprehensive loss	**(160,992)**	(167,973)
Total shareholders' equity	**9,730,227**	9,537,856
Total liabilities and shareholders' equity	**$ 149,575,914**	$ 151,402,472

See notes to financial statements.

Liberty Bell Bank

Statements of Operations
Years Ended December 31, 2016 and 2015

	2016	2015
Interest and dividend income:		
Interest and fees on loans	**$ 5,380,519**	$ 5,279,469
Interest on securities available for sale	**207,934**	350,518
Interest on deposits with banks	**80,145**	32,433
Dividends on FHLB stock	**12,948**	11,240
Total interest and dividend income	**5,681,546**	5,673,660
Interest expense:		
Interest on deposits	**793,810**	752,168
Interest on FHLB advances	**97,855**	97,320
Total interest expense	**891,665**	849,488
Net interest income	**4,789,881**	4,824,172
Provision for loan losses:	**95,000**	40,000
Net interest income after provision for loan losses	**4,694,881**	4,784,172
Noninterest income:		
Service charges on deposit accounts	**182,536**	186,419
Gain on sale of investment securities available for sale	**71,692**	29,341
Other income	**481,461**	479,783
Total noninterest income	**735,689**	695,543
Noninterest expenses:		
Compensation and benefits	**2,329,366**	2,436,571
Occupancy	**580,403**	624,599
Equipment expense	**229,655**	298,802
Marketing and business development	**96,921**	113,171
Professional services	**560,132**	515,131
FDIC assessments	**278,093**	326,687
Other real estate owned expenses	**77,121**	153,002
Loss on sale/write-down of other real estate owned	**4,035**	40,187
Other operating expenses	**1,049,992**	826,473
Total noninterest expenses	**5,205,718**	5,334,623
Income before income tax expense	**224,852**	145,092
Income tax expense:	**23,000**	2,000
Net income	**$ 201,852**	$ 143,092
Net income per share, basic and diluted	**$ 0.02**	$ 0.02
Weighted average shares outstanding, basic and diluted	**8,766,897**	8,353,034

See notes to financial statements.

Liberty Bell Bank

Statements of Comprehensive Income
Years Ended December 31, 2016 and 2015

	2016	2015
Net income	**$ 201,852**	$ 143,092
Other comprehensive income:		
Unrealized holding gains on available for sale securities	**78,673**	102,187
Reclassification adjustment for gains included in net income	**71,692**	29,341
Net unrealized gain	**6,981**	72,846
Tax Effect **	**-**	-
Total other comprehensive gains	**6,981**	72,846
Total comprehensive income	**$ 208,833**	$ 215,938

** Tax Effect is not applicable as tax expense was reversed in connection with establishing a valuation allowance on the deferred taxes.

See notes to financial statements.

Liberty Bell Bank

Statements of Shareholders' Equity
Years Ended December 31, 2016 and 2015

	Common Stock	Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balance, January 1, 2015	$ 16,703,794	$ 10,362,147	$ (17,920,663)	$ (240,819)	$ 8,904,459
Net income - 2015	-	-	143,092	-	143,092
Stock issuance - 415,000 shares @ $1.00 per share with no offering costs	830,000	(415,000)	-	-	415,000
Stock option expense	-	2,459	-	-	2,459
Other comprehensive income	-	-	-	72,846	72,846
Balance, December 31, 2015	$ 17,533,794	$ 9,949,606	$ (17,777,571)	$ (167,973)	$ 9,537,856
Balance, January 1, 2016	$ 17,533,794	$ 9,949,606	$ (17,777,571)	$ (167,973)	$ 9,537,856
Net income - 2016	-	-	201,852	-	201,852
Stock issuance - offering costs	-	(18,921)	-	-	(18,921)
Stock option expense	-	2,459	-	-	2,459
Other comprehensive income	-	-	-	6,981	6,981
Balance, December 31, 2016	**$ 17,533,794**	**$ 9,933,144**	**$ (17,575,719)**	**$ (160,992)**	**$ 9,730,227**

See notes to financial statements.

Liberty Bell Bank

Statements of Cash Flows
Years Ended December 31, 2016 and 2015

	2016	2015
Cash flows from operating activities:		
Net income	**$ 201,852**	$ 143,092
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	**217,979**	298,591
Provision for loan losses	**95,000**	40,000
Net amortization of securities	**123,310**	174,750
Gain on sale of investment securities available for sale	**(71,692)**	(29,341)
Loss on sale of other real estate owned properties	**-**	40,187
Valuation allowance on other real estate owned properties	**4,035**	-
Stock option expense	**2,459**	2,459
Stock offering costs	**(18,921)**	-
Changes in operating assets and liabilities:		
(Decrease) increase in accrued interest receivable and other assets	**206,095**	(123,092)
Decrease in accrued interest payable and other liabilities	**(28,179)**	(187,816)
Net cash provided by operating activities	**731,938**	358,830
Cash flows from investing activities:		
(Purchase) redemption of FHLB stock	**(18,300)**	19,800
Purchases of investment securities available for sale	**-**	(1,995,156)
Proceeds from calls, maturities and sales of securities available for sale	**5,029,696**	2,739,478
Proceeds from principal payments on mortgage-backed securities available for sale	**1,451,127**	1,566,298
Proceeds from sale of other real estate owned	**755,352**	2,167,461
Net increase in loans	**(8,851,552)**	(9,371,445)
Purchase of bank premises and equipment	**(66,947)**	(8,872)
Net cash used in investing activities	**(1,700,624)**	(4,882,436)
Cash flows from financing activities:		
Net (decrease) increase in interest-bearing deposits	**(4,468,392)**	7,727,218
Net increase (decrease) in noninterest-bearing deposits	**2,499,069**	(5,020,366)
(Decrease) increase in repurchase agreements	**(21,427)**	108,729
Issuance of common stock	**-**	830,000
Reduction in paid in capital	**-**	(415,000)
Net cash (used in) provided by financing activities	**(1,990,750)**	3,230,581
Decrease in cash and cash equivalents	(2,959,436)	(1,293,025)
Cash and cash equivalents, beginning of period	**17,049,752**	18,342,777
Cash and cash equivalents, end of period	**$ 14,090,316**	$ 17,049,752

(Continued)

Liberty Bell Bank

Statements of Cash Flows (Continued)
Years Ended December 31, 2016 and 2015

	2016	2015
Supplemental disclosure of cash flow information:		
Cash paid during the year for:		
Interest	**$ 889,768**	$ 848,042
Income taxes	**$ 23,000**	$ 2,000
Non-cash investing transactions:		
Transfers of loans to OREO	**$ -**	$ 303,053
Transfers of loans to other assets	**$ -**	$ -
Net change in unrealized loss on investment securities available for sale	**$ 6,981**	$ 72,846

See notes to financial statements.

Note 1. Nature of Operations and Summary of Significant Accounting Policies

Nature of operations: Liberty Bell Bank (the Bank) is a commercial bank, which was incorporated on November 26, 2002 under New Jersey laws, and opened for business on August 11, 2003. The Bank is chartered by the New Jersey Department of Banking and Insurance and insured by the Federal Deposit Insurance Corporation. The Bank is headquartered in Evesham Township, New Jersey, which is also the location of the operations center and the administrative headquarters. Branch offices are in Cherry Hill, also the site of the Bank's Loan Service Center, and Moorestown, New Jersey. The Bank provides financial services primarily to customers located in Camden and Burlington Counties, as well as surrounding counties in New Jersey and Southeastern Pennsylvania.

The policies that materially affect the determination of financial position, results of operations and cash flows are summarized below.

Use of estimates: The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ significantly from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the valuation of available for sale investment securities, determination of the allowance for loan losses, the carrying value of other real estate owned, the valuation of deferred tax assets and fair value disclosures.

Investment securities: Investment securities are classified under one of the following categories at the date of purchase: "Held to Maturity," "Available for Sale," or "Trading." Classification is reassessed at each balance sheet date. The Bank does not hold '"trading" securities or classify securities as "held to maturity" securities. Investment securities that would be held for indefinite periods of time but not necessarily to maturity, including securities that would be used as part of the Bank's asset/liability management strategy and possibly sold in response to changes in interest rates, prepayments and similar factors are classified as "Available for Sale." These securities are carried at fair value, with any temporary unrealized gains or losses reported in the balance sheets and other comprehensive income (loss), as a separate component of the equity section of the balance sheet and in the statements of shareholders' equity. Gains and losses on the sale of such securities are accounted for on the specific identification basis in the statements of operations on the date of sale.

Management evaluates securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Declines in the fair value of individual debt securities below their cost that are deemed to be other than temporary result in write-downs of the individual securities to their fair value. Debt securities that are deemed to be other-than-temporarily impaired would be reflected in earnings as realized losses to the extent impairment is related to credit losses. The amount of the impairment for debt securities related to other factors is recognized in other comprehensive income. In evaluating other-than-temporary impairment losses, management considers (1) the length of time and the extent to which the fair value has been less than cost, (2) the reasons for the decline in value, (3) the financial position and access to capital of the issuer, including the current and future impact of any specific events, and (4) for fixed maturity securities, whether the Bank intends to sell the security, or it is more likely than not that the Bank will be required to sell the security before recovery of the cost basis, which may be maturity. None of the Bank's investment securities were considered other-than-temporarily impaired as of December 31, 2016 or 2015.

Note 1. Nature of Operations and Summary of Significant Accounting Policies (Continued)

Interest income from securities, adjusted for the amortization of premiums and accretion of discounts over the contractual lives of the related securities, is recognized in interest income using the interest method. Realized gains and losses, determined using the amortized cost value of the specific securities sold, are included in noninterest income in the statements of operations.

Loans: The Bank makes commercial, real estate and consumer loans to customers. A substantial portion of the loan portfolio is represented by loans in Southern New Jersey. The ability of the Bank's debtors to honor their contracts is dependent upon the real estate and general economic conditions in this area. Loans are stated at the outstanding principal amount, adjusted for the allowance for loan losses and any deferred fees or costs on originated loans. Interest income on loans is recognized as earned based on contractual interest rates applied to daily principal amounts outstanding using the accrual basis.

