Bancorp of New Jersey, Inc.
Form 10-K
March 18, 2019
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

(Mark One)

Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

for the fiscal year ended December 31, 2018

Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

for the transition period from to .

Commission file number: 001-34089

Bancorp of New Jersey, Inc.

(Exact name of Registrant as specified in its charter)

| | |
|---|---|
| New Jersey | 20-8444387 |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification) |

| | |
|---|---|
| 1365 Palisade Avenue, Fort Lee, NJ | 07024 |
| (Address of principal executive offices) | (Zip Code) |

201-944-8600

(Registrant's telephone number, including area code)

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

| Title of each class | Name of each exchange on which registered |
|---|---|
| Common stock | NYSE MKT, LLC |

Securities registered pursuant to Section 12(g) of the Exchange Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES NO

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. YES NO

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files.) YES NO

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendments to this Form 10-K.

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

| | | |
|---|---|---|
| Large accelerated filer | Accelerated filer | |
| Non-accelerated filer | Smaller reporting company | Emerging growth company |

If an emerging growth company, indicate by check if the registrant has elected to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act

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

The aggregate market value of the registrant's voting stock held by non-affiliates of the registrant as of June 30, 2018 was approximately $89,308,660 based on the last sale price as of such date.

The number of shares outstanding of the registrant's common stock, no par value, outstanding as of March 04, 2019 was 7,293,366.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's definitive proxy statement, to be filed with the Securities and Exchange Commission in connection with its 2019 Annual Meeting of Shareholders to be held May 23, 2019, are incorporated by reference in Part III of this annual report on Form 10 K.

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PART I

## FORWARD-LOOKING STATEMENTS

This document contains forward-looking statements, in addition to historical information. Forward looking statements are typically identified by words or phrases such as “believe,” “expect,” “anticipate,” “intend,” “estimate,” “project,” and varia of such words and similar expressions, or future or conditional verbs such as “will,” “would,” “should,” “could,” “may,” or similar expressions. The U.S. Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, provide a safe harbor in regard to the inclusion of forward-looking statements in this document and documents incorporated by reference.

There are a number of important factors that could cause future results to differ materially from historical performance and these forward-looking statements. Factors that might cause such a difference include, but are not limited to: (1) competitive pressures among depository institutions may increase significantly; (2) changes in the interest rate environment may reduce interest margins; (3) prepayment speeds, loan origination and sale volumes, charge-offs and loan loss provisions may vary substantially from period to period; (4) general economic conditions may be less favorable than expected; (5) political developments, wars or other hostilities may disrupt or increase volatility in securities markets or other economic conditions; (6) legislative or regulatory changes or actions may adversely affect the businesses in which we are engaged; (7) changes and trends in the securities markets may adversely impact us; (8) a delayed or incomplete resolution of regulatory issues could adversely impact our planning; (9) difficulties in integrating any businesses that we may acquire, which may increase our expenses and delay the achievement of any benefits that we may expect from such acquisitions; (10) the impact of reputation risk created by the developments discussed above on such matters as business generation and retention, funding and liquidity could be significant; and (11) the outcome of any future regulatory and legal investigations and proceedings may not be anticipated. Further information on other factors that could affect our financial results are included in Item 1A of this Annual Report on Form 10-K and in our other filings with the Securities and Exchange Commission. These documents are available free of charge at the Commission’s website at http://www.sec.gov and/or from Bancorp of New Jersey, Inc. We assume no obligation to update forward-looking statements at any time.

## ITEM 1. BUSINESS

### General

Bancorp of New Jersey, Inc., is referred to herein as “we” or the “Company”. The Company is a one-bank holding company incorporated under the laws of the State of New Jersey in November, 2006 to serve as a holding company for Bank of New Jersey, referred to as the “Bank.” (Unless the context otherwise requires, all references to the “Company” in this annual report shall be deemed to refer also to the Bank). The Company was organized at the direction of the board of directors of the Bank for the purpose of acquiring all of the capital stock of the Bank. On July 31, 2007, the Company became the bank holding company of the Bank.

During the third quarter of 2014, the Bank formed BONJ-New Jersey Investment Company, a New Jersey corporation; BONJ- Delaware Investment Company, a Delaware corporation; and BONJ REIT Inc., a New Jersey corporation. These subsidiaries were formed as part of the establishment by the Company of a real estate investment trust to reduce the Company's effective corporate tax rate.

The Bank is a commercial bank formed under the laws of the State of New Jersey on May 10, 2006. The Bank operates from its corporate office at 750 East Palisade Avenue, Englewood Cliffs, New Jersey, 07632, and its nine branch offices located at 1365 Palisade Avenue, Fort Lee, New Jersey, 07024, 204 Main Street, Fort Lee, New Jersey, 07024, 401 Hackensack Avenue, Hackensack, New Jersey, 07601, 458 West Street, Fort Lee, New Jersey, 07024, 320 Haworth Avenue, Haworth, New Jersey, 07641, 104 Grand Avenue, Englewood, NJ 07631, 354 Palisade Avenue, Cliffside Park, NJ 07010, 585 Chestnut Ridge Road, Woodcliff Lake, NJ 07677 and 750 East Palisade Avenue, Englewood Cliffs, New Jersey, 07632.

The Company is subject to the supervision and regulation of the Board of Governors of the Federal Reserve System, sometimes referred to as the "FRB." The Bank is supervised and regulated by the Federal Deposit Insurance Corporation or "FDIC" and the New Jersey Department of Banking and Insurance or "NJDOBI". The Bank's deposits

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are insured by the FDIC up to applicable limits. The operation of the Company and the Bank are subject to the supervision and regulation of the FRB, FDIC, and the NJDOBI. The main office of the Bank is located at 1365 Palisade Avenue, Fort Lee, NJ, 07024 and the telephone number is (201) 944-8600.

Business of the Company

The Company's primary business is ownership and supervision of the Bank. The Company, through the Bank, conducts a traditional commercial banking business, accepting deposits from the general public, including individuals, businesses, non-profit organizations, and governmental units. The Bank makes commercial loans and consumer loans. In addition, the Bank provides other customer services and makes investments in securities, as permitted by law. The Bank continues to offer community-oriented relationship banking in an area that is presently dominated by larger, statewide and national institutions. Our goal remains to establish and retain customer relationships by offering a broad range of traditional financial services and products, competitively-priced and delivered in a responsive manner to businesses, professionals, and individuals in the local market. As a locally operated community bank, the Bank seeks to provide superior customer service that is highly personalized, efficient, and responsive to local needs. To better serve our customers and expand our market reach, we provide for the delivery of certain financial products and services to local customers and to a broader market through the use of mail, telephone, and internet banking. The Bank strives to deliver these products and services with the care and professionalism expected of a community bank and with a special dedication to personalized customer service.

The specific objectives of the Bank are:

- To provide local businesses, professionals, and individuals with banking services responsive to and determined by the local market;

- For bank management to be accessible to and engaged with its customers, shareholders and communities;

- To attract deposits and loans by competitive pricing; and

- To provide a reasonable return to shareholders on capital invested.

Market Area

The principal market for our deposit gathering and lending activities is within Bergen County in New Jersey. The market is dominated by offices of large statewide and interstate banking institutions. The market area has a relatively affluent population base of potential customers for our services and a diversified mix of commercial businesses and residential neighborhoods. In order to meet the demands of this market, the Company operates its corporate office in Englewood Cliffs, New Jersey and nine branch offices, three in Fort Lee, one in Hackensack, one in Haworth, one in Englewood, one in Cliffside Park, one in Woodcliff Lake, and one in Englewood Cliffs, all in Bergen County, New Jersey. We offer convenient branch hours, online banking, mobile banking and remote deposit capture for commercial customers.

## Competition

The banking business remains highly competitive and is increasingly more regulated. The profitability of the Company depends upon the Bank's ability to compete in its market area. The Bank continues to face considerable competition in its market area for deposits and loans from other depository institutions. The Bank faces competition in attracting and retaining deposit and loan customers, and with respect to the terms and conditions it offers on its deposit and loan products. Many of its competitors have greater financial resources, broader geographic markets, and greater name recognition, and are able to provide more services and finance wide-ranging advertising campaigns.

The Bank competes with local, regional, and national commercial banks, savings banks, and savings and loan associations. The Bank also competes with money market mutual funds, mortgage bankers, insurance companies, stock brokerage firms, regulated small loan companies, credit unions, and issuers of commercial paper and other securities. In addition, the banking industry in general has begun to face competition for deposit, credit and money management products from non-bank technology firms, or fintech companies, which may offer products independently or though relationships with insured depository institutions.

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Concentration

The Company is not dependent for deposits or exposed by loan concentrations to a single customer or a small group of customers the loss of any one or more of which would have a material adverse effect upon the financial condition of the Company. As a community bank however, our market area is concentrated in Bergen County, New Jersey, and 91.3% of our loan portfolio was collateralized by real estate, primarily in our market area, as of December 31, 2018.

Employees

At December 31, 2018, the Company employed eighty one full-time equivalent employees. None of these employees are covered by a collective bargaining agreement. The Company believes its relations with employees to be good.

Supervision and Regulation

General

The Company and the Bank are each extensively regulated under both federal and state law. These laws restrict permissible activities and investments and require compliance with various consumer protection provisions applicable to lending, deposit, brokerage and fiduciary activities. They also impose capital adequacy requirements and condition the Company's ability to repurchase stock or to receive dividends from the Bank or pay dividends to its shareholders. The Company is also subject to comprehensive examination and supervision by the FRB and the Bank is also subject to comprehensive examination and supervision by NJDOBI and the FDIC. These regulatory agencies generally have broad discretion to impose restrictions and limitations on the operations of the Company and the Bank. This supervisory framework could materially impact the conduct and profitability of the Company's and Bank's activities. Federal and state banking regulators have the authority to initiate informal or formal enforcement actions against the Company and the Bank.

To the extent that the following information describes statutory and regulatory provisions, it is qualified in its entirety by reference to the particular statutory and regulatory provisions. Proposals to change the laws and regulations governing the banking industry are frequently raised at both the state and federal level. The likelihood and timing of any changes in these laws and regulations, and the impact such changes may have on the Company and the Bank, are difficult to ascertain. A change in applicable laws and regulations, or in the manner such laws or regulations are interpreted by regulatory agencies or courts, may have a material effect on our business, operations and earnings.

Bank Holding Company Act

The Company is registered as a bank holding company under the Bank Holding Company Act of 1956, as amended (the “BHCA”), and is subject to regulation and supervision by the FRB. The BHCA requires the Company to secure the prior approval of the FRB before it owns or controls, directly or indirectly, more than five percent (5%) of the voting shares or substantially all of the assets of, any bank or savings bank, or merges or consolidates with another bank or savings bank holding company. Further, under the BHCA, the activities of the Company and any nonbank subsidiary are limited to those activities which the FRB determines to be so closely related to banking as to be a proper incident thereto, and prior approval of the FRB may be required before engaging in certain activities. In making such determinations, the FRB is required to weigh the expected benefits to the public such as greater convenience, increased competition and gains in efficiency, against the possible adverse effects, such as undue concentration of resources, decreased or unfair competition, conflicts of interest, and unsound banking practices.