The Bank's lending can be summarized into seven primary segments: commercial real estate loans, commercial loans, residential construction loans, commercial construction loans, commercial lease-backed loans, home equity loans and consumer loans.

Commercial real estate loans: Commercial real estate loans are loans made to acquire or refinance investment properties or to acquire or refinance owner-occupied, non owner-occupied and multi-family real estate. The Bank analyzes the rent rolls to make sure the properties are generating enough cash flow to service the debt with the rents collected from the tenants. The Bank maintains a requirement that the net rents collected after expenses of operating commercial property generally be not less than 1.25 times the debt service requirements. The majority of the Bank's commercial real estate loans are secured by commercial, one-to-four family and mixed use properties, and the loan to value ratio generally does not exceed 80 percent.

Commercial loans: Commercial loans are loans that assist a borrower in funding working capital requirements and loans for the acquisition of fixed assets that are needed to produce a product or deliver a service and grow the borrower's business. Commercial loans are underwritten based on an analysis of the borrower's ability to repay the loan out of operating cash flows. Most commercial loans are secured by the assets being financed or other business assets such as accounts receivable or inventory and generally incorporate personal guarantees to mitigate the risk of loss. While some short-term loans may be made on an unsecured basis, in practice, the Bank is primarily a secured lender.

Commercial lease-backed: Commercial lease-backed loans are made to businesses that lease primarily office equipment to a variety of lessees. The loans are made for the purpose of funding business operations and are secured by the cash flows of lease receivables assigned to the Bank.

Residential construction: Residential construction loans primarily consist of loans to local contractors and other real estate investors for the purpose of construction or renovation of single family homes, one-to-four family projects and a few multi-family projects. These loans are generally for terms of one year or less and provide for permanent financing by the Bank or other mortgage lender when the term of the residential construction loan expires.

Note 1. Nature of Operations and Summary of Significant Accounting Policies (Continued)

Commercial construction loans: Commercial construction and land development loans consist primarily of loans to local contractors and other real estate investors for the purpose of construction or renovation of buildings with a mix of residential and commercial outlets. These loans are underwritten based upon independent appraisals, analysis of absorption or lease rates, and the global financial analysis of the developers and/or property owners and include estimates of costs and value associated with the complete project. Construction loans often involve the disbursement of substantial funds with repayment substantially dependent on the success of the ultimate project. These loans are considered to have higher risks than other real estate loans due to their ultimate repayment being sensitive to interest rate changes, regulations of real property, general economic conditions and the availability of long-term financing.

Home equity loans: Home equity loans are loans made to borrowers with their primary home or second home serving as collateral. The average loan to value ratio at the date of origination of the combined first and second mortgages is generally 80 percent or less.

Consumer loans: Consumer loans are generally made as an accommodation to commercial and individual customers, and are generally secured by cash collateral, securities, automobiles or real estate.

Loan fees: Loan fees and direct costs associated with loan originations with terms that extend beyond one year are deferred. The deferred amount is recognized as an adjustment to loan interest over the term of the related loans using the interest method.

Loans-past due: Loans are reported as past due when either interest or principal is unpaid in the following circumstances: fixed payment loans when the borrower is in arrears for two or more monthly payments, open end credits for two or more billing cycles, and single payment notes if interest or principal remains unpaid for 30 days or more.

Loans-nonaccrual: Loans are placed on nonaccrual status and the accrual of interest income ceases, when a default of principal or interest exists for a period of ninety days except when, in management's judgment, the collection of principal and interest is reasonably anticipated (i.e. the loan is well secured and in the process of collection). Interest receivable on nonaccrual loans previously credited to income is reversed, and subsequently recognized as income only as received if the collection of principal is reasonably assured. Nonaccrual loans are generally not returned to accruing status until principal and interest payments have been brought current and full collectability is reasonably assured.

Loans-charge-offs: Loans are charged off when overall collectability is deemed questionable. Loans generally qualify for charge-off when the borrower's cash flows are insufficient to make the required loan payments and the underlying collateral and/or secondary sources of repayment (guarantors, etc) are deemed inadequate by management to ensure total repayment of the remaining amount of the loan. Any commercial loan deemed uncollectable will be charged off in whole or in part to reflect a remaining principal balance that can be reasonably expected to be collected. Consumer loan losses will generally be recognized when delinquency exceeds 180 days, except in such cases where sufficient collateral exists to adequately secure the Bank's remaining loan balance and/or the Bank can reasonably restructure the loan in question to provide for its ultimate collectability on commercially reasonable terms and time frames.

Note 1. Nature of Operations and Summary of Significant Accounting Policies (Continued)

Concentration of credit risk: The Bank's loans are generally to diversified customers in Southern New Jersey and the Philadelphia area of Pennsylvania. Commercial real estate (owner occupied) loans, commercial real estate (non-owner occupied) loans, and home equity loans constitute approximately 35 percent, 23 percent and 19 percent, respectively of total loans outstanding as of December 31, 2016. Generally, loans are collateralized by assets of the borrower and are expected to be repaid from the cash flow or proceeds from the sale of selected assets of the borrower.

Allowance for loan losses: The allowance for loan losses is established as losses and are estimated to have occurred through a provision for loan losses charged to earnings. Loans that are determined to be uncollectible are charged against the allowance account, and subsequent recoveries, if any, are credited to the allowance. The determination of the allowance for loan losses requires significant estimates, including the timing and amounts of expected future cash flows on impaired loans, collateral valuations, consideration of current economic conditions, and historical loss experience pertaining to pools of homogeneous loans and leases, all of which may be susceptible to change. The adequacy of the allowance for loan losses is based on management's current judgments about the credit quality of the loan portfolio.

Various regulatory agencies periodically review the adequacy of the Bank's allowance for loan losses as an integral part of their examination process. Such agencies may require the Bank to recognize additions or reductions to the allowance based on their evaluation of information available to them at the time of their examination. It is reasonably possible that the above factors may change significantly and, therefore, affects management's determination of the allowance for loan losses in the near term.

The allowance consists of specific and general components. The specific component relates to loans identified as impaired. For those loans that are classified as impaired, impairment is measured on a loan by loan basis and an allowance is established when the discounted cash flows (or as a practical expedient, the collateral liquidation value, if the loan is collateral dependent) of the impaired loan is lower than the carrying value of that loan. The general component covers non-classified loans and is based on historical charge-off experience and expected losses. Other adjustments may be made to the allowance for pools of loans after an assessment of internal or external influences on credit quality that are not reflected in the historical loss or risk rating data.

A loan is considered impaired when, based on current information and events, it is probable that the Bank will be unable to collect the scheduled payments of principal or interest according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed.

Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Bank does not separately identify individual consumer and home equity loans for impairment disclosures.

Note 1. Nature of Operations and Summary of Significant Accounting Policies (Continued)

Troubled debt restructurings (TDR) occur when a creditor, for economic or legal reasons related to a debtor's financial condition, grants a concession to the debtor that it would not otherwise consider, such as a below market interest rate, extending the maturity of a loan, or combination of both. From time to time, the Bank may consider granting a concession to a debtor after an evaluation of their financial condition, existing market conditions or to meet a competitor's offer, when maintaining the customer relationship is in the long term interest of the Bank. Management reviews all loan modifications to determine whether the modification qualifies as a troubled debt restructuring (i.e., whether the creditor has been granted a concession and is experiencing financial difficulties).

Interest rate risk: The Bank is principally engaged in the business of attracting deposits from the general public and using these deposits, together with other borrowed funds, to make commercial, commercial mortgage, residential mortgage, and consumer loans, and to invest in overnight and term investment securities. Inherent in such activities is the potential for the Bank to assume interest rate risk that results from differences in the maturities and re-pricing characteristics of assets and liabilities. For this reason, management regularly monitors the level of interest rate risk and the potential impact on net income.

Other real estate owned: Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at fair value less cost to sell at the date of foreclosure, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less cost to sell. Revenue and expenses from operations and changes in the valuation allowance are included in operations. Costs relating to the development and improvement of the property are capitalized, subject to the limit of fair value of the collateral. Gains or losses are included in operations upon disposal. At December 31, 2016 and December 31, 2015, the Bank held no foreclosed residential real estate property. The Bank had no loans collateralized by residential real estate property that are in the process of foreclosure according to the requirements of the local jurisdiction at December 31, 2016 and December 31, 2015, respectively.

Bank premises and equipment: Premises and equipment are stated at cost less accumulated depreciation and amortization. Depreciation is computed and charged to expense using the straight-line method over the estimated useful lives of the assets. Leasehold improvements are amortized to expense over the shorter of the term of the respective lease or the estimated useful life of the improvements.

Restricted stock: The Bank holds investments in the common stocks of the Federal Home Loan Bank of New York and Atlantic Community Bancshares, Inc., the holding company for Atlantic Community Bankers Bank. These investments in restricted stock are carried at cost. FHLB stock has no quoted market value and is subject to redemption restrictions. Management reviews the stock for impairment based on the ultimate recoverability of the cost basis in the stock. The Federal Home Loan Bank of New York and Atlantic Community Bancshares, Inc. both reported profits for 2016, remain in compliance with regulatory capital and liquidity requirements, and continue to pay dividends on their common stock. With consideration given to these factors, management concluded that the stock was not impaired at December 31, 2016.

Income taxes: The Bank accounts for income taxes according to the asset and liability method. Under this method, deferred federal and state tax assets and liabilities are recognized for the expected future tax consequences of existing differences between financial statement and tax bases of existing assets and liabilities. The effect of a change in the tax rate on deferred taxes is recognized in the period of the enactment date. Deferred tax assets are reduced by a valuation allowance, when, in the opinion of management, it is more likely than not that some portion of the deferred tax assets will not be realized. Increases or decreases in the valuation reserve are charged or credited to the income tax provision.

Note 1. Nature of Operations and Summary of Significant Accounting Policies (Continued)

When tax returns are filed, it is highly certain that some positions taken would be sustained upon examination by the taxing authorities, while others are subject to uncertainty about the merits of the position taken or the amount of the position that ultimately would be sustained. The benefit of a tax position is recognized in the financial statements in the period during which, based on all available evidence, management believes it is more-likely-than not that the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any. The evaluation of a tax position taken is considered by itself and not offset or aggregated with other positions. Tax positions that meet the more-likely-than not recognition threshold are measured as the largest amount of tax benefit that is more than 50 percent likely of being realized upon settlement with the applicable taxing authority. The portion of benefits associated with tax positions taken that exceeds the amount measured as described above is reflected as a liability for unrecognized tax benefits in the accompanying balance sheets along with any associated interest and penalties that would be payable to the taxing authorities upon examination.

It is the Bank's policy to recognize interest and penalties related to unrecognized tax liabilities within income tax expense in the statements of operations. The Bank does not have an accrual for uncertain tax positions as of December 31, 2016 or December 31, 2015, as deductions taken and benefits accrued are based on widely understood administrative practices and procedures and are based on clear and unambiguous tax law.

Transfers of financial assets: Transfers of financial assets are accounted for as sales when all of the components meet the definition of a participating interest and when control over the assets has been surrendered. A participating interest generally represents (1) a proportionate (pro rata) ownership interest in an entire financial asset, (2) a relationship where from the date of transfer all cash flows received from the entire financial asset are divided proportionately among the participating interest holders in an amount equal to their share of ownership, (3) the priority of cash flows has certain characteristics, including no reduction in priority, subordination of interest, or recourse to the transferor other than standard representation or warranties, and (4) no party has the right to pledge or exchange the entire financial asset unless all participating interest holders agree to pledge or exchange the entire financial asset. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Bank, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Bank does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Comprehensive income: Comprehensive income consists of net income and other comprehensive income, which consists of unrealized gains and losses on available for sale securities and is recognized as a separate component of shareholders' equity.

Note 1. Nature of Operations and Summary of Significant Accounting Policies (Continued)

Income per common share: Basic earnings per common share are computed by dividing net income by the weighted average number of common shares outstanding during the period. Diluted earnings per common share consider common stock equivalents (when dilutive) outstanding during the period they are outstanding. In computing earnings per share as of December 31, 2016 and 2015, the effect of stock options have been excluded as being anti-dilutive. Earnings per common share have been computed based on the following:

	Year Ended December 31,	
	2016	2015
Net income	$ 201,852	$ 143,092
Average number of common shares outstanding - basic and diluted	8,766,897	8,353,034
Basic and diluted net income per share	$ 0.02	0.02

Stock-based employee compensation: The Bank accounts for its stock based compensation plans under the provisions of the applicable accounting guidance which requires the Bank to recognize the fair value of stock option awards over a vesting period. That cost is measured based on the grant date fair value of the equity or liability instruments issued. The stock compensation accounting guidance covers a wide range of share-based compensation arrangements including stock options, restricted share plans, performance-based awards, share appreciation rights, and employee share purchase plans. The stock compensation accounting guidance requires that compensation cost for all stock awards be calculated and recognized over the employees' service period, generally defined as the vesting period. A Black-Scholes option pricing model is used to estimate the fair value of stock options. The Bank's employee stock compensation plans are more fully described in Note 13.

Recent accounting pronouncements: ASU No. 2016-01, *Financial Instruments – Overall (Subtopic 825-10) – Recognition and Measurement of Financial Assets and Financial Liabilities*. ASU 2016-01 addresses certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. This eliminates the available for sale classification of accounting for equity securities and adjusts the fair value disclosures for financial instruments carried at amortized cost such that the disclosed fair values represent an exit price as opposed to an entry price. This update requires that equity securities be carried at fair value on the balance sheet and any periodic changes in value will be adjusted through the income statement. A practical expedient is provided for equity securities without a readily determinable fair value, such that these securities can be carried at cost less any impairment. For public business entities, the amendments in this update are effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The Bank is currently evaluating the impact of the standard.

ASU 2016-02, *Leases* (Topic 842). ASU 2016-02 was issued in three parts: (a) Section A, *Leases: Amendments to the FASB Accounting Standards Codification®*," (b) Section B, *Conforming Amendments Related to Leases: Amendments to the FASB Accounting Standards Codification®*, and (c) Section C, *Background Information and Basis for Conclusions*. While both lessees and lessors are affected by the new guidance, the effects on lessees are much more significant. The update states that a lessee should recognize the assets and liabilities that arise from all leases with a term greater than 12 months. The core principle requires the lessee to recognize a liability to make lease payments and a "right-of-use" asset. The accounting applied by the lessor is relatively unchanged as the majority of operating leases should

Note 1. Nature of Operations and Summary of Significant Accounting Policies (Continued)

remain classified as operating leases and the income from them recognized, generally, on a straight-line basis over the lease term. The standards update also requires expanded qualitative and quantitative disclosures. For public business entities, ASC 2016-02 is effective for interim and annual reporting periods beginning after December 15, 2018. ASC 2016-02 mandates a modified retrospective transition for all entities. The Bank is currently evaluating the impact of the adoption of ASU 2016-02 on its financial statements.

ASU 2014-09, *Revenue from Contracts with Customers* (Topic 606). This ASU has three sections:

Section A – Summary and amendments that creates revenue from contracts with customers (Topic 606) and *Other Assets and Deferred Costs – Contracts with Customers* (Subtopic 340-40);
Section B – Conforming amendments to other topics and subtopics in the codification and status tables;
Section C – Background information and basis for conclusions.

The accounting changes in this update have been revised to defer the effective date for public business entities for annual reporting periods beginning after December 15, 2017 and the interim periods within that year. Early adoption is permitted as of the first interim or annual period beginning after December 15, 2016. The Bank is currently evaluating the impact of the standard.

ASU No. 2016-09, *"Improvements to Employee Share-Based Payment Accounting."* includes provisions intended to simplify various aspects related to how share-based payments are accounted for and presented in the financial statements. Some of the key provisions of this new ASU include: (1) companies will no longer record excess tax benefits and certain tax deficiencies in additional paid-in capital ("APIC"). Instead, they will record all excess tax benefits and tax deficiencies as income tax expense or benefit in the income statement, and APIC pools will be eliminated. The guidance also eliminates the requirement that excess tax benefits be realized before companies can recognize them. In addition, the guidance requires companies to present excess tax benefits as an operating activity on the statement of cash flows rather than as a financing activity; (2) increase the amount an employer can withhold to cover income taxes on awards and still qualify for the exception to liability classification for shares used to satisfy the employer's statutory income tax withholding obligation. The new guidance will also require an employer to classify the cash paid to a tax authority when shares are withheld to satisfy its statutory income tax withholding obligation as a financing activity on its statement of cash flows (current guidance did not specify how these cash flows should be classified); and (3) permit companies to make an accounting policy election for the impact of forfeitures on the recognition of expense for share-based payment awards. Forfeitures can be estimated, as required today, or recognized when they occur. ASU No. 2016-09 is effective for interim and annual reporting periods beginning after December 15, 2016. Early adoption is permitted, but all of the guidance must be adopted in the same period. The adoption of AU No. 2016-09 is not expected to have a material impact on the Bank's financial statements.

ASU 2016-13, *Financial Instruments —Credit Losses (Topic 326).* ASU 2016-13 replaces the incurred loss impairment methodology in current GAAP with an expected credit loss methodology and requires consideration of a broader range of information to determine credit loss estimates. Financial assets measured at amortized cost will be presented at the net amount expected to be collected by using an allowance for credit losses. Purchased credit impaired loans will receive an allowance account at the acquisition date that represents a component of the purchase price allocation. Credit losses relating to available-for-sale debt securities will be recorded through an allowance for credit losses, with such allowance limited to the amount by which fair value is below amortized cost. This guidance is effective for fiscal years beginning after December 15, 2020 and interim periods within those fiscal years. The Bank is currently evaluating the impact of adopting ASU 2016-13 on its financial statements.

Note 2. Cash and Due from Banks

The Bank maintains various deposit accounts with other banks to meet normal transaction funding requirements, to satisfy deposit reserve requirements, and to compensate other banks for certain correspondent services. Management is responsible for assessing the credit risk of its correspondent banks. There were no withdrawal or usage restrictions of these balances with the Federal Reserve Bank at December 31, 2016 nor December 31, 2015.

The Bank was required to maintain reserves against its respective transaction accounts at the Federal Reserve Bank of $105 thousand and $103 thousand for the years 2016 and 2015, respectively.

Note 3. Investment Securities Available For Sale

The following table provides the major components of securities available for sale at amortized cost and estimated fair value at December 31, 2016 and December 31, 2015.

	December 31, 2016			
Available for Sale	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. Treasury notes	$ 2,491,777	$ 218	$ (8,090)	$ 2,483,905
U.S. Government agency obligations	601,018	282	-	601,300
Residential mortgage-backed securities issued by:				
SBA	1,762,799	-	(34,620)	1,728,179
Ginnie Mae	3,732,905	2,835	(76,618)	3,659,122
Fannie Mae	-	-	-	-
Freddie Mac	661,255	-	(30,061)	631,194
Municipal bonds	1,807,946	3,422	(18,360)	1,793,008
	$ 11,057,700	$ 6,757	$ (167,749)	$ 10,896,708

	December 31, 2015			
Available for Sale	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. Treasury notes	$ 2,487,266	$ -	$ (17,304)	$ 2,469,962
U.S. Government agency obligations	1,453,322	-	(3,445)	1,449,877
Residential mortgage-backed securities issued by:				
SBA	2,776,671	-	(50,066)	2,726,605
Ginnie Mae	4,702,621	2,654	(59,617)	4,645,658
Fannie Mae	960,380	-	(16,428)	943,952
Freddie Mac	772,565	-	(18,401)	754,164
Municipal bonds	4,437,317	34,436	(39,802)	4,431,951
	$ 17,590,142	$ 37,090	$ (205,063)	$ 17,422,169

Note 3. Investment Securities Available For Sale (Continued)

For the year ended December 31, 2016, proceeds from sales and calls of securities available for sale amounted to $5.0 million. Proceeds from the sales of available for sale securities were $4.1 million and proceeds from calls of available for sale securities were $885 thousand resulting in gross realized gains of $111,944 and gross realized losses of $40,252. For the year ended December 31, 2015, proceeds from sales, calls and maturities of securities available for sale amounted to $2.7 million. Proceeds from the sales of available for sale securities were $1.6 million resulting in gross realized gains of $30,701 and gross realized losses of $1,360.