The BHCA was substantially amended by the Gramm-Leach-Bliley Act (“GLBA”), which among other things permits a “financial holding company” to engage in a broader range of non-banking activities, and to engage on less restrictive terms in certain activities than were previously permitted. These expanded activities include securities underwriting and dealing, insurance underwriting and sales, and merchant banking activities, among other activities. To become a financial holding company, the Company and the Bank must be “well capitalized” and “well managed” (as defined by federal law), and have at least a “satisfactory” Community Reinvestment Act (“CRA”) rating. GLBA also imposes certain privacy requirements on all financial institutions and their treatment of consumer information. At this time, the Company has not elected to become a financial holding company, as we do not engage in any non-banking activities which would require us to be a financial holding company.

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There are a number of restrictions imposed on the Company and the Bank by law and regulatory policy that are designed to minimize potential loss to the depositors of the Bank and the FDIC insurance fund in the event the Bank should become insolvent. For example, FRB policy and regulation require a bank holding company to serve as a source of financial strength to its subsidiary depository institutions and to commit resources to support such institutions in circumstances where it might not do so absent such policy and regulation. The FRB also has the authority under the BHCA to require a bank holding company to terminate any activity or to relinquish control of a non-bank subsidiary upon the FRB's determination that such activity or control constitutes a serious risk to the financial soundness and stability of any bank subsidiary of the bank holding company.

Any capital loan by the Company to the Bank is subordinate in right of payment to deposits and certain other indebtedness of the Bank. In addition, in the event of the Company's bankruptcy, any commitment by the Company to a federal bank regulatory agency to maintain the capital of the Bank will be assumed by the bankruptcy trustee and entitled to a priority of payment.

The Federal Deposit Insurance Act ("FDIA") provides that, in the event of the "liquidation or other resolution" of an insured depository institution, the claims of depositors of the institution (including the claims of the FDIC as a subrogee of insured depositors) and certain claims for administrative expenses of the FDIC as a receiver will have priority over other general unsecured claims against the institution. If an insured depository institution fails, insured and uninsured depositors, along with the FDIC will have priority in payment ahead of unsecured, non-deposit creditors, including the Company, with respect to any extensions of credit they have made to such insured depository institution.

Supervision and Regulation of the Bank

The operations and investments of the Bank are also limited by federal and state statutes and regulations. The Bank is subject to the supervision and regulation by the NJDOBI and the FDIC. The Bank is also subject to various requirements and restrictions under federal and state law, including requirements to maintain reserves against deposits, restrictions on the types, amount and terms and conditions of loans that may be originated, and limits on the type of activities in which the Bank may engage and the investments it may make. Under the GLBA, the Bank may engage in expanded activities (such as insurance sales and securities underwriting) through the formation of a "financial subsidiary." In order to be eligible to establish or acquire a financial subsidiary, the Bank must be "well capitalized" and "well managed" and may not have less than a "satisfactory" CRA rating. At this time, the Bank does not engage in any activity which would require it to maintain a financial subsidiary.

The Bank is also subject to federal laws that limit the amount of transactions between the Bank and its nonbank affiliates, including the Company. Under these provisions, transactions (such as a loan or investment) by the Bank with any nonbank affiliate are generally limited to 10% of the Bank's capital and surplus for all covered transactions with such affiliate or 20% of capital and surplus for all covered transactions with all affiliates. Any such extensions of credit, with limited exceptions, must be secured by eligible collateral in specified amounts. The Bank is also prohibited from purchasing any “low quality” assets from an affiliate. The Dodd-Frank Act imposed additional requirements on transactions with affiliates, including an expansion of the definition of “covered transactions” and increasing the amount of time for which collateral requirements regarding covered transactions must be maintained.

Securities and Exchange Commission

The Company is also under the jurisdiction of the Securities and Exchange Commission (“SEC”) for matters relating to the offering and sale of its securities and is subject to the SEC’s rules and regulations relating to periodic reporting, reporting to shareholders, proxy solicitations, and insider-trading regulations.

Monetary Policy

The earnings of the Company are and will be affected by domestic economic conditions and the monetary and fiscal policies of the United States government and its agencies. The monetary policies of the FRB have a significant effect upon the operating results of commercial banks such as the Bank. The FRB has a major effect upon the levels of bank loans, investments and deposits through its open market operations in United States government securities and through its regulation of, among other things, the discount rate on borrowings of member banks and the reserve requirements against member banks' deposits. It is not possible to predict the nature and impact of future changes in monetary and fiscal policies.

Deposit Insurance

The Bank's deposits are insured up to applicable limits by the Deposit Insurance Fund of the FDIC.

On July 21, 2010, the Dodd-Frank Act was signed into law. The Dodd-Frank Act changed the assessment base for federal deposit insurance from the amount of insured deposits held by the depository institution to the depository institution's average total consolidated assets less average tangible equity, eliminating the ceiling on the size of the deposit insurance fund ("DIF") and increasing the floor on the size of the DIF. The Dodd-Frank Act established a minimum designated reserve ratio ("DRR") of 1.35 percent of the estimated insured deposits, mandates the FDIC to adopt a restoration plan should the DRR fall below 1.35 percent, and provides dividends to the industry should the DRR exceed 1.50 percent.

On February 7, 2011, the Board of Directors of the FDIC approved a final rule on Assessments, Dividend Assessment Base and Large Bank Pricing (the "Final Rule"). The Final Rule implements the changes to the deposit insurance assessment system as mandated by the Dodd-Frank Act. The Final Rule became effective April 1, 2011.

The Final Rule changed the assessment base for insured depository institutions from adjusted domestic deposits to the average consolidated total assets during an assessment period less average tangible equity capital during that assessment period. Tangible equity is defined in the Final Rule as Tier 1 Capital and shall be calculated monthly, unless, like us, the insured depository institution has less than $1 billion in assets. In that case, the insured depository institution calculates the Tier 1 Capital on an end-of-quarter basis. Parents or holding companies of other insured depository institutions are required to report separately from their subsidiary depository institutions.

The Final Rule retains the unsecured debt adjustment, which lowers an insured depository institution's assessment rate for any unsecured debt on its balance sheet. In general, the unsecured debt adjustment in the Final Rule will be measured to the new assessment base and will be increased by 40 basis points. The Final Rule also contains a brokered deposit adjustment for assessments. The Final Rule provides an exemption to the brokered deposit adjustment to financial institutions that are "well capitalized" and have composite CAMEL ratings of 1 or 2. CAMEL ratings are confidential ratings used by the federal and state regulators for assessing the soundness of financial institutions. These ratings range from 1 to 5, with a rating of 1 being the highest rating.

The Final Rule also creates a new rate schedule that intends to provide more predictable assessment rates to financial institutions. The revenue under the new rate schedule will be approximately the same. Moreover, it indefinitely suspends the requirement that the FDIC pay dividends from the insurance fund when it reaches 1.5 percent of insured deposits, to increase the probability that the fund reserve ratio will reach a sufficient level to withstand a future crisis. In lieu of the dividend payments, the FDIC has adopted progressively lower assessment rate schedules that become effective when the reserve ratio exceeds 2 percent and 2.5 percent.

The Dodd-Frank Act made permanent the $250,000 limit for federal deposit insurance.

The FDIC has authority to increase insurance assessments. A significant increase in insurance assessments would likely have an adverse effect on our operating expenses and results of operations. Management cannot predict what insurance assessment rates will be in the future.

Deposit insurance may be terminated by the FDIC upon a finding that the institution has engaged in unsafe or unsound practices, is in an unsafe or unsound condition to continue operations or has violated any applicable law, regulation, rule, order or condition imposed the FDIC.

Dividend Restrictions

Under applicable New Jersey law, the Company is not permitted to pay dividends on its capital stock if, following the payment of the dividend, (1) it would be unable to pay its debts as they become due in the usual course of business or (2) its total assets would be less than its total liabilities. Further, it is the policy of the FRB that bank holding companies should pay dividends only out of current earnings and only if future retained earnings would be consistent with the Company's capital, asset quality, liquidity and financial condition. As part of its supervisory authority, the FRB may

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impose informal or formal restrictions on the Company's ability to pay dividends, including requiring the non-objection of the FRB to payment of any dividends, distribution of interest or creating new debt.

Since it has no significant independent sources of income, the ability of the Company to pay dividends is dependent on its ability to receive dividends from the Bank. Under the New Jersey Banking Act of 1948, as amended (the "Banking Act"), a bank may declare and pay cash dividends only if, after payment of the dividend, the capital stock of the bank will be unimpaired and either the bank will have a surplus of not less than 50% of its capital stock or the payment of the dividend will not reduce the bank's surplus.  The FDIC prohibits payment of cash dividends if, as a result, the institution would be undercapitalized or the Bank is in default with respect to any assessment due to the FDIC.

Risk-Based Capital Requirements

The federal banking regulators have adopted certain risk-based capital guidelines to assist in assessing capital adequacy of a banking organization's operations for both transactions reported on the balance sheet as assets and transactions, such as letters of credit, and recourse agreements, which are recorded as off-balance sheet items. Under these guidelines, nominal dollar amounts of assets and credit-equivalent amounts of off-balance sheet items are multiplied by one of several risk adjustment percentages, which range from 0% for assets with low credit risk, such as certain US Treasury securities, to 600% for certain equity exposures.

A banking organization's risk-based capital ratios are obtained by dividing its qualifying capital by its total risk adjusted assets. The regulators measure risk-adjusted assets, which include off-balance-sheet items, against both total qualifying capital, Common Equity Tier 1 capital and Tier 1 capital.

- "Common Equity Tier 1 Capital" includes common equity and minority interest in equity accounts of consolidated subsidiaries, less goodwill and other intangibles, subject to certain exceptions and retained earnings.
- "Tier 1", or core capital, includes common equity, non-cumulative preferred stock and minority interest in equity accounts of consolidated subsidiaries, less goodwill and other intangibles, subject to certain exceptions.

These requirements apply to all insured depository institutions and to bank holding companies with at least $3 billion in consolidated assets. Therefore, these requirements only apply to the Bank, not the Company, at this time.

In July 2013, the federal banking agencies issued final rules to implement the Basel III regulatory capital reforms and changes required by the Dodd-Frank Act. The final rules call for the following capital requirements:

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A minimum ratio of common equity tier 1 capital to risk-weighted assets of 4.5%.
- A minimum ratio of tier 1 capital to risk-weighted assets of 6%.
- A minimum ratio of total capital to risk-weighted assets of 8%.
- A minimum leverage ratio of 4%.