The amortized cost and estimated fair value of investment securities available for sale at December 31, 2016 and December 31, 2015 by contractual maturities are shown in the following table. Expected maturities may differ materially from contractual maturities as a result of early prepayments and calls. Because mortgage-backed securities are not due at a single maturity date, they are not included in the maturity categories in the following maturity summary.

	December 31, 2016		December 31, 2015	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
U.S. Treasury notes:				
Maturing after one year, through five years	$ 2,491,777	$ 2,483,905	$ 2,487,266	$ 2,469,962
U.S. Government agencies:				
Maturing after one year, through five years	601,018	601,300	603,322	602,045
Maturing after five years, through ten years	-	-	850,000	847,832
Municipal bonds:				
Maturing after one year, through five years	261,932	262,955	268,308	268,165
Maturing after five years, through ten years	796,014	785,078	1,857,793	1,844,884
Maturing after ten years	750,000	744,975	2,311,216	2,318,902
Residential mortgage-backed securities	6,156,959	6,018,495	9,212,237	9,070,379
	$ 11,057,700	$ 10,896,708	$ 17,590,142	$ 17,422,169

Note 3. Investment Securities Available For Sale (Continued)

Provided below is a summary of securities available for sale that were in a continuous unrealized loss position at December 31, 2016 and 2015:

	December 31, 2016					
	Less than 12 Months			12 Months or More		
Available for Sale	Number of Securities	Fair Value	Gross Unrealized Losses	Number of Securities	Fair Value	Gross Unrealized Losses
U.S. Treasury notes	1	$ 986,130	$ (8,090)	-	$ -	$ -
U.S. Government agency obligations	-	-	-	-	-	-
Residential mortgage-backed securities issued by:						
SBA	2	1,218,791	(20,366)	1	509,388	(14,254)
Ginnie Mae	6	2,803,246	(57,990)	1	524,488	(18,628)
Fannie Mae	-	-	-	-	-	-
Freddie Mac	1	631,193	(30,061)	-	-	-
Municipal bonds	4	1,025,595	(18,360)	-	-	-
	14	$ 6,664,955	$ (134,867)	2	$ 1,033,876	$ (32,882)

	December 31, 2015					
	Less than 12 Months			12 Months or More		
Available for Sale	Number of Securities	Fair Value	Gross Unrealized Losses	Number of Securities	Fair Value	Gross Unrealized Losses
U.S. Treasury notes	2	$ 1,492,110	$ (3,130)	1	$ 977,852	$ (14,174)
U.S. Government agency obligations	2	602,046	(1,277)	1 -	847,831	(2,168)
Residential mortgage-backed securities issued by:						
SBA	-	-	-	4	2,726,605	(50,066)
Ginnie Mae	2	1,016,753	(1,089)	5	3,191,518	(58,528)
Fannie Mae	1	943,952	(16,428)	-	-	-
Freddie Mac	-	-	-	1	754,164	(18,401)
Municipal bonds	7	1,700,934	(19,732)	5	1,299,296	(20,070)
	14	$ 5,755,795	$ (41,656)	17	$ 9,797,266	$ (163,407)

Note 3. Investment Securities Available For Sale (Continued)

U.S. Treasury Notes: The decline in market value of U.S. Treasury notes is attributable to changes in market interest rates and not credit quality, and because the Bank does not intend to sell the investments and it is not more likely than not that the Bank will be required to sell the investments before recovery of their amortized cost basis, which may be at maturity, the Bank did not consider those investments to be other-than-temporarily impaired at December 31, 2016 or at December 31, 2015.

U.S. Government Agency Obligation: The decline in market value of U.S. Government agency obligations is attributable to changes in market interest rates and not credit quality, and because the Bank does not intend to sell the investments and it is not more likely than not that the Bank will be required to sell the investments before recovery of their amortized cost basis, which may be at maturity, the Bank did not consider those investments to be other-than-temporarily impaired at December 31, 2016 or December 31, 2015.

Residential mortgage-backed securities: The contractual cash flows of residential mortgage-backed securities are guaranteed by an agency of the U.S. government. It is expected that the securities would not be settled at a price less than the amortized cost basis of the Bank's investments. Because the decline in market value is attributable to changes in market interest rates and not credit quality, and because the Bank does not intend to sell the investments and it is not more likely than not that the Bank will be required to sell the investments before recovery of their amortized cost basis, which may be at maturity, the Bank does not consider those investments to be other-than-temporarily impaired at December 31, 2016 or December 31, 2015.

Municipal bonds: Management has evaluated the individual municipal bonds in the investment portfolio and believes the unrealized losses were caused by changes in market interest rates. The issuers are expected to settle the obligations at a price not less than the amortized cost basis of the investment. Because the Bank does not intend to sell the investments and it is not more likely than not that the Bank will be required to sell the investment before recovery of its amortized cost basis, which may be at maturity, it does not consider the investment in municipal bonds to be other-than-temporarily impaired at December 31, 2016 or December 31, 2015.

At December 31, 2016 and 2015, investment securities with a fair value of $4.9 million and $9.7 million, respectively, were pledged for public deposits. Investment securities with a fair value of $1.9 million and $2.3 million along with cash of $700 thousand and $400 thousand, respectively, were pledged against long term borrowings with Federal Home Loan Bank for the periods ended December 31, 2016 and December 31, 2015, respectively. At December 31, 2016 and 2015, investment securities with a fair value of $485 thousand and $619 thousand, respectively, were pledged for a customer repurchase agreement. To support the Bank's Contingency Funding Plan the Bank had $738 thousand and $1.8 million in municipal bonds pledged to the Federal Reserve Bank of Philadelphia at December 31, 2016 and 2015, respectively, for potential borrowing from the discount window, if needed.

Note 4. Loans

Loans receivable at December 31, 2016 and 2015 consisted of the following:

	December 31,	
	2016	2015
Commercial real estate owner occupied	$ 41,914,009	$ 41,662,115
Commercial real estate non-owner occupied	27,790,114	27,149,857
Commercial real estate multi-family	2,678,069	2,900,882
Residential construction	12,403,413	7,066,349
Commercial construction	1,089,098	-
Commercial lease-backed	628,066	1,215,856
Commercial	11,878,017	9,994,416
Home equity	22,385,205	22,151,678
Consumer	106,190	99,789
Total loans	120,872,181	112,240,942
Less:		
Allowance for loan losses	(1,254,957)	(1,399,234)
Deferred loan fees	(149,324)	(130,360)
Net loans	$119,467,900	$110,711,348

The following tables set forth an aging analysis of past due and nonaccrual loans as of December 31, 2016 and December 31, 2015.

	December 31, 2016						
(In Thousands)	30-59 Days Past Due	60-89 Days Past Due	90+ Days and Still Accruing	Nonaccrual	Total Past Due	Current	Total Loans
Commercial real estate owner occupied	$ 416	$ -	$ -	$ 1,020	$ 1,436	$ 40,478	$ 41,914
Commercial real estate non-owner occupied	109	732	-	382	1,223	26,567	27,790
Commercial real estate multi-family	-	-	-	-	-	2,678	2,678
Residential construction	-	-	-	-	-	12,404	12,404
Commercial construction	-	-	-	-	-	1,089	1,089
Commercial lease-backed	-	-	-	581	581	47	628
Commercial	-	-	-	35	35	11,843	11,878
Home equity	-	-	-	215	215	22,170	22,385
Consumer	-	-	-	-	-	106	106
Total loans	$ 525	$ 732	$ -	$ 2,233	$ 3,490	$ 117,382	$ 120,872

Note 4. Loans (Continued)

	December 31, 2015						
(In Thousands)	30-59 Days Past Due	60-89 Days Past Due	90+ Days and Still Accruing	Nonaccrual	Total Past Due	Current	Total Loans
Commercial real estate owner occupied	$ 118	$ 1,298	$ -	$ 809	$ 2,225	$ 39,437	$ 41,662
Commercial real estate non-owner occupied	999	275	-	271	1,545	25,605	27,150
Commercial real estate multi-family	-	-	-	-	-	2,901	2,901
Residential construction	-	-	-	-	-	7,066	7,066
Commercial construction	-	-	-	-	-	-	-
Commercial lease-backed	-	-	-	775	775	441	1,216
Commercial	17	13	-	35	65	9,929	9,994
Home equity	77	-	430	56	563	21,589	22,152
Consumer	-	34	-	-	34	66	100
Total loans	$ 1,211	$ 1,620	$ 430	$ 1,946	$ 5,207	$ 107,034	$ 112,241

Note 5. Related Party Transactions

In the normal course of business, the Bank has made loans to officers, directors and their affiliates (related parties). In the opinion of management, the terms of these loans, including interest rates and collateral, are similar to those prevailing for comparable transactions with other customers and do not involve more than a normal risk of collectability. At December 31, 2016 and 2015, these loans were current as to payment of principal and interest.

An analysis of the activity of such related party loans is as follows:

	Year Ended December 31,	
	2016	2015
Balance, beginning	$ 2,648,058	$ 3,023,104
Advances	1,408,394	125,600
Less repayments	(1,499,165)	(500,646)
Balance, ending	$ 2,557,287	$ 2,648,058

At December 31, 2016 and 2015, deposits from related parties totaled approximately $1.8 million and $2.8 million, respectively.

Note 6. Allowance for Loan Losses

An analysis of the change in the allowance for loan losses and the composition of the allowance for loan losses as of and for the years ended December 31, 2016 and 2015 is presented in the tables below. The allocated allowance is the total of identified specific and general reserves by loan category. The allocation is not necessarily indicative of the categories in which future losses may occur. The unallocated portion is maintained to cover uncertainties that could affect management's estimate of probable losses. The total allowance is available to absorb losses from any segment of the portfolio.