In addition, the final rules establish a common equity tier 1 capital conservation buffer of 2.5% of risk-weighted assets applicable to all banking organizations. If a banking organization fails to hold capital above the minimum capital ratios and the capital conservation buffer, it will be subject to certain restrictions on capital distributions, including stock repurchases, and discretionary bonus payments. The phase-in period for the capital conservation and countercyclical capital buffers for all banking organizations began on January 1, 2016 at the 0.625% level, and was fully phased in at 2.5% on January 1, 2019.

The final rules allow community banks to make a one-time election not to include accumulated other comprehensive income (AOCI) in regulatory capital and instead use the existing treatment under the general risk-based capital rules that excludes most AOCI components from regulatory capital. The opt-out election was required to be made in the first call report or FR Y-9 series report that is filed after the financial institution becomes subject to the final rule. On March 19, 2015, the Company's Board of Directors adopted a resolution to "opt-out" of the inclusion of the components of AOCI in regulatory capital.

Consistent with the Dodd-Frank Act, the rules replace the ratings-based approach to securitization exposures, which is based on external credit ratings, with the simplified supervisory formula approach in order to determine the appropriate risk weights for these exposures. Alternatively, banking organizations may use the existing gross-up approach to assign securitization exposures to a risk weight category or choose to assign such exposures a 1,250 percent risk weight.

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Under the rules, mortgage servicing assets (MSAs) and certain deferred tax assets (DTAs) are subject to stricter limitations than those applicable under the prior general risk-based capital rule. The new rules also increase the risk weights for past-due loans, certain commercial real estate loans, and some equity exposures, and makes selected other changes in risk weights and credit conversion factors.

Failure to meet applicable capital guidelines could subject a banking organization to a variety of enforcement actions including:

- limitations on its ability to pay dividends;
- the issuance by the applicable regulatory authority of a capital directive to increase capital, and in the case of depository institutions, the termination of deposit insurance by the FDIC, as well as the measures described under FDICIA as applicable to undercapitalized institutions.

At December 31, 2018, the Bank met its capital requirements with a ratio of common equity tier 1 capital to risk-weighted assets of 11.17%; a ratio of tier 1 capital to risk-weighted assets of 11.17%; a ratio of total capital to risk-weighted assets of 12.26%; and a leverage ratio of 10.06%. As can be seen from these ratios, the Bank also satisfied its capital conservation buffer.

Prompt Corrective Action

In addition to the required minimum capital levels described above, Federal law establishes a system of "prompt corrective actions" which Federal banking agencies are required to take, and certain actions which they have discretion to take, based upon the capital category into which a Federally regulated depository institution falls. Regulations set forth detailed procedures and criteria for implementing prompt corrective action in the case of any institution which is not adequately capitalized. Under the rules, an institution will be deemed "well capitalized" if it (i) has a total risk-based capital ratio of at least 10.0 percent, (ii) has a Tier 1 risk-based capital ratio of at least 8.0 percent, (iii) has a Tier 1 leverage ratio of at least 5.0 percent, (iv) has a common equity Tier 1 capital ratio of at least 6.5%, and (v) meets certain other requirements. An institution will be classified as "adequately capitalized" if it (i) has a total risk-based capital ratio of at least 8.0 percent, (ii) has a Tier 1 risk-based capital ratio of at least 6.0 percent, (iii) has a Tier 1 leverage ratio of at least 4.0 percent, has a common equity Tier 1 capital ratio of at least 4.5%, and (v) does not meet the definition of "well capitalized." An institution will be classified as "undercapitalized" if it (i) has a total risk-based capital ratio of less than 8.0 percent, (ii) has a Tier 1 risk-based capital ratio of less than 6.0 percent, (iii) has a Tier 1 leverage ratio of less than 4.0 percent, or (iv) has a common equity Tier 1 capital ratio of less than 4.5%. An institution will be classified as "significantly undercapitalized" if it (i) has a total risk-based capital ratio of less than 6.0 percent, (ii) has a Tier 1 risk-based capital ratio of less than 4.0 percent, (iii) has a Tier 1 leverage ratio of less than 3.0 percent, or (iv) has a common equity Tier 1 capital ratio of less 3.0%. An institution will be classified as "critically undercapitalized" if it has a tangible equity to total assets ratio that is equal to or less than 2.0 percent. An insured depository institution may be deemed to be in a lower capitalization category if it receives an unsatisfactory examination rating.

The prompt corrective action rules require an undercapitalized institution to file a written capital restoration plan, along with a performance guaranty by its holding company or a third party. In addition, an undercapitalized institution becomes subject to certain automatic restrictions including a prohibition on payment of dividends, a limitation on asset growth and expansion, in certain cases, a limitation on the payment of bonuses or raises to senior executive officers, and a prohibition on the payment of certain "management fees" to any "controlling person." Institutions that are classified as undercapitalized are also subject to certain additional supervisory actions, including: increased reporting burdens and regulatory monitoring; a limitation on the institution's ability to make acquisitions, open new branch offices, or engage in new lines of business; obligations to raise additional capital; restrictions on transactions with affiliates; and restrictions on interest rates paid by the institution on deposits. In certain cases, bank regulatory agencies may require replacement of senior executive officers or directors, or sale of the institution to a willing purchaser. If an institution is deemed to be "critically undercapitalized" and continues in that category for four quarters, the statute requires, with certain narrowly limited exceptions, that the institution be placed in receivership.

As of December 31, 2018, the Bank was classified as "well capitalized." This classification is primarily for the purpose of applying the federal prompt corrective action provisions and is not intended to be and should not be interpreted as a representation of overall financial condition or prospects of the Bank.

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Community Reinvestment Act

The CRA requires that banks meet the credit needs of all of their assessment area (as established for these purposes in accordance with applicable regulations based principally on the location of branch offices), including those of low income areas and borrowers. The CRA also requires that the FDIC assess all financial institutions that it regulates to determine whether these institutions are meeting the credit needs of the community they serve. Under the CRA, institutions are assigned a rating of “outstanding,” “satisfactory,” “needs to improve” or “unsatisfactory”. The Bank’s record in meeting the requirements of the CRA is made publicly available and is taken into consideration in connection with any applications with Federal regulators to engage in certain activities, including approval of a branch or other deposit facility, mergers and acquisitions, office relocations, or expansions into non-banking activities. As of December 31, 2018, the bank maintains a “satisfactory” CRA rating.

USA Patriot Act

Under the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism (USA PATRIOT) Act, financial institutions are subject to prohibitions against specified financial transactions and account relationships as well as enhanced due diligence and “know your customer” standards in their dealings with foreign financial institutions and foreign customers. Under the USA PATRIOT Act, financial institutions must establish anti-money laundering programs meeting the minimum standards specified by the Act and implementing regulations. The USA PATRIOT Act also requires the Federal banking regulators to consider the effectiveness of a financial institution’s anti-money laundering activities when reviewing bank mergers and bank holding company acquisitions.

The Bank has implemented the required internal controls to ensure proper compliance with the USA PATRIOT Act.

Sarbanes-Oxley Act of 2002

The Sarbanes-Oxley Act of 2002 comprehensively revised the laws affecting corporate governance, auditing and accounting, executive compensation and corporate reporting for entities, such as the Company, with equity or debt securities registered under the Securities Exchange Act of 1934, as amended (“Exchange Act”). Among other things, Sarbanes-Oxley and its implementing regulations have established membership requirements and responsibilities for our audit committee, imposed restrictions on the relationship between the Company and its outside auditors (including restrictions on the types of non-audit services our auditors may provide to us), imposed responsibilities for our external financial statements on our chief executive officer and chief financial officer, and expanded the disclosure requirements for our corporate insiders. The requirements are intended to allow stockholders to more easily and efficiently monitor the performance of companies and directors. The Company and its Board of Directors have, as appropriate, adopted or modified the Company’s policies and practices in order to comply with these regulatory requirements and to enhance the Company’s corporate governance practices.

Pursuant to Sarbanes-Oxley, the Company has adopted a Code of Conduct and Ethics applicable to its Board, executives and employees. This Code of Conduct can be found on the Company’s website at www.bonj.net.

Dodd-Frank Act

The Dodd-Frank Act became law on July 21, 2010. The Dodd-Frank Act implements far-reaching changes across the financial regulatory landscape.

The Dodd-Frank Act creates the Consumer Financial Protection Bureau (“CFPB”), which is an independent organization within the Federal Reserve System with broad authority to regulate the consumer finance industry including regulated financial institutions such as us, and non-banks and others who are involved in the consumer finance industry. The CFPB has exclusive authority through rulemaking, orders, policy statements, guidance and enforcement actions to administer and enforce federal consumer finance laws, to oversee non federally regulated entities, and to impose its own regulations and pursue enforcement actions when it determines that a practice is unfair, deceptive or abusive (“UDA”). The federal consumer finance laws and all of the functions and responsibilities associated with them were transferred to the CFPB on July 21, 2011. While the CFPB has the exclusive power to interpret, administer and enforce federal consumer finance laws and UDA, the Dodd-Frank Act provides that the FDIC continues to have examination and enforcement powers over insured depository institutions like us that have less than $10 billion in assets. The Dodd-Frank Act also gives state attorneys general the ability to enforce federal consumer protection laws.

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The Dodd-Frank Act also:

- Applies the same leverage and risk-based capital requirements to most bank holding companies ("BHCs") that apply to insured depository institutions;
- Requires BHCs and banks to be both well-capitalized and well-managed in order to acquire banks located outside their home state and requires any BHC electing to be treated as a financial holding company to be both well-managed and well-capitalized;
- Changes the assessment base for federal deposit insurance from the amount of insured deposits held by the depository institution to the depository institution's average total consolidated assets less tangible equity, eliminates the ceiling on the size of the DIF and increases the floor of the size of the DIF.
- Makes permanent the $250,000 limit for federal deposit insurance;
- Eliminates all remaining restrictions on interstate banking by authorizing national and state banks to establish de novo branches in any state that would permit a bank chartered in that state to open a branch at that location;
- Repeals Regulation Q, the federal prohibitions on the payment of interest on demand deposits thereby permitting depository institutions to pay interest on business transaction and other accounts;
- Enhances the requirements for certain transactions with affiliates under Section 23A and 23B of the Federal Reserve Act, including an expansion of the definition of "covered transactions" and increasing the amount of time for which collateral requirements regarding covered transactions must be maintained;
- Expands insider transaction limitations through the strengthening of loan restrictions to insiders and the expansion of the types of transactions subject to the various limits, including derivative transactions, repurchase agreements, reverse repurchase agreements and securities lending or borrowing transactions. Restrictions are also placed on certain asset sales to and from an insider to an institution, including requirements that such sales be on market terms and, in certain circumstances, approved by the institution's board of directors; and
- Strengthens the previous limits on a depository institution's credit exposure to one borrower which limited a depository institution's ability to extend credit to one person (or group of related persons) in an amount exceeding certain thresholds. The Dodd-Frank Act expanded the scope of these restrictions to include credit exposure arising from derivative transactions, repurchase agreements, and securities lending and borrowing transactions.