	December 31, 2016										
(In Thousands)	Commercial Real Estate Owner Occupied	Commercial Real Estate Non-Owner Occupied	Commercial Real Estate Multi-family	Residential Construction	Commercial Construction	Commercial Lease-backed	Commercial	Home Equity	Consumer	Unallocated	Total
Allowance for credit losses:											
Beginning balance	$ 533	$ 251	$ 115	$ 40	$ -	$ 139	$ 103	$ 217	$ 1	$ -	$ 1,399
Charge-offs	(106)	(55)	-	-	-	-	(25)	(215)	(3)	-	(404)
Recoveries	3	-	40	-	-	121	-	1	-	-	165
Net charge-offs	(103)	(55)	40	-	-	121	(25)	(214)	(3)	-	(239)
Provision for loan losses charged to expense	139	25	(137)	51	7	(200)	12	195	3	-	95
Ending balance	569	221	18	91	7	60	90	198	1	-	1,255
Ending balance											
Individually evaluated for impairment	89	-	-	-	-	60	-	65	-	-	214
Collectively evaluated for impairment	480	221	18	91	7	-	90	134	-	-	1,041
Ending balance	569	221	18	91	7	60	90	199	1	-	1,255
Loan ending balance											
Individually evaluated for impairment	931	382	-	-	-	520	-	151	-	-	1,984
Collectively evaluated for impairment	40,983	27,408	2,678	12,404	1,089	108	11,878	22,234	106	-	118,888
Total ending balance	$ 41,914	$ 27,790	$ 2,678	$ 12,404	$ 1,089	$ 628	$ 11,878	$ 22,385	$ 106	$ -	$ 120,872

Note 6. Allowance for Loan Losses (Continued)

	December 31, 2015										
(In Thousands)	Commercial Real Estate Owner Occupied	Commercial Real Estate Non-Owner Occupied	Commercial Real Estate Multi-family	Residential Construction	Commercial Construction	Commercial Lease-backed	Commercial	Home Equity	Consumer	Unallocated	Total
Allowance for credit losses:											
Beginning balance	$ 374	$ 393	$ 31	$ 76	$ 54	$ 249	$ 130	$ 170	$ 1	$ 10	$ 1,488
Charge-offs	(224)	(10)	-	-	-	(1)	-	(1)	(1)	-	(237)
Recoveries	-	-	5	-	-	103	-	-	-	-	108
Net charge-offs	(224)	(10)	5	-	-	102	-	(1)	(1)	-	(129)
Provision for loan losses charged to expense	383	(132)	79	(36)	(54)	(212)	(27)	48	1	(10)	40
Ending balance	533	251	115	40	-	139	103	217	1	-	1,399
Ending balance											
Individually evaluated for impairment	19	15	-	-	-	114	-	-	-	-	148
Collectively evaluated for impairment	514	236	115	40	-	25	103	217	1	-	1,251
Ending balance	533	251	115	40	-	139	103	217	1	-	1,399
Loan ending balance											
Individually evaluated for impairment	809	271	-	-	-	775	-	-	-	-	1,855
Collectively evaluated for impairment	40,853	26,879	2,901	7,066	-	441	9,994	22,152	100	-	110,386
Total ending balance	$ 41,662	$ 27,150	$ 2,901	$ 7,066	$ -	$ 1,216	$ 9,994	$ 22,152	$ 100	$ -	$ 112,241

Note 6. Allowance for Loan Losses (Continued)

Credit risk: Inherent in the lending function is credit risk, which is the possibility that a borrower may not perform in accordance with the contractual terms of its loan. A borrower's inability to pay its obligations according to the contractual terms can create the risk of past due loans and, ultimately, credit losses, especially on collateral deficient loans. The Bank minimizes its credit risk by loan diversification and adhering to credit administration policies and procedures. Due diligence on loans begins when the Bank initiates contact regarding a loan with a borrower. Documentation, including a borrower's credit history, materials establishing the value and liquidity of potential collateral, the purpose of the loan, the source of funds for repayment of the loan, and other factors, are analyzed before a loan is submitted for approval. The loan portfolio is then subject to on-going internal reviews for credit quality, as well as annual independent credit reviews by an outside firm.

For commercial real estate and commercial loans, the estimate of loss considers weighted average historical loss ratios over a period of eight quarters, a quarterly evaluation of eight (8) factors including delinquency/impairment trends, charge-off/recovery trends, growth/volume trends, risk/underwriting/policy changes, staffing/management changes, economic trends – nationally and locally, collateral quality and credit concentration changes that are adjusted as necessary to determine a reasonable estimate of potential exposure. The evaluation also incorporates an analysis of the type of collateral and the relative loan to value ratio.

For home equity and installment loans, the estimate of loss is based on pools of loans with similar characteristics. Factors such as credit score, delinquency status and type of collateral are evaluated. Factors are updated frequently to capture the recent behavioral characteristics of the subject portfolios, as well as any changes in loss mitigation or credit origination strategies, and adjustments to the reserve factors are made as needed.

The Bank's internal rating system consists of nine categories, including 5 levels of Pass, Special Mention, Substandard, Doubtful and Loss. The Pass level is divided into 5 grades that range from Pass 1 (Highest), which might represent an investment grade credit, a loan secured by liquid assets or other credit where there is virtually no possibility of loss, to Pass 5 (Watch), where the overall risk and possibility of further deterioration are deemed less than satisfactory, requiring a heightened level of attention from Bank management but still maintaining characteristics that do not require a criticized or classified designation. Most Pass loans are either rated Satisfactory A, requiring customary management attention or Satisfactory B, which require some level of additional management attention but do not rise to the level of the Pass-Watch designation.

Special Mention loans are considered "criticized loans" and exhibit adverse trends or are negatively impacted by other factors that cause the Bank to question the Borrower's ability to meet current payment schedules, even though the loan itself may be current and paid as agreed.

Substandard loans and below are considered "classified loans" Substandard loans possess obvious weaknesses that may jeopardize the ultimate collection of the outstanding loan balance. Loss may not be evident, but management deems the loan to be inadequately protected by the current financial condition of the borrower and/or the pledged collateral. With substandard loans there is a distinct possibility that a partial loss of interest and or principal will occur if the deficiencies are not corrected. Loss potential, while existing in the aggregate amount of substandard assets, does not have to exist in individual assets classified "Substandard."

Doubtful loans reflect one or more material weaknesses that make the ultimate collection of all principal highly questionable. Loans so designated are also generally considered to be impaired.

Note 6. Allowance for Loan Losses (Continued)

Loans rated "Loss" are no longer bankable assets and are charged off at such time as that designation/rating is deemed appropriate by Bank management.

For residential mortgages and consumer loans, management uses performing versus nonperforming as the best indicator of credit quality. Nonperforming loans consist of loans that are not accruing interest (nonaccrual loans) as a result of principal or interest being in default for a period of 90 days or more or when the ability to collect principal and interest according to the contractual terms is in doubt. At December 31, 2016, the Bank had no loan past due in excess of 90 days and still accruing interest. At December 31, 2015, the Bank had a $430 thousand home equity loan past due in excess of 90 days and still accruing interest.

The following tables summarize the Bank's loans by internal credit quality indicators for all loan types.

	December 31, 2016				
(In Thousands)	Pass	Special Mention	Substandard	Doubtful	Loans
Commercial real estate owner occupied	$ 38,746	$ 1,399	$ 1,607	$ 162	$ 41,914
Commercial real estate non-owner occupied	26,319	732	739	-	27,790
Commercial real estate multi-family	2,678	-	-	-	2,678
Residential construction	12,128	-	276	-	12,404
Commercial construction	1,089	-	-	-	1,089
Commercial lease-backed	46	-	1	581	628
Commercial	11,816	-	62	-	11,878
Total loans	$ 92,822	$ 2,131	$ 2,685	$ 743	$ 98,381

	December 31, 2016		
(In Thousands)	Performing	Non-performing	Total
Home equity	$ 22,170	$ 215	$ 22,385
Consumer	106	-	106
Total consumer loans	$ 22,276	$ 215	$ 22,491

	December 31, 2015				
(In Thousands)	Pass	Special Mention	Substandard	Doubtful	Loans
Commercial real estate owner occupied	$ 37,834	$ 1,488	$ 2,111	$ 229	$ 41,662
Commercial real estate non-owner occupied	24,598	1,102	1,450	-	27,150
Commercial real estate multi-family	2,901	-	-	-	2,901
Residential construction	6,789	-	277	-	7,066
Commercial construction	-	-	-	-	-
Commercial lease-backed	430	-	13	773	1,216
Commercial	9,925	-	69	-	9,994
Total loans	$ 82,477	$ 2,590	$ 3,920	$ 1,002	$ 89,989

Note 6. Allowance for Loan Losses (Continued)

(In Thousands)	December 31, 2015		
	Performing	Non-performing	Total
Home equity	$ 21,666	$ 486	$ 22,152
Consumer	100	-	100
Total consumer loans	$ 21,766	$ 486	$ 22,252

Impaired loans are set forth in the following tables, as of December 31, 2016 and 2015.

(In Thousands)	December 31, 2016						
	Unpaid Principal Balance	Recorded Investment With No Allowance	Recorded Investment With Allowance	Total Recorded Investment	Related Allowance	Average Recorded Investment	Interest Income Recognized
Commercial real estate owner occupied	$ 1,504	$ 759	$ 172	$ 931	$ 89	$ 1,105	$ 16
Commercial real estate non-owner occupied	564	382	-	382	-	416	3
Commercial real estate multi-family	-	-	-	-	-	-	-
Residential construction	-	-	-	-	-	-	-
Commercial construction	-	-	-	-	-	-	-
Commercial leased-back	581	-	520	520	60	639	-
Commercial	-	-	-	-	-	-	-
Consumer	-	-	-	-	-	-	-
Home Equity	430	-	151	151	65	428	11
Total loans	$ 3,079	$ 1,141	$ 843	$ 1,984	$ 214	$ 2,588	$ 30

(In Thousands)	December 31, 2015						
	Unpaid Principal Balance	Recorded Investment With No Allowance	Recorded Investment With Allowance	Total Recorded Investment	Related Allowance	Average Recorded Investment	Interest Income Recognized
Commercial real estate owner occupied	$ 1,187	$ 288	$ 521	$ 809	$ 19	$ 865	$ -
Commercial real estate non-owner occupied	398	117	154	271	15	-	-
Commercial real estate multi-family	-	-	-	-	-	-	-
Residential construction	-	-	-	-	-	-	-
Commercial construction	-	-	-	-	-	-	-
Commercial leased-back	775	2	773	775	114	804	-
Commercial	-	-	-	-	-	-	-
Consumer	-	-	-	-	-	-	-
Home Equity	-	-	-	-	-	-	-
Total loans	$ 2,360	$ 407	$ 1,448	$ 1,855	$ 148	$ 1,669	$ -

Note 6. Allowance for Loan Losses (Continued)

Impaired loans include loans modified in a troubled debt restructuring (TDR), where concessions have been granted to borrowers experiencing financial difficulties. These concessions could include a reduction of the interest rate, a deferral of principal payments, an extension of the repayment terms, or other actions intended to maximize collection. During the years ended December 31, 2016 and 2015, the Bank did not modify any loans that were classified TDR loans. There were no re-defaults of TDRs in 2016 or in 2015.