While designed primarily to reform the financial regulatory system, the Dodd-Frank Act also contains a number of corporate governance provisions that affect public companies with securities registered under the Exchange Act. The Dodd-Frank Act requires the Securities and Exchange Commission to adopt rules which may affect our executive compensation policies and disclosure. It also imposes a requirement that our independent auditor attest to and report on management's assessment of internal control over financial reporting.

Although a significant number of the rules and regulations mandated by the Dodd-Frank Act have been finalized, including rules regulating compensation of residential mortgage loan originators and mortgage loan servicing practices, and defining qualified mortgage loans, many of the new requirements called for have yet to be implemented and will likely be subject to implementing regulations over the course of several years. In addition, certain provisions of the Dodd-Frank Act that were implemented have been amended. Given the uncertainty associated with the manner in which the provisions of the Dodd-Frank Act will be implemented by the various agencies, the full extent of the impact such requirements will have on financial institutions' operations is unclear. The Dodd-Frank Act could require us to make material expenditures, in particular personnel training costs and additional compliance expenses, or otherwise adversely affect our business, financial condition, results of operations or cash flow. It could also require us to change certain of our business practices, adversely affect our ability to pursue business opportunities that we might otherwise consider pursuing, cause business disruptions and/or have other impacts that are as of yet unknown to us. Failure to comply with these laws or regulations, even if inadvertent, could result in negative publicity, fines or additional expenses, any of which could have an adverse effect on our business, financial condition, results of operations, or cash flow.

Ability to Repay and Qualified Mortgage Rule

Pursuant to the Dodd Frank Act, the CFPB issued a final rule on January 10, 2013 (which became effective January 10, 2014), amending Regulation Z as implemented by the Truth in Lending Act, requiring mortgage lenders to make a reasonable and good faith determination based on verified and documented information that a consumer applying for a mortgage loan has a reasonable ability to repay the loan according to its terms. Mortgage lenders are required to determine consumers' ability to repay in one of two ways. The first alternative requires the mortgage lender to consider the following eight underwriting factors when making the credit decision:

· current or reasonably expected income or assets;
· current employment status;
· the monthly payment on the covered transaction;
· the monthly payment on any simultaneous loan;
· the monthly payment for mortgage-related obligations;
· current debt obligations, alimony, and child support;
· the monthly debt-to-income ratio or residual income; and
· credit history.

Alternatively, the mortgage lender can originate "qualified mortgages," which are entitled to a presumption that the creditor making the loan satisfied the ability-to-repay requirements. In general, a "qualified mortgage" is a mortgage loan without negative amortization, interest-only payments, balloon payments, or terms exceeding 30 years. In addition, to be a qualified mortgage, the points and fees paid by a consumer cannot exceed 3% of the total loan amount. In addition, the borrower must satisfy certain debt to income ratio requirements. Loans which meet these criteria will be considered qualified mortgages, and as a result the originator will be deemed to have satisfied the ability-to-repay requirement. Qualified mortgages that are "higher-priced" (e.g. subprime loans) garner a rebuttable presumption of compliance with the ability-to-repay rules.

Economic Growth, Regulatory Relief and Consumer Protection Act.

The Economic Growth, Regulatory Relief and Consumer Protection Act ("EGRRCPA"), adopted in May of 2018, was intended to provide regulatory relief to midsized and regional banks. While many of its provisions are aimed at larger institutions, such as raising the threshold to be considered a systemically important financial institution to $250 billion in assets from $50 billion in assets, many of its provisions will provide regulatory relief to those institutions with $10 billion or more in assets, as well as to those institutions with less than $10 billion in assets. Among other things, the EGRRCPA increased the asset threshold for depository institutions and holding companies to perform stress tests required under Dodd Frank from $10 billion to $250 billion, exempted institutions with less than $10 billion in consolidated assets from the Volcker Rule, raised the threshold for the requirement that publicly traded holding companies have a risk committee from $10 billion in consolidated assets to $50 billion in consolidated assets, directed the federal banking agencies to adopt a "community bank leverage ratio", applicable to institutions and holding companies with less than $10 billion in assets, and to provide that compliance with the new ratio would be deemed compliance with all capital requirements applicable to the institution or holding company, and provided that residential mortgage loans meeting certain criteria and originated by institutions with less than $10 billion in total assets will be deemed to meet the "ability to repay rule" under the Truth in Lending Act. In addition, the EGRRCPA limited the definition of loans that would be subject to the higher risk weighting applicable to High Volatility Commercial Real Estate.

Many of the regulations needed to implement the EGRRCPA have yet to be promulgated by the federal banking agencies, and so it is still uncertain how full implementation of the EGRRCPA will affect the Company and the Bank.

Federal Home Loan Bank Membership

The Bank is a member of the Federal Home Loan Bank of New York ("FHLBNY"). Each member of the FHLBNY is required to maintain a minimum investment in capital stock of the FHLBNY. The Board of Directors of the FHLBNY can increase the minimum investment requirements in the event it has concluded that additional capital is required to allow it to meet its own regulatory capital requirements. Any increase in the minimum investment requirements outside of specified ranges requires the approval of the Federal Housing Finance Agency. Because the extent of any obligation to increase our investment in the FHLBNY depends entirely upon the occurrence of a future event, potential payments to the FHLBNY is not determinable.

Additionally, in the event that the Bank fails, the right of the FHLBNY to seek repayment of funds loaned to the Bank shall take priority (a "super lien") over all other creditors.

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Other Laws and Regulations

The Company and the Bank are subject to a variety of laws and regulations which are not limited to banking organizations. For example, in lending to commercial and consumer borrowers, and in owning and operating its own property, the Bank is subject to regulations and potential liabilities under state and federal environmental laws.

We are heavily regulated by regulatory agencies at the federal and state levels. We, like most of our competitors, have faced and expect to continue to face increased regulation and regulatory and political scrutiny, which creates significant uncertainty for us and the financial services industry in general.

## ITEM 1A. RISK FACTORS

An investment in our common stock involves risks. Stockholders should carefully consider the risks described below, together with all other information contained in this Annual Report on Form 10-K, before making any purchase or sale decisions regarding our common stock. If any of the following risks actually occur, our business, financial condition or operating results may be harmed. In that case, the trading price of our common stock may decline, and stockholders may lose part or all of their investment in our common stock.

Risks Applicable to Our Business:

Our business may be adversely affected if we are not able to attract and retain skilled employees or if we lose the services of our senior management team.

Our ability to implement and manage our business plan and our operations will depend upon our ability to continue to attract, hire and retain skilled employees. The loss of members of our senior management team, including those officers named in the summary compensation table of our proxy statement, could have a material adverse effect on our results or operations and ability to execute our strategic goals. Our success will also depend on the ability of our officers and key employees to continue to implement and improve our operational and other systems, to manage multiple, concurrent customer relationships and to hire, train and manage our employees.

We may need to raise additional capital to execute our business strategy.

In order to execute our business strategy, we will be required to maintain our regulatory capital ratios at levels higher than the minimum ratios set by our regulators. Our regulators generally seek higher capital bases for insured depository institutions experiencing strong growth and those with significant concentration in commercial real estate lending. In addition, the implementation of the Basel III regulatory capital requirements may require us to increase our regulatory capital ratios and raise additional capital. We can offer you no assurances that we will be able to raise capital in the future, or that the terms of any such capital will be beneficial to our existing security holders. In the event we are unable to raise capital in the future, we may not be able to continue our business strategy

We have a significant concentration in commercial real estate loans.

Our loan portfolio is made up largely of commercial real estate loans. Loans secured by owner-occupied real estate are reliant on the operating businesses to provide cash flow to meet debt service obligations, and as a result they are more susceptible to the general impact on the economic environment affecting those operating companies as well as the real estate. Any significant failure to pay on time by our customers or a significant default by our customers would materially and adversely affect us.

At December 31, 2018, the Bank had $641 million of commercial real estate loans, which represented 83.64% of the total loan portfolio. Our commercial real estate loans include loans secured by multifamily, owner-occupied and non-owner-occupied properties for commercial uses.

Concentrations in commercial real estate are also monitored by regulatory agencies and subject to scrutiny. Guidance from these regulatory agencies includes all commercial real estate loans, including commercial construction loans, in calculating our commercial real estate concentration but excludes owner-occupied commercial real estate loans. Based on this regulatory definition, our commercial real estate loans represented 543.89% of total risk-based capital.

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Many factors, including international trade tariffs could reduce or halt growth in our local economy and real estate market. Accordingly, it may be more difficult for commercial real estate borrowers to repay their loans in a timely manner, as commercial real estate borrowers' ability to repay their loans frequently depends on the successful development of their properties. The deterioration of one or a few of our commercial real estate loans could cause a material increase in our level of nonperforming loans, which would result in a loss of revenue from these loans and could result in an increase in the provision for loan and lease losses and/or an increase in charge-offs, all of which could have a material adverse impact on our net income. We also may incur losses on commercial real estate loans due to declines in occupancy rates and rental rates, which may decrease property values and may decrease the likelihood that a borrower may find permanent financing alternatives. Any weakening of the commercial real estate market in the future may increase the likelihood of default of these loans, which could negatively impact the performance and asset quality of our loan portfolio. If we are required to liquidate the collateral securing a loan to satisfy the debt during a period of reduced real estate values, we could incur material losses. Any of these events could increase our costs, require management time and attention, and materially and adversely affect us.

If we are limited in our ability to originate loans secured by commercial real estate we may face greater risk in our loan portfolio.

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

If because of our concentration of commercial real estate loans, or for any other reasons, we are limited in our ability to originate loans secured by commercial real estate, our results of operations may be negatively impacted and we may incur greater risk in our loan portfolio.

We expect that the implementation of a new accounting standard could require us to increase our allowance for loan losses and may have a material adverse effect on our financial condition and results of operations.

The Financial Accounting Standards Board ("FASB") has adopted a new accounting standard that will be effective for our first fiscal year after December 15, 2019. This standard, referred to as Current Expected Credit Loss ("CECL"), will require financial institutions to determine periodic estimates of lifetime expected credit losses on loans, and provide for the expected credit losses as allowances for loan losses. This will change the current method of providing allowances for loan losses that are probable, which could require us to increase our allowance for loan losses and will likely greatly increase the data we will need to collect and review to determine the appropriate level of the allowance for loan losses. Any increase in our allowance for loan losses, or expenses incurred to determine the appropriate level of the allowance for loan losses, may have a material adverse effect on our financial condition and results of operations.

The small to medium-sized businesses that the Bank lends to may have fewer resources to weather a downturn in the economy, which may impair a borrower's ability to repay a loan to the Bank that could materially harm our operating results.

The Bank targets its business development and marketing strategy primarily to serve the banking and financial services needs of small to medium-sized businesses. These small to medium-sized businesses frequently have smaller market share than their competition, may be more vulnerable to economic downturns, often need substantial additional capital to expand or compete and may experience significant volatility in operating results. Any one or more of these factors may impair the borrower's ability to repay a loan. In addition, the success of a small to medium-sized business often depends on the management talents and efforts of one or two persons or a small group of persons, and the death, disability or resignation of one or more of these persons could have a material adverse impact on the business and its ability to repay a loan. Economic downturns and other events that negatively impact our market areas could cause the Bank to incur substantial credit losses that could negatively affect our results of operations and financial condition.

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We are a community bank and our ability to maintain our reputation is critical to the success of our business and the failure to do so may materially adversely affect our performance.

We are a community bank, and our reputation is one of the most valuable components of our business. As such, we strive to conduct our business in a manner that enhances our reputation. This is done, in part, by recruiting, hiring and retaining employees who share our core values of being an integral part of the communities we serve, delivering superior service to our customers and caring about our customers and associates. If our reputation is negatively affected, by the actions of our employees or otherwise, our business and, therefore, our operating results may be materially adversely affected.

Competition in originating loans and attracting deposits may adversely affect our profitability.

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

In attracting deposits, we face substantial competition from other insured depository institutions such as banks, savings institutions and credit unions, as well as institutions offering uninsured investment alternatives, including money market funds. Many of our competitors enjoy advantages, including greater financial resources, more aggressive marketing campaigns, better brand recognition and more branch locations.

These competitors may offer higher interest rates than we do, which could decrease the deposits that we attract or require us to increase our rates to retain existing deposits or attract new deposits.

We have also been active in competing for New Jersey governmental and municipal deposits. At December 31, 2018, governmental and municipal deposits accounted for $95.1 million in deposits. The governor of New Jersey has proposed that the state form and own a bank in which governmental and municipal entities would deposit excess funds, with the state owned bank then financing small businesses and municipal projects in New Jersey. Although this proposal is in the very early stages, should this proposal be adopted and a state owned bank formed, it could impede our ability to attract and retain governmental and municipal deposits.

Increased deposit competition could adversely affect our ability to generate the funds necessary for lending operations, which may increase our cost of funds.

We also compete with non-bank providers of financial services, such as brokerage firms, consumer finance companies, insurance companies and governmental organizations, which may offer more favorable terms. In addition, the banking industry in general has begun to face competition for deposit, credit and money management products from non-bank technology firms, or fintech companies, which may offer products independently or through relationships with insured depository institutions. Some of our non-bank competitors are not subject to the same extensive regulations that govern our operations. As a result, such non-bank competitors may have advantages over us in providing certain products and services. This competition may reduce or limit our margins on banking services, reduce our market share and adversely affect our earnings and financial condition.

External factors, many of which we cannot control, may result in liquidity concerns for us.

Liquidity risk is the potential that the Bank may be unable to meet its obligations as they come due, capitalize on growth opportunities as they arise, or pay regular dividends because of an inability to liquidate assets or obtain adequate funding in a timely basis, at a reasonable cost and within acceptable risk tolerances.

Liquidity is required to fund various obligations, including credit commitments to borrowers, mortgage and other loan originations, withdrawals by depositors, repayment of borrowings, operating expenses, capital expenditures and dividend payments to shareholders.

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Liquidity is derived primarily from deposit growth and retention; principal and interest payments on loans; principal and interest payments on investment securities; sale, maturity and prepayment of investment securities; net cash provided from operations, and access to other funding sources.

Our access to funding sources in amounts adequate to finance our activities could be impaired by factors that affect us specifically or the financial services industry in general. Factors that could detrimentally impact our access to liquidity sources include a decrease in the level of our business activity due to market factors or an adverse regulatory action against us. In addition, our ability to use alternate deposit originations channels could be substantially impaired if we fail to remain "well capitalized". Our ability to borrow could also be impaired by factors that are not specific to us, such as a severe disruption of the financial markets or negative views and expectations about the prospects for the financial services industry as a whole. Regional and community banks generally have less access to the capital markets than do the national and super-regional banks because of their smaller size and limited analyst coverage. Any decline in available funding could adversely impact our ability to originate loans, invest in securities, meet our expenses, or fulfill obligations such as meeting deposit withdrawal demands, any of which could have a material adverse impact on our liquidity, business, results of operations and financial condition.

The Bank's ability to pay dividends is subject to regulatory limitations, which may impact the Company's ability to pay dividends to its shareholders.

As a bank holding company, the Company is a separate legal entity from the Bank and its subsidiaries and does not have significant operations. We currently depend on the Bank's cash and liquidity to pay our operating expenses and to fund dividends to shareholders. We cannot assure you that in the future the Bank will have the capacity to pay the necessary dividends and that we will not require dividends from the Bank to satisfy our obligations. Various statutes and regulations limit the availability of dividends from the Bank. It is possible, depending upon our and the Bank's financial condition and other factors, that bank regulators could assert that payment of dividends or other payments by the Bank are an unsafe or unsound practice. In the event that the Bank is unable to pay dividends, we may not be able to service our obligations, as they become due, or pay dividends on our capital stock. Consequently, the inability to receive dividends from the Bank could adversely affect our financial condition, results of operations, cash flows and prospects.

In addition, as described under "Capital Adequacy Guidelines," banks and larger bank holding companies are required to maintain a capital conservation buffer on top of minimum risk-weighted asset ratios. As of January 1, 2019, the capital conservation buffer is 2.5%. Banking institutions which do not maintain capital in excess of the capital conservation buffer will face constraints on the payment of dividends, equity repurchases and compensation based on the amount of the shortfall. Accordingly, if the Bank fails to maintain the applicable minimum capital ratios and the capital conservation buffer, distributions to the Company may be prohibited or limited.

Hurricanes or other adverse weather events could negatively affect our local economies or disrupt our operations, which would have an adverse effect on our business or results of operations.

Hurricanes and other weather events can disrupt our operations, result in damage to our properties and negatively affect the local economies in which we operate. In addition, these weather events may result in a decline in value or destruction of properties securing our loans and an increase in delinquencies, foreclosures and loan losses.

Recent New Jersey legislative changes may increase our tax expense.

In connection with adopting its 2018 fiscal year budget, the New Jersey legislature adopted, and the Governor signed, legislation that will increase our state income tax liability and could increase our overall tax expense. The legislation imposes a temporary surtax on corporations earning New Jersey allocated income in excess of $1 million of 2.5% for tax years beginning on or after January 1, 2018 through December 31, 2019, and of 1.5% for tax years beginning on or after January 1, 2020 through December 31, 2021. The legislation also requires combined filing for members of an affiliated group for tax years beginning on or after January 1, 2019, changing New Jersey’s current status as a separate return state, and limits the deductibility of dividends received. These changes are not temporary. Although regulations implementing the legislative changes have not yet been finalized, and so we cannot yet fully evaluate the impact of the legislation on our overall tax expense, the Company may lose the benefit of at least certain of the Company’s tax management strategies, and as a result our total tax expense may increase significantly.

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Risks Applicable to the Banking Industry Generally:

Our allowance for loan and lease losses may not be adequate to cover actual losses.

Like all financial institutions, we maintain an allowance for loan and lease losses to provide for loan defaults and nonperformance. The process for determining the amount of the allowance is critical to our financial results and condition. It requires difficult, subjective and complex judgments about the future, including the impact of national and regional economic conditions on the ability of our borrowers to repay their loans. If our judgment proves to be incorrect, our allowance for loan and lease losses may not be sufficient to cover losses inherent in our loan portfolio. Further, state and federal regulatory agencies, as an integral part of their examination process, review our loans and allowance for loan and lease losses and may require an increase in our allowance for loan and lease losses.

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

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

Our net income depends primarily upon our net interest income. Net interest income is the difference between interest income earned on loans, investments and other interest-earning assets and the interest expense incurred on deposits and borrowed funds. The level of net interest income is primarily a function of the average balance of our interest-earning assets, the average balance of our interest-bearing liabilities, and the spread between the yield on such assets and the cost of such liabilities. These factors are influenced by both the pricing and mix of our interest-earning assets and our interest-bearing liabilities which, in turn, are impacted by such external factors as the local economy, competition for loans and deposits, the monetary policy of the Federal Open Market Committee of the Federal Reserve Board of Governors (the “FOMC”), and market interest rates.

A sustained increase in market interest rates could adversely affect our earnings if our cost of funds increases more rapidly than our yield on our earning assets, and compresses our net interest margin. In addition, the economic value of equity would decline if interest rates increase. For example, we estimate that as of December 31, 2018, a 200 basis point increase in interest rates would have resulted in our economic value of equity declining by approximately $13.8 million or 12.16%. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Interest Rate Sensitivity Analysis.”

Different types of assets and liabilities may react differently, and at different times, to changes in market interest rates. We expect that we will periodically experience gaps in the interest rate sensitivities of our assets and liabilities. That means either our interest-bearing liabilities will be more sensitive to changes in market interest rates than our interest-earning assets, or vice versa. When interest-bearing liabilities mature or re-price more quickly than interest-earning assets, an increase in market rates of interest could reduce our net interest income. Likewise, when interest-earning assets mature or re-price more quickly than interest-bearing liabilities, falling interest rates could reduce our net interest income. We are unable to predict changes in market interest rates, which are affected by many factors beyond our control, including inflation, deflation, recession, unemployment, money supply, domestic and international events and changes in the United States and other financial markets.

We also attempt to manage risk from changes in market interest rates, in part, by controlling the mix of interest rate sensitive assets and interest rate sensitive liabilities. However, interest rate risk management techniques are not exact. A rapid increase or decrease in interest rates could adversely affect our results of operations and financial performance.

The banking business is subject to significant government regulations.

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

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primary focus of Federal and state banking regulation is the protection of depositors and not the shareholders of the regulated institutions.

For example, the Dodd-Frank Act may result in substantial new compliance costs. The Dodd-Frank Act was signed into law on July 21, 2010. Generally, the Dodd-Frank Act is effective the day after it was signed into law, but different effective dates apply to specific sections of the law, many of which will not become effective until various Federal regulatory agencies have promulgated rules implementing the statutory provisions. In addition, certain provisions of the Dodd-Frank Act that had been implemented have been amended by recent legislation. Uncertainty remains as to the ultimate impact of the Dodd-Frank Act, which could have a material adverse impact either on the financial services industry as a whole, or on our business, results of operations and financial condition.