At December 31, 2016 and 2015, the Bank had one loan classified as a TDR with an outstanding balance of $35 thousand and $39 thousand, respectively.

The TDRs had no specific reserves allocated for either time period. All TDR loans were performing in accordance with the modified terms at December 31, 2016 and 2015.

Note 7. Bank Premises and Equipment

A summary of the cost and accumulated depreciation of the Bank's premises and equipment is as follows:

	December 31,	
	2016	2015
Land and improvements	$ 1,455,291	$ 1,455,291
Building	700,000	700,000
Building improvements	1,145,570	1,135,567
Leasehold improvements	1,035,136	1,020,094
Furniture and equipment	1,004,546	984,835
Computer equipment and hardware	1,186,344	1,171,411
Construction in progress	20,798	15,961
	6,547,685	6,483,159
Less accumulated depreciation and amortization	4,236,598	4,021,042
	$ 2,311,087	$ 2,462,117

The estimated useful lives for calculating depreciation and amortization on furniture and equipment are between three and seven years. Building and related improvements are depreciated over a period of thirty and fifteen years, respectively. Leasehold improvements are depreciated over the lesser of the economic life or the term of the related lease, generally terms ranging from five to ten years.

The operating lease agreement for the Cherry Hill branch office that was negotiated as a result of the fire in April 2009 commenced on June 1, 2010, The term of the lease is ten years, with two five-year renewal options. An amendment to this lease was negotiated in the second quarter 2010 to include an additional 1,800 square feet for the Bank's Loan Service Center, with the same renewal terms.

Note 7. Bank Premises and Equipment (Continued)

During December 2003, the Bank entered into a non-cancelable operating lease agreement related to its branch office in Moorestown, New Jersey. The term of the lease is seven years, with three five-year renewal options. The Bank exercised its second renewal option in 2015 effective January 2016.

At December 31, 2016, the required future minimum rental payments under the leases are as follows:

Years ending December 31:	
2017	$ 168,775
2018	172,675
2019	176,575
2020	100,850
2021	4,100
Thereafter	-
	$ 622,975

Rent expense was $220,714 and $209,067 for the years ended 2016 and 2015, respectively.

Note 8. Deposits

Deposits consisted of the following:

	December 31,	
	2016	2015
Demand deposits, noninterest-bearing	$ 20,609,111	$ 18,110,042
Demand deposits, interest-bearing	41,947,700	52,734,144
Savings deposits	13,612,874	12,682,289
Time deposits of $250,000 or more	10,923,595	10,795,272
Other time deposits	49,065,459	43,806,315
	$ 136,158,739	$ 138,128,062

Note 8. Deposits (Continued)

At December 31, 2016, the Bank had six large customers with deposits of $14.6 million or 11 percent of total deposits.

Scheduled maturities of time deposits at December 31, 2016 are as follows:

Years ending December 31:	
2017	$ 37,811,563
2018	12,668,944
2019	6,233,614
2020	1,351,059
2021	1,923,874
Thereafter	-
	$ 59,989,054

In 2016 and 2015, the Bank pledged investment securities to cover deposit balances in excess of FDIC limits. These are reported on the balance sheet as repurchase agreements.

Note 9. Borrowings

The Bank has an overnight line of credit in the amount of $44.9 million available with The Federal Home Loan Bank of New York (FHLBNY), restricted to the availability of eligible collateral to support its obligations and the FHLBNY's stock requirement. As of December 31, 2016, as a result of the Bank's regulatory capital position the FHLBNY borrowings are limited to a maximum period of thirty days. The Bank had unpledged securities and excess capacity under the agreement to support borrowings of $3.3 million. As of February 3, 2017, the Consent Orders originally issued by the Federal Deposit Insurance Corporation (the FDIC) and the State of New Jersey Department of Banking and Insurance were terminated that will effectively result in the removal of the thirty day limitation on FHLBNY borrowing.

At both December 31, 2016 and 2015, the Bank had outstanding borrowings with FHLBNY of $2.5 million. The rate paid to carry the borrowings is 3.85 percent and the FHLBNY advance is scheduled to mature in October 2017.

Advance Date	Maturity Date	Interest Rate	Outstanding Balance
October 5, 2007	October 5, 2017	3.85%	$ 2,500,000
			$ 2,500,000

Note 10. Fair Value

Fair Value Measurements: The Bank uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. In accordance with accounting guidance, the fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is best determined based upon quoted market prices. However, in many instances, there are no quoted market prices for the Bank's various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument.

The fair value guidance provides a consistent definition of fair value, which focuses on exit price in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under current market conditions. If there has been a significant decrease in the volume and level of activity for the asset or liability, a change in valuation technique or the use of multiple valuation techniques may be appropriate. In such instances, determining the price at which willing market participants would transact at the measurement date under current market conditions depends on the facts and circumstances and requires the use of significant judgment. The fair value is a reasonable point within the range that is most representative of fair value under current market conditions. In accordance with this guidance, the Bank groups its assets carried at fair value in three levels as follows:

Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities.

Level 2: Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or other valuation techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

Fair value on a recurring basis: Securities Available for Sale (AFS): Where quoted prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities would include highly liquid government bonds and exchange traded equities. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics, or discounted cash flow. Level 2 securities would include U.S. agency securities, mortgage backed agency securities, and municipal bonds. In certain cases where there is limited activity or less transparency around inputs to the valuation, securities are classified within Level 3 of the valuation hierarchy. All AFS securities, (with the exception of the U. S. Treasury notes) were classified as Level 2 assets. The Level 1 U.S. Treasury notes valuation was determined based upon quoted market prices on the date of the valuation. The valuation of Level 2 assets was determined using the market approach which uses quoted prices for similar assets in active markets and model pricing, defined as valuing securities based on their relationship with other benchmark securities.

Note 10. Fair Value (Continued)

The following tables summarize the available for sale securities measured at fair value as of December 31, 2016 and 2015 segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value.

	December 31, 2016			
Available for Sale	Level 1	Level 2	Level 3	Total
U.S. Treasury notes	$ 2,483,905	$ -	$ -	$ 2,483,905
U.S. Government agency obligations	-	601,300	-	601,300
Mortgage-backed securities issued by:				
SBA	-	1,728,179	-	1,728,179
Ginnie Mae	-	3,659,122	-	3,659,122
Fannie Mae	-	-	-	-
Freddie Mac	-	631,194	-	631,194
Municipal bonds	-	1,793,008	-	1,793,008
	$ 2,483,905	$ 8,412,803	$ -	$ 10,896,708

	December 31, 2015			
Available for Sale	Level 1	Level 2	Level 3	Total
U.S. Treasury notes	$ 2,469,962	$ -	$ -	$ 2,469,962
U.S. Government agency obligations	-	1,449,877	-	1,449,877
Mortgage-backed securities issued by:				
SBA	-	2,726,605	-	2,726,605
Ginnie Mae	-	4,645,658	-	4,645,658
Fannie Mae	-	943,952	-	943,952
Freddie Mac	-	754,164	-	754,164
Municipal bonds	-	4,431,951	-	4,431,951
	$ 2,469,962	$ 14,952,207	$ -	$ 17,422,169

Fair value on a non-recurring basis: Certain assets are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances (for example, when there is evidence of impairment).

Impaired loans: The carrying value of impaired loans is derived in accordance with accounting guidance. Impairment is determined based on the loan's observable market price or the fair value of the collateral less estimated selling costs if the loan is collateral dependent. Appraised and reported values may be discounted based on management's historical knowledge, changes in market conditions from the time of valuation, and/or management's expertise and knowledge of the client and client's business. The Bank will discount the value 6 percent - 8 percent for selling and closing costs. The valuation allowance for impaired loans is included in the allowance for loan losses in the balance sheets. There was a valuation allowance of $214 thousand and $148 thousand for impaired loans at December 31, 2016 and 2015, respectively.

Note 10. Fair Value (Continued)

Other real estate owned: Other real estate owned represents real estate acquired through foreclosure, and is recorded at fair value on a nonrecurring basis. Fair value is based upon independent market prices, appraised values of the collateral or management's estimation of the value of the collateral. When the fair value of the collateral is based on an observable market price or a current appraised value, the Bank classifies the asset as Level 2. When an appraised value is not available or management determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price, the Bank classifies the asset as Level 3. The Bank will discount the value 6 percent - 8 percent for selling and closing costs.

The following tables present the financial assets carried on the balance sheets by caption and by level within the fair value hierarchy (as described above) as of December 31, 2016 and 2015 for which a nonrecurring change in fair value has been recorded during the years ended December 31, 2016 and 2015.

	Level 1	Level 2	Level 3	Total
2016				
Impaired loans	$ -	$ -	$ 843,000	$ 843,000
Other real estate owned	-	-	1,851,533	1,851,533
2015				
Impaired loans	$ -	$ -	$ 1,448,000	$ 1,448,000
Other real estate owned	-	-	2,610,920	2,610,920

Fair value of financial instruments: Accounting guidance requires the disclosure of the estimated fair value of financial instruments, including those for which the Bank did not elect the fair value option or otherwise carry at fair value. The methodologies for estimating the fair value of financial assets that are measured at fair value on a recurring or non-recurring basis are discussed above.