The following aspects of the financial reform and consumer protection act are related to the operations of the Bank:

- The act also imposes new obligations on originators of residential mortgage loans, such as the Bank. Among other things, originators must make a reasonable and good faith determination based on documented information that a borrower has a reasonable ability to repay a particular mortgage loan over the long term. If the originator cannot meet this standard, the loan may be unenforceable in foreclosure proceedings. The act contains an exception from this ability to repay rule for “qualified mortgages”, which are deemed to satisfy the rule, but does not define the term, and left authority to the CFPB to adopt a definition. A rule issued by the CFPB in January 2013, and effective January 10, 2014, sets forth specific underwriting criteria for a loan to qualify as a Qualified Mortgage Loan. The criteria generally exclude loans that are interest-only, have excessive upfront points or fees, have negative amortization features or balloon payments, or have terms in excess of 30 years. The underwriting criteria also impose a maximum debt to income ratio of 43%. If a loan meets these criteria and is not a “higher priced loan” as defined in FRB regulations, the CFPB rule establishes a safe harbor preventing a consumer from asserting as a defense to foreclosure the failure of the originator to establish the consumer’s ability to repay. However, this defense will be available to a consumer for all other residential mortgage loans.
- Tier 1 capital treatment for “hybrid” capital items like trust preferred securities is eliminated subject to various grandfathering and transition rules.
- The prohibition on payment of interest on demand deposits was repealed, effective July 21, 2011.
- Deposit insurance is permanently increased to $250,000.
- The deposit insurance assessment base calculation now equals the depository institution’s total assets minus the sum of its average tangible equity during the assessment period.
- The minimum reserve ratio of the Deposit Insurance Fund increased to 1.35 percent of estimated annual insured deposits or assessment base; however, the FDIC is directed to “offset the effect” of the increased reserve ratio for insured depository institutions with total consolidated assets of less than $10 billion.

In addition, in order to implement Basel III and certain additional capital changes required by the Dodd-Frank Act, on July 9, 2013, the Federal banking agencies, including the FDIC, the Federal Reserve and the Office of the Comptroller of the Currency, approved, as an interim final rule, the regulatory capital requirements for U.S. insured depository institutions and their holding companies. This regulation requires financial institutions to maintain higher capital levels and more equity capital.

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

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

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

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

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

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

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

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

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

· Telecommunications;
· Data processing;
· Automation;
· Internet-based banking, including personal computers, mobile phones and tablets;
· Debit cards and so-called “smart cards”; and

· Remote deposit capture.

Our ability to compete successfully in the future will depend, to a certain extent, on whether we can anticipate and respond to technological changes. We offer electronic banking services for our consumer and business customers via our website, www.bonj.net, including Internet banking and electronic bill payment, as well as mobile banking by phone. We also offer check cards, ATM cards, credit cards, and automatic and ACH transfers. The successful operation and further development of these and other new technologies will likely require additional capital investments in the future. In addition, increased use of electronic banking creates opportunities for interruptions in service or security breaches, which could expose us to claims by customers or other third parties and damage our reputation. We cannot assure you that we will have sufficient resources or access to the necessary proprietary technology to remain competitive in the future, or that we will be able to maintain a secure electronic environment.

## ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

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ITEM 2. PROPERTIES

The Company, currently, conducts its business through its corporate office located at 750 East Palisade Avenue, Englewood Cliffs, New Jersey, and its nine branches. The following table sets forth certain information regarding the Company's properties as of the date of this report.

| Location | Leased or Owned | Date of Lease Expiration |
|---|---|---|
| 1365 Palisade Avenue<br>Fort Lee, NJ | Owned | N/A |
| 204 Main Street<br>Fort Lee, NJ | Leased | March, 2020 |
| 401 Hackensack Avenue<br>Hackensack, NJ 07601 | Leased | August, 2020 |
| 458 West Street<br>Fort Lee, NJ 07024 | Leased | February, 2026 |
| 320 Haworth Avenue<br>Haworth, NJ 07641 | Owned | N/A |
| 104 Grand Avenue<br>Englewood, NJ 07631 | Leased | October, 2021 |
| 354 Palisade Avenue<br>Cliffside Park, NJ 07010 | Leased | July, 2021 |
| 585 Chestnut Ridge Road<br>Woodcliff Lake, NJ 07677 | Leased | June, 2022 |
| 750 East Palisade Avenue<br>Englewood Cliffs, NJ 07632 | Leased | June, 2019 |

ITEM 3. LEGAL PROCEEDINGS

The Company and the Bank are subject to routine litigation during the normal course of business. Accordingly, the Company and the Bank may periodically be parties to or otherwise involved in legal proceedings, such as claims to enforce liens, claims involving the making and servicing of real property loans, and other issues incident to the Bank's business.  Management does not believe that there are any proceedings pending against the Company or the Bank or contemplated by governmental authorities, which, if determined adversely, would have a material effect on the business, financial position or results of operations of the Company or the Bank.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

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PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Information

The principal market in which the Company's common stock is traded is the NYSE MKT LLC exchange. The Company's common stock trades under the symbol "BKJ".

Holders

As of March 04, 2019, there were approximately 1,160 shareholders of our common stock, which includes an estimate of shareholders who hold their shares in street name.

Securities Authorized for Issuance under Equity Compensation Plans

The following tables summarize our equity compensation plan information as of December 31, 2018:

| Plan Category | Number of shares of common stock to be issued upon exercise of outstanding options, warrants and rights | Weighted-average exercise price of outstanding options, warrants and rights | Number of shares of common stock remaining available for future issuance under equity compensation plans |
|---|---|---|---|
| Equity Compensation Plans approved by security holders: | | | |
| 2006 Stock Option Plan | 51,174 | $ 10.13 | — |

| | | | |
|---|---|---|---|
| 2007 Non-Qualified Stock Option Plan for Directors | — | $ — | — |
| 2011 Equity Incentive Plan | 43,680 | $ 11.66 | 102,018 |
| Equity compensation plans not approved by security holders | — | — | — |
| Total | 94,854 | $ 10.84 | 102,018 |

See Note 12 to our audited financial statements included in this Annual Report on Form 10-K for a description of the material features of each plan.

## ITEM 6. SELECTED FINANCIAL DATA

The Company is not currently required to provide the information otherwise required by this Item.

## ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION

The following discussion and analysis of financial condition and results of operations should be read in conjunction with the Company's consolidated financial statements and the notes thereto included in Part II, Item 8 of this report. When necessary, reclassifications have been made to prior years' data throughout the following discussion and analysis for purposes of comparability.

In addition to historical information, this discussion and analysis contains forward-looking statements. The forward-looking statements contained herein are subject to numerous assumptions, risks and uncertainties, all of which can change over time, and could cause actual results to differ materially from those projected in the forward-looking statements. Important factors that might cause such a difference include, but are not limited to, those discussed under item 1A "Risk Factors" herein as well as economic conditions, affecting the financial industry; changes in interest rates

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and shape of the yield curve; credit risk associated with our lending activities; risks relating to our market area, significant real estate collateral and the real estate market; legislative and regulatory changes, and our ability to comply with the significant laws and regulations impacting the banking and financial services industry; operating, legal and regulatory compliance risk; regulatory capital requirements and our ability to raise and maintain capital; our ability to prevent, detect, and respond to any cyberattacks in order to protect our information assets and supporting infrastructure, including information of our customers; our ability to attract and retain well-qualified management; fiscal and monetary policy; economic, political and competitive forces affecting our business; risks associated with potential business combinations; and that management's analysis of these risks and factors could be incorrect, and/or that the strategies developed to address them could be unsuccessful. Readers are cautioned not to place undue reliance on these forward-looking statements, which reflect management's analysis only as of the date of the report. The Company undertakes no obligation to publicly revise or update these forward-looking statements to reflect events and circumstances that arise after such date, except as may be required by applicable law or regulation.

Overview and Strategy

Our bank charter was approved in April 2006 and the Bank opened for business on May 10, 2006. Our corporate office is located at 750 East Palisade Avenue, Englewood Cliffs, NJ 07632 and our current nine branch offices are located at 1365 Palisade Avenue, Fort Lee, NJ 07024, 204 Main Street, Fort Lee, NJ 07024, 401 Hackensack Avenue, Hackensack, NJ 07601, 458 West Street, Fort Lee, NJ 07024, 320 Haworth Avenue, Haworth, NJ 07641, 104 Grand Avenue, Englewood, NJ 07631, 354 Palisade Avenue, Cliffside Park, NJ 07010, 585 Chestnut Ridge Road, Woodcliff Lake, NJ 07677, and 750 East Palisade Avenue, Englewood Cliffs, NJ, 07632.

We conduct a traditional commercial banking business, accepting deposits from the general public, including individuals, businesses, non-profit organizations, and governmental units. We make commercial and consumer loans. In addition, we provide other customer services and make investments in securities, as permitted by law. We have sought to offer community-oriented relationship banking in an area that is dominated by larger, statewide and national financial institutions. Our focus remains on establishing and retaining customer relationships by offering a broad range of traditional financial services and products, competitively-priced and delivered in a responsive manner to businesses, professionals and individuals in the local market. As a locally operated community bank, we believe we provide superior customer service that is highly personalized, efficient and responsive to local needs. To better serve our customers and expand our market reach, we provide for the delivery of certain financial products and services to local customers and a broader market through the use of mail, telephone, internet, and electronic banking. We endeavor to deliver these products and services with the care and professionalism expected of a community bank and with a special dedication to personalized customer service.

Our specific objectives are:

- To provide local businesses, professionals, and individuals with banking services responsive to and determined by the local market;

- For Bank management to be accessible to and engaged with our customers, shareholders and communities;

- To attract deposits and loans by competitive pricing; and

- To provide a reasonable return to shareholders on capital invested.

Critical Accounting Policies and Judgments

Our financial statements are prepared based on the application of certain accounting policies, the most significant of which are described in Note 1 “Summary of Significant Accounting Policies” in the Notes to Consolidated Financial Statements included in Item 8 of this report. Certain of these policies require numerous estimates and strategic or economic assumptions that may prove inaccurate or subject to variation and may significantly affect our reported results and financial position for the period or future periods. Financial assets and liabilities required to be recorded at, or adjusted to reflect, fair value require the use of estimates, assumptions, and judgments. Assets carried at fair value inherently result in more financial statement volatility. Fair values and information used to record valuation adjustments for certain assets and liabilities are based on either quoted market prices or are provided by other independent third-party sources, when available. When such information is not available, management estimates valuation adjustments.

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Changes in underlying factors, assumptions, or estimates in any of these areas could have a material impact on our financial condition and results of operations.

Allowance for Loan Losses

The allowance for loan losses ("ALLL") represents our best estimate of losses known and inherent in our loan portfolio that are both probable and reasonable to estimate. In determining the amount of the ALLL, we consider the losses inherent in our loan portfolio and changes in the nature and volume of our loan activities, along with general economic and real estate market conditions. We utilize a segmented approach which identifies: (1) classified loans for which the general valuation allowance for the respective loan type is deemed to be inadequate; and (2) performing loans for which a general valuation allowance is established. We maintain a loan review system which provides for a systematic review of the loan portfolios and the identification of impaired loans. The review of residential real estate and home equity consumer loans, as well as other more complex loans, is triggered by identified evaluation factors, including delinquency status, size of loan, type of collateral and the financial condition of the borrower. Charge-offs are established for impaired loans based on a review of such information and/or appraisals of the underlying collateral. General reserves are based upon a combination of factors including, but not limited to, actual loan loss experience, composition of the loan portfolio, current economic conditions and management's judgment.

Although charge-offs and general reserves are established in accordance with management's best estimates, actual losses are dependent upon future events, and as such, further provisions for loan losses may be necessary in order to maintain the allowance for loan losses at an adequate level. For example, our evaluation of the allowance includes consideration of current economic conditions, and a change in economic conditions could reduce the ability of borrowers to make timely repayments of their loans. This could result in increased delinquencies and increased non-performing loans, and thus a need to make additional provisions for loan losses. Any provision reduces our net income. While the allowance is increased by the provision for loan losses, it is decreased by charge-offs, net of recoveries. Loans deemed to be uncollectible are charged against the allowance for loan losses, and subsequent recoveries, if any, are credited to the allowance. A change in economic conditions could adversely affect the value of properties collateralizing real estate loans, resulting in increased charges against the allowance and reduced recoveries, and require additional provisions for loan losses. Furthermore, growth or a change in the composition of our loan portfolio could require additional provisions for loan losses.

At December 31, 2018 and 2017, respectively, we consider the ALLL of $8.4 million and $8.3 million adequate to absorb probable losses inherent in the loan portfolio. For further discussion, see "Provision for Loan Losses", "Loan Portfolio", "Loan Quality", and "Allowance for Loan Losses" sections below in this discussion and analysis, as well as Note 1-Summary of Significant Accounting Policies and Note 3-Loans and Allowance for Loan Losses in the Notes to Financial Statements included in Part II, Item 8 of this annual report.

Deferred Tax Assets

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply in the period in which the deferred tax asset or liability is expected to be settled or realized. The effect on deferred taxes of a change in tax rates is recognized in income in the period in which the change occurs. Deferred tax assets are reduced, through a valuation allowance, if necessary, by the amount of such benefits that are not expected to be realized based on current available evidence.

Impairment of Assets

Loans are considered impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due according to contractual terms of the loan agreement. The collection of all amounts due according to contractual terms means both the contractual interest and principal payments of a loan will be collected as scheduled in the loan agreement. Impaired loans are measured based on the present value of expected future cash flows discounted at the loan's effective interest rate, except that as a practical expedient, a creditor may measure impairment based on a loan's observable market price, or the fair value of the collateral if the loan is collateral-dependent. The fair value of collateral, which is discounted from the appraised value to estimate the selling price and costs, is used if a loan is collateral-dependent. At December 31, 2018 and 2017, the Company had twenty seven and thirty seven impaired loans, respectively.  All of these loans have been measured for impairment using various measurement methods, including fair value of collateral.

Periodically, we may need to assess whether there have been any events or economic circumstances to indicate that a security on which there is an unrealized loss is impaired on an other-than-temporary basis. In any such instance, we would consider many factors including the severity and duration of the impairment, our intent to sell a debt security prior to recovery and/or whether it is more likely than not we will have to sell the debt security prior to recovery. Securities on which there is an unrealized loss that is deemed to be other-than-temporary are written down to fair value with the write-down recorded as a realized loss in securities gains (losses). We believe the unrealized losses at December 31, 2018 were caused by interest rate increases.  The contractual terms of those investments do not permit the issuer to settle the securities at a price less than the amortized cost basis of the investments.  Because the Company does not intend to sell the investments and it is not more likely than not that the Company will be required to sell the investments before recovery of their amortized cost basis, which may be maturity, the Company does not consider those investments to be other-than-temporarily impaired at December 31, 2018. At December 31, 2018 and 2017, respectively, we did not have any other-than-temporarily impaired securities.

RESULTS OF OPERATIONS - Years ended December 31, 2018 and 2017

Our results of operations depend primarily on our net interest income, which is the difference between the interest earned on our interest-earning assets and the interest paid on interest-bearing liabilities, primarily deposits, which support our assets.  Net interest margin is net interest income expressed as a percentage of average interest earning assets. Net income is also affected by the amount of non-interest income and non-interest expense, the provision for loan losses and income tax expense.

Net Income

For the year ended December 31, 2018, net income increased by $1.9 million, to $5.5 million from $3.6 million for the year ended December 31, 2017. The increase in net income for the year was driven by an increase in net interest income, and a decrease in tax expense related to a $1.4 million deferred tax asset re-measurement for the year ended December 31, 2017 and a lower federal corporate tax rate in 2018 provided by the Tax Cuts and Jobs Act (the “Tax Act”) signed in to law on December 22, 2017. For the year ended December 31, 2018, there was also an increase in the provision for loans losses and total non-interest expenses.

On a per share basis, basic and diluted earnings per share for the year ended December 31, 2018 were $0.77, as compared to basic and diluted earnings per share of $0.55 and $0.54, respectively, for the year ended December 31, 2017.

Analysis of Net Interest Income

Net interest income represents the difference between income on interest-earning assets and expense on interest-bearing liabilities. Net interest income depends upon the volume of interest-earning assets and interest-bearing liabilities and the interest rate earned or paid on them. Interest income on total loans increased by $3.2 million for the year ended December 31, 2018 as compared to December 31, 2017. The increase in interest income was primarily due to loan growth and the recognition in interest income of approximately $525 thousand on non-accrual loans which were resolved during 2018. Average total loans increased by $54.1 million in 2018 to $738.5 million from $684.4 million in 2017. Total interest expense increased by $1.7 million to $9.3 million compared to $7.6 million in the prior year. The increase in interest expense was due to higher interest rates on deposits as market rates continue to increase in our market area and the cost associated with increased borrowings during 2018. Average borrowings increased to $25.3 million at December 31, 2018 from $18.1 million at December 31, 2017. We continue to face significant competition for deposits. Average non-interest-bearing deposits slightly decreased to $135 million in 2018 from $136 million in 2017.

Average Balance Sheets

The following table sets forth certain information relating to our average assets and liabilities for the years ended December 31, 2018, 2017 and 2016, and reflects the average yield on assets and average cost of liabilities for the periods indicated. Such yields are derived by dividing income or expense, on a tax-equivalent basis, by the average balance of assets or liabilities, respectively, for the periods shown. The taxable equivalent adjustment for 2018, 2017, and 2016

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was $71, $60, and $37 thousand, respectively. Securities available for sale are reflected in the following table at average amortized cost. Nonaccrual loans are included in the average loan balance. Amounts have been computed on a fully tax-equivalent basis, assuming a blended tax rate of 26% in 2018, and 40% in 2017 and 2016.

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For the years ended December 31,

(dollars in thousands)

| | 2018 Average Balance | Interest | Average Yield/Cost | | 2017 Average Balance | Interest | Average Yield/Cost | | 2016 Average Balance | Interest | Aver Yiel |
|---|---|---|---|---|---|---|---|---|---|---|---|
| arning | | | | | | | | | | | |
| | $ 738,477 | 33,953 | 4.60 | % | $ 684,390 | 30,707 | 4.49 | % | $ 653,534 | 30,242 | 4.63 |
| | 55,274 | 987 | 1.79 | | 65,384 | 922 | 1.41 | | 67,198 | 788 | 1.17 |
| unds Sold | 1,880 | 27 | 1.44 | | 1,454 | 37 | 2.54 | | 1,146 | 32 | 2.79 |
| arning unts | 70,969 | 1,216 | 1.71 | | 103,812 | 1,035 | 1.00 | | 87,822 | 385 | 0.44 |
| arning | 866,600 | 36,183 | 4.18 | % | 855,040 | 32,701 | 3.82 | % | 809,700 | 31,447 | 3.88 |
| est ssets | 22,319 | | | | 22,654 | | | | 21,161 | | |
| e for ses | (8,147) | | | | (8,117) | | | | (8,257) | | |
| | $ 880,772 | | | | $ 869,577 | | | | $ 822,604 | | |
| TIES | | | | | | | | | | | |
| OLDERS' | | | | | | | | | | | |
| earing : | | | | | | | | | | | |
| Deposits | $ 44,936 | $ 67 | 0.15 | % | $ 31,619 | $ 67 | 0.21 | % | $ 35,069 | $ 75 | 0.21 |
| eposits | 95,139 | 1,080 | 1.14 | | 112,359 | 1,038 | 0.92 | | 98,127 | 901 | 0.92 |
| arket | 145,490 | 1,098 | 0.75 | | 152,299 | 651 | 0.43 | | 133,605 | 547 | 0.41 |
| osits | 345,456 | 6,459 | 1.87 | | 335,303 | 5,577 | 1.66 | | 315,303 | 5,026 | 1.59 |
| Funds | 25,272 | 607 | 2.40 | | 18,108 | 278 | 1.54 | | 30,227 | 425 | 1.41 |
| rest iabilities | 656,293 | 9,311 | 1.42 | % | 649,688 | 7,611 | 1.17 | % | 612,331 | 6,974 | 1.14 |
| est iabilities: | | | | | | | | | | | |
| Deposits | 134,956 | | | | 136,043 | | | | 132,098 | | |
| bilities | 2,986 | | | | 3,144 | | | | 2,756 | | |
| -Interest iabilities | 137,942 | | | | 139,187 | | | | 134,854 | | |
| ers' | 86,537 | | | | 80,702 | | | | 75,419 | | |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| TIES | | | | | | | | |
| OLDERS' | $ 880,772 | | | $ 869,577 | | | $ 822,604 | |
| st | | | | | | | | |
| valent | | $ 26,872 | | | $ 25,090 | | | $ 24,473 |
| valent<br>ustment | | (71) | | | (60) | | | (37) |
| st | | $ 26,801 | | | $ 25,030 | | | $ 24,436 |
| st Rate | | 2.76 | % | | 2.65 | % | | 2.74 |
| st Margin | | 3.10 | % | | 2.93 | % | | 3.02 |
| arning | | | | | | | | |
| earing | 1.32 | | | 1.32 | | | 1.32 | |

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Rate/Volume Analysis

The following table presents, by category, the major factors that contributed to the changes in net interest income on a tax equivalent basis for the years ended December 31, 2018 and 2017, respectively (in thousands). Changes due to both volume and rate have been allocated in proportion to the relationship of the dollar amount change in each.

| | Year ended December 31, 2018 compared with 2017 Increase (Decrease) Due to Change in Average | | | Year ended December 31, 2017 compared with 2016 Increase (Decrease) Due to Change in Average | | |
|---|---|---|---|---|---|---|
| | Volume | Rate | Net | Volume | Rate | Net |
| Interest income: | | | | | | |
| Loans | $ 2,478 | $ 768 | $ 3,246 | $ 1,296 | $ (830) | $ 466 |
| Securities | (81) | 135 | 54 | (20) | 131 | 111 |
| Federal funds sold | 21 | (31) | (10) | 8 | (3) | 5 |
| Interest bearing deposits in banks | (145) | 326 | 181 | 81 | 568 | 649 |
| Total interest income | 2,273 | 1,198 | 3,471 | 1,365 | (134) | 1,231 |
| | | | | | | |
| Interest expense: | | | | | | |
| Demand deposits | — | — | — | (8) | — | (8) |
| Savings deposits | (75) | 117 | 42 | 137 | — | 137 |
| Money market deposits | (29) | 476 | 447 | 77 | 27 | 104 |
| Time deposits | 170 | 712 | 882 | 325 | 226 | 551 |
| Borrowed funds | 136 | 193 | 329 | (191) | 44 | (147) |
| Total interest expense | 202 | 1,498 | 1,700 | 340 | 297 | 637 |
| Change in net interest income | $ 2,071 | $ (300) | $ 1,771 | $ 1,025 | $ (431) | $ 594 |

Provision for Loan Losses

The provision for loan losses represents our determination of the amount necessary to bring our allowance for loan losses to the level that we consider adequate to absorb probable losses inherent in our loan portfolio. See "Allowance for Loan Losses" for additional information about our allowance for loan losses and our methodology for determining the amount of the allowance. The provision for loan losses was $1.2 million and $400 thousand for the years ended December 31, 2018 and 2017, respectively. The larger provision for loan losses in 2018 reflects the continued growth in the loan portfolio and the charge-offs in the current year related to resolving non-performing loans. The allowance for loan losses to total loans was 1.10% and 1.15% at December 31, 2018 and 2017, respectively.