***Cash and cash equivalents*:** The carrying amount of cash and short-term investments approximates fair value.

***Investment securities available for sale*:** The fair value of investment securities is detailed above.

***Loans other than impaired loans*:** Fair values are estimated for portfolios of loans with similar financial characteristics. Loans are segregated by type such as commercial, residential mortgage and other consumer. Each loan category is further segmented into groups by fixed and adjustable rate interest terms and by performing and non-performing categories.

The fair value of performing loans is typically calculated by discounting scheduled cash flows through their estimated maturity, using estimated market discount rates that reflect the interest rate risk inherent in each group of loans. The estimate of maturity is based on contractual maturities for loans within each group, or on the Bank's historical experience with repayments for each loan classification, modified as required by an estimate of the effect of current economic conditions.

The fair value of impaired loans is described above.

Note 10. Fair Value (Continued)

***Federal Home Loan Bank (FHLB) stock*:** The carrying value of FHLB stock approximates fair value based on redemption provisions.

***Accrued interest receivable and payable*:** The fair value of interest receivable and payable is estimated to approximate the carrying amounts.

***Deposits*:** The fair value of deposits with no stated maturity, such as demand deposits, checking accounts, savings and money market accounts, is equal to the carrying amount. The fair value of certificates of deposit is based on the discounted value of contractual cash flows, where the discount rate is estimated using market rates currently offered for deposits of similar remaining maturities.

Repurchase agreements: These are demand deposits in excess of FDIC limits secured by investment securities. The fair value is equal to the carrying amount.

***Federal Home Loan Bank advances*:** The fair values of borrowings are estimated using discounted cash flow analysis based on the current market rates for similar types of borrowing arrangements.

***Off-balance sheet instruments*:** Since the majority of the Bank's off-balance sheet instruments are not fee-producing, variable rate commitments, the Bank has determined that they do not have a distinguishable fair value.

The following table summarizes carrying amounts and fair values for financial instruments at December 31, 2016 and 2015:

	2016		2015	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial assets:				
Cash and cash equivalents	$ 14,090,316	$ 14,090,316	$ 17,049,752	$ 17,049,752
Investment securities	10,896,708	10,896,708	17,422,169	17,422,169
Loans, net	119,467,900	118,455,000	110,711,348	111,341,000
Federal Home Loan Bank, stock	263,000	263,000	244,700	244,700
Accrued interest receivable	423,414	423,414	492,141	492,141
Financial liabilities:				
Demand deposits interest-bearing, noninterest-bearing, and savings bonds	76,169,685	76,169,685	83,526,475	83,526,475
Time deposits	59,989,054	59,821,000	54,601,587	54,544,000
Repurchase agreements	776,574	776,574	798,001	798,001
Federal Home Loan Bank advances	2,500,000	2,554,000	2,500,000	2,632,000
Accrued interest payable	57,061	57,061	55,164	55,164

Note 11. Income Taxes

The Bank recorded net income of $202 thousand and $143 thousand for the years ended 2016 and 2015, respectively. The Bank sustained cumulative losses prior to these results and recorded no net deferred taxes. During 2016 and 2015, the Bank had no federal income tax and $2 thousand and $2 thousand in New Jersey Corporate Business Tax.

Note 11. Income Taxes (Continued)

The components of the net deferred tax asset at December 31, 2016 and 2015 are as follows:

	December 31,	
	2016	2015
Deferred tax assets:		
Net operating loss carryforwards	$ 5,997,953	$ 5,651,994
Allowance for loan losses	13,009	109,696
AMT Credit	21,282	21,282
Net unrealized losses on investment securities available for sale	64,300	67,090
Stock compensation	89,788	88,806
Interest on non-accrual loans	74,417	261,739
Writedown on other real estate owned	289,202	479,719
Premises and equipment	265,153	233,072
Other	23,330	22,244
Total deferred tax assets	6,838,434	6,935,642
Valuation allowance	(6,787,234)	(6,885,363)
Total deferred tax assets, net of valuation allowance	51,200	50,279
Deferred tax liabilities:		
Deferred loan costs	51,200	50,279
Total deferred tax liabilities	51,200	50,279
Net deferred taxes	$ -	$ -

The Bank's expected tax (benefit) expense using a statutory rate approximates $76 thousand and $49 thousand for the years ended December 31, 2016 and 2015, respectively. The difference between the statutory rate and the actual income tax expense recorded relates principally to the changes in the valuation allowance.

As of December 31, 2016, the Bank has net operating loss carry-forwards available for federal and state income tax purposes of approximately $15.7 million and $11.1 million, respectively. The net operating loss carry-forward expire beginning in 2029 through 2036 for state and 2024 through 2036 for federal income tax purposes.

Management has evaluated the Bank's tax positions and concluded that the Bank has taken no uncertain tax positions that require adjustment to the financial statements. The Bank is no longer subject to income tax examinations by the U.S. federal tax authorities for years prior to 2013, and state or local tax authorities for the years before 2013. However, to the extent net operating loss carryforwards are utilized in the future, these losses may still be adjusted upon examination.

Note 12. Regulatory Matters

On November 12, 2013, the Board of Directors consented to the issuance of consent orders (the Consent Orders) by the Federal Deposit Insurance Corporation (the FDIC) and the State of New Jersey Department of Banking and Insurance (the Department of Banking). These Consent Orders were issued by the FDIC on November 14, 2013 and the Department of Banking on November 18, 2013, and required the Bank to take certain actions in connection with an April 2013 regulatory examination of the Bank. Pursuant to the Consent Orders, the Bank was required to, among other things, subject to review and approval by the FDIC and the Department of Banking: (i) analyze and assess the Bank's management, staffing performance and needs; (ii) eliminate assets classified as "Loss" in the April 29, 2013 Report of Examination; (iii) formulate a written plan to reduce the Bank's risk position in each classified asset greater than $250,000; (iv) adopt and implement a plan to reduce and manage one concentration of credit identified by the FDIC and the Department of Banking; (v) revise, if and as necessary, its policy and methodology for determining the allowance for loan and lease losses; (vi) formulate a capital plan to meet and maintain the following minimum capital levels: (a) Tier 1 Capital at least equal to 6 percent of total assets; (b) Tier 1 risk-based capital at least 8 percent of total risk-weighted assets, and (c) Total risk-based capital at least equal to 10 percent of total risk-weighted capital; (vii) revise its contingency funding plan to strengthen the Bank's fund management procedures; (viii) update and revise the Bank's profit and budget plan; (ix) not accept brokered deposits and (x) establish a compliance committee to ensure compliance with the provisions of the Consent Orders.

The Consent Orders also required the Bank to obtain the prior approval of the FDIC and the Department of Banking before declaring or paying any dividend or appointing or changing the title or responsibilities of any director or senior executive officer. Additional regulatory provisions require FDIC and Department of Banking approval before the Bank entered into any employment agreement or other agreement or plan providing for the payment of a "golden parachute payment' or making of any golden parachute payment.

The Bank was substantially in compliance with provisions as set forth in the Consent Orders as of December 31, 2016. As of February 3, 2017, the Consent Orders were terminated.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the following table) of total and Tier I capital (as defined in the regulations) to risk-weighted assets (as defined), common equity Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier I capital (as defined) to average assets (as defined). Management believes, as of December 31, 2016 and 2015, that the Bank meets all capital adequacy requirements to which it is subject.

As of December 31, 2016, the most recent notification from the Federal Deposit Insurance Corporation (the FDIC) and New Jersey Department of Banking and Insurance (NJDOBI) categorized the Bank as adequately capitalized under the regulatory consent orders. As of December 31, 2015, the Bank had also been informed by the FDIC and NJDOBI that it was categorized as adequately capitalized under the regulatory consent orders. The Bank includes required ratios to be considered well capitalized under prompt corrective action provisions in the table below for informational purposes. However, the bank could not be considered well capitalized during the periods presented due to the Consent Orders that were in place even if certain ratio thresholds were achieved.

Effective February 3, 2017, the Consent Orders were terminated.

Note 12. Regulatory Matters (Continued)

In July 2013, the federal bank regulatory agencies issued final rules to implement the Basel III regulatory capital reforms and changes required by the Dodd-Frank Act. Under the final rules, which became effective for the Bank on January 1, 2015 and are subject to a phase-in period through January 1, 2019, minimum requirements increased for both the quantity and quality of capital held by the Company. The rules require all banks and bank holding companies to maintain a new common equity Tier 1 capital to risk-weighted assets minimum ratio of 4.5%, raise the minimum ratio of Tier 1 capital to risk-weighted assets (Tier I capital) from 4.0% to 6.0%, require a minimum ratio of total risk-based capital to total risk-weighted assets (Total Risk Based Capital) of 8.0%, and require a minimum Tier I capital to average total assets (Leverage Ratio) of 4.0%. A new capital conservation buffer, comprised of common equity Tier I capital, is also established above the regulatory minimum capital requirements. The capital conservation buffer is being phased in over a four year period that began January 1, 2016, with a required buffer of 0.625% of risk weighted assets for 2016, 1.25% for 2017, 1.875% for 2018 and 2.0% for 2019 and thereafter. Failure to maintain the required capital conservation buffer will result in limitations on capital distributions and on discretionary bonuses to executive officers. The rule also assigns higher risk-weightings to certain assets: certain past due and commercial real estate loans and some equity exposures.

The following table reflects the actual and required capital and the related capital ratios as of the periods indicated. No amounts were deducted from capital for interest-rate risk in either 2016 or 2015.

	Actual		Minimum Requirements For Capital Adequacy Purposes		For Banks To Be Well Capitalized Under Prompt Corrective Action Provisions		Bank's Requirements Under the Terms of Consent Orders	
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2016								
Total risk based capital (to risk weighted assets)	$ 11,146	10.31%	$ 8,652	8.00%	$ 10,815	10.00%	$ 10,815	10.00%
Tier I capital (to risk weighted assets)	9,891	9.15%	6,489	6.00%	6,489	6.00%	8,652	8.00%
Common equity tier 1 capital (to risk weighted assets)	9,891	9.15%	4,867	4.50%	7,030	6.50%	N/A	N/A
Tier I capital (to average assets)	9,891	6.73%	5,875	4.00%	7,344	5.00%	8,812	6.00%
As of December 31, 2015								
Total risk based capital (to risk weighted assets)	$ 11,077	10.10%	$ 8,773	8.00%	$ 10,966	10.00%	$ 10,966	10.00%
Tier I capital (to risk weighted assets)	9,706	8.85%	6,580	6.00%	6,580	6.00%	8,773	8.00%
Common equity tier 1 capital (to risk weighted assets)	9,706	8.85%	4,935	4.50%	7,128	6.50%	N/A	N/A
Tier I capital (to average assets)	9,706	6.44%	6,031	4.00%	7,539	5.00%	9,047	6.00%

Note 13. Stock-Based Employee Compensation

On February 24, 2004, the Bank adopted the 2004 Incentive Stock Option Plan and the 2004 Non-Qualified Stock Option Plan, which are stock-based incentive compensation plans (the Plans). On February 24, 2014, the Plans expired pursuant to their terms. Stock options initially issued on July 26, 2005 expired July 26, 2015, reducing outstanding stock options by 17,532 stock options. Although the Plans have expired, stock options providing for the purchase of 80,255 shares, issued March 27, 2007 and March 26, 2013, remain viable outstanding stock options.

Note 13. Stock-Based Employee Compensation (Continued)

On March 26, 2013, the Board approved the grant of 33,050 stock options to directors and 29,175 stock options to officers of the Bank at an exercise price of $1.18 and vesting over 5 years. The fair value of each option award was estimated on the date of grant using a Black-Scholes option pricing model using the following assumptions:

Risk-free interest rate	1.20%
Expected terms	2 years
Expected stock price volatility	20%
Dividend yield	-

Compensation costs totaling $2,459 relating to stock options were charged against income for the years ended both December 31, 2016 and 2015, respectively.

A summary of activity under the Bank's stock option plans during the year ended December 31, 2016 are summarized as follows:

Options	Shares		Weighted Average Exercise Price	Weighted Average Remaining Contractual Term		Aggregate Intrinsic Value
Outstanding at January 1, 2016	80,255	$	2.95	2.2 years	$	-
Granted in 2015	-		-	-		-
Exercised in 2015	-		-	-		-
Expired/terminated in 2016	-		-	-		-
Outstanding at December 31, 2016	80,255	$	2.95	1.2 years	$	-
Exercisable at December 31, 2016	60,965	$	3.51	1.2 years	$	-

A summary of the status of the Bank's non-vested shares as of December 31, 2016 is as follows:

	Shares		Weighted Average Exercise Price
Nonvested at January 1, 2016	28,935	$	1.18
Granted	-		-
Vested	(9,645)		1.18
Expired/terminated	-		1.18
Nonvested at December 31, 2016	19,290	$	1.18

Note 13. Stock-Based Employee Compensation (Continued)

As of December 31, 2016, aggregate unrecognized compensation cost existing under the Bank's outstanding stock options was $2,869.

A summary of activity under the Bank's stock option plans during the year ended December 31, 2015 are summarized as follows:

Options	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at January 1, 2015	115,706	$ 3.45	3.2 years	$ -
Granted in 2014	-	-	-	-
Exercised in 2014	-	-	-	-
Expired/terminated in 2015	35,451	3.45	-	-
Outstanding at December 31, 2015	80,255	$ 3.45	3.2 years	$ -
Exercisable at December 31, 2015	51,320	$ 3.94	2.2 years	$ -

A summary of the status of the Bank's non-vested shares as of December 31, 2015 is as follows:

	Shares	Weighted Average Exercise Price
Nonvested at January 1, 2015	46,900	$ 1.18
Granted	-	-
Vested	(11,725)	1.18
Expired/terminated	(6,240)	-
Nonvested at December 31, 2015	28,935	$ 1.18

Note 14. Commitments and Contingencies

Change in control: On March 23, 2017, the Bank amended and restated its Employment Agreement with its chief executive officer (CEO) that has a two-year term which was due to expire on March 26, 2017. The Bank also amended its Employment Agreement with its chief financial officer (CFO) that had a two-year term which expired on December 31, 2017. These agreements as amended now expire on March 31, 2019. The Bank also entered into a Change in Control Agreement with its chief loan officer (CLO), which also expires on March 31, 2019. There are no other Employment Agreements with senior management.

In conjunction with the Federal Deposit Insurance Corporation and New Jersey Department of Banking and Insurance's termination of the Consent Order on February 3, 2017 the designation of the Bank as a 'troubled institution' was also eliminated. Therefore, severance agreements or agreements with its officers

Note 14. Commitments and Contingencies (Continued)

prohibited under the terms of the Consent Order unless approved by the regulatory agency are now permitted.

Off balance sheet risk: The Bank is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit. These instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the balance sheet. The contract or notional amounts of these instruments reflect the extent of the Bank's involvement in these particular classes of financial instruments. The Bank's exposure to credit loss in the event of nonperformance by the other party to the financial instruments for commitments to extend credit and standby letters of credit is represented by the contractual or notional amount of those instruments. The Bank uses the same credit policies in making commitments and conditional obligations as they do for on-balance sheet instruments.

These commitments are entered into to meet the credit needs of the Bank's customers. In many instances these commitments are necessary to obtain or retain the loan business from the Bank's borrowers.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Bank evaluates each customer's credit-worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management's credit evaluation. Collateral held varies but may include accounts receivable, inventory, property, plant and equipment and income-producing commercial properties. As of December 31, 2016 and 2015, commitments to extend credit amounted to approximately $19.8 million and $17.7 million, respectively.

Standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. As of December 31, 2016 and 2015 standby letters of credit with customers were $869 thousand and $1.0 million, respectively.

The following table reflects commitments to extend credit by type of loan and maturity date.

	Total Amounts Committed	Less than 1 Year	1-3 Years	4-5 Years	After 5 Years
	(In Thousands)				
Commitments to extend credit:					
Commercial real estate owner occupied	$ 335	$ 335	$ -	$ -	$ -
Commercial real estate non-owner occupied	2,363	373	1,990	-	-
Residential construction	8,146	8,146	-	-	-
Commercial construction	129	129	-	-	-
Residential first and second mortgages	6,376	-	115	908	5,353
Commercial	2,381	2,081	-	300	-
Other commitments	84	-	-	-	84
Total commitments	$ 19,814	$ 11,064	$ 2,105	$ 1,208	$ 5,437

Note 14. Commitments and Contingencies (Continued)

The Bank does not issue or hold derivative instruments. Such instruments are not likely to be affected by annual rate caps triggered by rising interest rates. Management believes that off-balance sheet risk is not material to the results of operations or financial condition. In the normal course of business, there are outstanding various contingent liabilities such as claims and legal action, which are not reflected in the financial statements. In the opinion of management, no material losses are anticipated as a result of these actions or claims.

Note 15. Subsequent Events

The Bank has evaluated subsequent events through March 27, 2017 and determined that no events have occurred that warrant recording or disclosure in these financial statements.

Stock Listing

Liberty Bell Bank's Common Stock is traded on the "over-the-counter" markets under symbol "LBBB".

Auditors

RSM US LLP
751 Arbor Way
Suite 200
Blue Bell, PA 19422

Counsel

Stevens & Lee
A Professional Corporation
100 Lenox Drive
Suite 200
Lawrenceville, New Jersey, 08648

Market Makers

The following registered broker dealers make a market in Liberty Bell Bank common stock:

Cantor Fitzgerald & Company
Citadel Securities
FIG Partners, LLC
Knight Securities
Monroe Securities, Inc.
Raymond James Financial
Stockcross Financial Services
Wedbush Securities

Registrar and Transfer Agent

Shareholders who wish to change the name under which their shares are held, or their address or ownership of stock, report lost stock certificates, or consolidate stock accounts should contact:

Philadelphia Stock Transfer, Inc.
2320 Haverford Road, Suite 230
Ardmore, Pennsylvania 19003
Telephone (484) 416-3124

Annual Meeting

The Annual Meeting of Shareholders of the Bank will be held at 5:00 P.M. on Thursday, April 27, 2017 at the Bank's headquarters and Evesham Office located at 145 North Maple Avenue, Marlton, New Jersey.

Investors Relations Contact

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President, Chief Executive Officer
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BOARD OF DIRECTORS

William C. Dunkelberg, Ph.D. Chairman	Retired Professor of Economics at Fox School of Business, Temple University
Jeff Altman, CPA	Principal of Associated Financial Services Ltd and Sarah Farms Associates, LLC
George F. Beppel, Esquire & CPA	Shareholder in Ragone, Lacatena, Fairchild & Beppel, PC, Certified Public Accountants
Roy T. Fazio	Partner and Executive Vice President Protocall Group
Kenneth R. Lehman, Esquire	Private Investor, Former Attorney, Banking Entrepreneur
Joseph Maressa, Jr., Esquire	President of Title America Corporation; Partner in law firm Maressa Patterson, LLC
Stephen J. Mushinski, Esquire	Of Counsel, Parker McKay, P.A.
James A. Tamburro, Esquire	Managing Partner at Tamburro Law Offices
Jack Tarditi, MBA	Managing Director at Conner, Strong & Buckelew, Former Mayor
Benjamin F. Watts	President and Chief Executive Officer of Liberty Bell Bank

BANK OFFICERS

Benjamin F. Watts
President/Chief Executive Officer

Dennis A. Costa
Senior Vice President/Chief Financial Officer

Stephen Gin
Vice President/Commercial Loan Officer

Kenneth Miller
Vice President/Mortgage Loan Officer

Kimberly A. Sank
Vice President/Deposit Administration

Bruce Collins
Assistant Vice President/Senior Credit Analyst

Jill Spangler
Assistant Vice President/Moorestown Branch

Maryann Wills
Assistant Vice President/Loan Administration

Kristy Barcia
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John R. Herring
Executive Vice President/Chief Lending Officer

Silvana Milelli
Senior Vice President/Chief Operations Officer

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Vice President/Business Development
Branch Administration

Mark Montgomery
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Myles Carroll
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Dorothy Hammill-Schnell
Assistant Vice President/Moorestown Branch

Joyce Stewart
Assistant Vice President/Evesham Branch

Gregory Wood
Assistant Vice President/Cherry Hill Branch

Beverly Monk
Assistant Cashier/Deposit Administration


Liberty Bell Bank