Non-Interest Income

Our non-interest income is comprised primarily of service fees received from deposit accounts. For the year ended December 31, 2018, non-interest income decreased to $420 thousand from $448 thousand during the year ended December 31, 2017.

Non-Interest Expenses

Non-interest expense for the year ended December 31, 2018 was $19.0 million compared to $17.8 million for the year ended December 31, 2017, an increase of $1.1 million, or 6.31%. The increase was in salaries and employee benefits, occupancy and equipment and legal expenses, which were partially offset by decreases in FDIC premiums and related expenses, professional fees and data processing expenses. In support of the new core system and its enhanced technology platforms, additional resources were required including a senior relationship manager, and online banking and cyber-security resources.

Income Tax Expense

The income tax provision, which includes both federal and state taxes, for the years ended December 31, 2018 and 2017 was $1.6 million and $3.7 million, respectively, representing a decrease of approximately $2.1 million. The decrease in the income tax expense for 2018 as compared to 2017 was due to the new Tax Act that was signed into law on December

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22, 2017, and which reduced corporate tax rates starting in 2018. The new tax rate of 21%, reduced from 34% yielded a DTA re-measurement expense of approximately $1.4 million for the year ended December 31, 2017. The effective tax rate for 2018 was 23% compared to 50.7% for 2017.

FINANCIAL CONDITION — Years ended December 31, 2018 and December 31, 2017

Total consolidated assets declined by $3.7 million, or approximately 0.4%, from $887.4 million at December 31, 2017 to $883.7 million at December 31, 2018. Loans receivable, or "total loans," increased from $721.2 million at December 31, 2017 to $765.9 million at December 31, 2018, an increase of approximately $44.7 million, or 6.2%. Total cash and cash equivalents decreased from $92.6 million at December 31, 2017 to $64.5 million at December 31, 2018, a decrease of $28.1 million. The decrease in cash is mainly due to a decrease in deposit account balances. Total deposits decreased by $51.6 million to $736.7 million at December 31, 2018, from $788.3 million at December 31, 2017. The decrease is mainly due to outflows of government and municipal deposits at year end. Borrowed funds increased to $51.7 million at December 31, 2018 from $13.4 million at December 31, 2017. The increase in borrowings was planned in order to offset amortization of existing borrowings and to fund loan growth.

Loan Portfolio

Our loan portfolio is the primary component of our assets. Net loans, which exclude net deferred fees and costs and the allowance for loan losses, increased by 6.3% to reach $756.6 million at December 31, 2018 from $712.1 million at December 31, 2017. Historically, we offered residential mortgage loans. However, in light of the increasing regulatory and compliance burdens associated with these loans, they have become a less significant part of our business strategy. As a result, we expect our portfolio of residential mortgage loans to continue to decrease in future periods. Our market area is concentrated in Bergen County, New Jersey, with commercial loans made to borrowers located primarily in New Jersey and New York. We believe that we will continue to have opportunities for commercial loan growth due in part, to our experienced staff and relationship focused strategy, and this commercial loan growth should help mitigate the run-off in the residential portfolio.

Our loan portfolio consists of commercial real estate, commercial & industrial, residential mortgages, consumer and home equity loans. Commercial & industrial loans are made for the purpose of providing working capital primarily for construction, financing the purchase of income producing properties, purchase of equipment or inventory, as well as for other business purposes. Real estate loans consist of loans secured by commercial or residential real property and loans for the construction of commercial or residential investment property. We have a concentration of commercial loans collateralized by real estate, representing 83.6% of our loan portfolio.

We have not made any sub-prime loans. We believe that our strategy of customer service, competitive rate structures, and selective marketing have enabled us to effectively compete as a relationship driven community bank.

The following table sets forth the classification of the Company’s loans by major category as of December 31, 2018, 2017, 2016, 2015 and 2014 (in thousands):

| | December 31, | | | | |
|---|---|---|---|---|---|
| | 2018 | 2017 | 2016 | 2015 | 2014 |
| Commercial real estate | $ 640,627 | $ 573,941 | $ 492,296 | $ 460,396 | $ 431,727 |
| Residential mortgages | 58,281 | 66,497 | 78,961 | 48,698 | 56,079 |
| Commercial and industrial | 24,852 | 27,237 | 30,259 | 69,855 | 75,174 |
| Home equity | 41,833 | 53,199 | 58,399 | 63,308 | 69,631 |
| Consumer | 326 | 317 | 656 | 2,805 | 1,347 |
| Total Loans | $ 765,919 | $ 721,191 | $ 660,571 | $ 645,062 | $ 633,958 |

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The following table sets forth the maturity of fixed and adjustable rate loans as of December 31, 2018 (in thousands):

| | Within One Year | 1 to 5 Years | After 5 Years | Total |
|---|---|---|---|---|
| Loans with Fixed Rate | | | | |
| Commercial real estate | $ 26,028 | $ 22,731 | $ 102,384 | $ 151,143 |
| Residential mortgages | 8,511 | 2,947 | 27,919 | 39,377 |
| Commercial and industrial | 3,740 | 5,699 | 2,810 | 12,249 |
| Home equity | — | — | 288 | 288 |
| Consumer | 73 | 30 | 65 | 168 |
| Loans with Adjustable Rate | | | | |
| Commercial real estate | $ 65,953 | $ 332,553 | $ 90,978 | 489,484 |
| Residential mortgages | 6,441 | 11,244 | 1,219 | 18,904 |
| Commercial and industrial | 10,908 | 1,695 | — | 12,603 |
| Home equity | 41,545 | — | — | 41,545 |
| Consumer | 158 | — | — | 158 |

Loan Quality

As mentioned above, our principal assets are our loans. Inherent in the lending function is the risk of the borrower's inability to repay a loan under its existing terms. Risk elements include past due and restructured loans, potential problem loans and loan concentrations.

Impaired loans are identified by evaluating factors, including delinquency status, size of loan, type of collateral and the financial condition of the borrower. Non-performing assets include loans that are not accruing interest (nonaccrual loans) generally as a result of principal or interest being in default for a period of 90 days or more, troubled debt restructured loans and foreclosed assets. When a loan is classified as nonaccrual, interest accruals discontinue and all past due interest, including interest applicable to prior years, is reversed and charged against current income. Payments received from the borrower are applied to outstanding principal until such time as management determines that the financial condition of the borrower and other factors warrant returning the loan to accruing status.

We attempt to manage overall credit risk through loan diversification and our loan underwriting and approval procedures. Due diligence begins at the time we begin to discuss the origination of 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 and timing of the repayment of the loan, and other factors are analyzed before a loan is submitted for approval. Loans made are also subject to periodic audit and review.

As of December 31, 2018 the Bank had twenty four non-accrual loans totaling approximately $9.4 million, compared to thirty four non-accrual loans totaling $18.4 million at year end 2017. If the nonaccrual loans had been current in accordance with their original terms and had been outstanding throughout the year ended December 31, 2018, the gross interest income that would have been recorded would have been approximately $463 thousand.

Within its nonaccrual loans at December 31, 2018, the Bank had eight residential mortgage loans and four home equity loans that met the definition of a troubled debt restructuring ("TDR") loan.

TDRs are loans where the contractual terms have been modified for borrowers experiencing financial difficulties.  These modifications could include a reduction in the interest rate of the loan, payment extensions, forgiveness of principal, or a combination of these concessions. At December 31, 2018, nonaccrual TDR loans had an outstanding balance of $4.5 million and had no specific reserves connected with them.  At December 31, 2018, accruing TDR loans had an outstanding balance of $2.3 million. The modifications to these loans did not involve principal forgiveness.

As of December 31, 2017, the Bank had thirty four nonaccrual loans totaling approximately $18.4 million. If interest had been accrued on these non-accrual loans, the interest income recognized would have been approximately $636 thousand.

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The following table sets forth certain information regarding the Company's impaired loans, nonaccrual loans, troubled debt restructured loans, accruing loans 90 days or more past due, and OREO as of December 31, 2018, 2017, 2016, 2015, and 2014:

| | 2018 | 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|---|
| Nonaccrual loans | | | | | |
| Commercial real estate | $ 1,678 | $ 3,344 | $ 5,992 | $ 842 | $ 1,787 |
| Residential mortgages | 5,129 | 9,052 | 3,907 | 3,992 | 4,279 |
| Commercial and industrial | 1,802 | 2,957 | 3,256 | — | — |
| Home equity | 778 | 3,073 | 5,597 | 2,522 | 2,453 |
| Total nonaccrual loans | 9,387 | 18,426 | 18,752 | 7,356 | 8,519 |
| Impaired but accruing | | | | | |
| Commercial real estate | 6,513 | 8,210 | 9,209 | — | — |
| Home equity | 38 | 54 | 55 | — | — |
| Total accruing impaired loans | 6,551 | 8,264 | 9,264 | — | — |
| Performing troubled debt restructured loans | | | | | |
| Commercial real estate | — | — | — | — | — |
| Residential mortgages | 2,232 | 637 | — | 532 | 175 |
| Home equity | 42 | — | — | 104 | 60 |
| Total performing impaired and troubled debt restructured loans | 2,274 | 637 | — | 636 | 235 |
| Total impaired loans | 18,212 | 27,327 | 28,016 | 7,992 | 8,754 |
| Other real estate owned | 511 | 415 | 614 | 512 | 897 |
| Total impaired loans and other nonperforming assets | $ 18,723 | $ 27,742 | $ 28,630 | $ 8,504 | $ 9,651 |

At December 31, 2018, the Bank had one loan in the amount of $830 thousand greater than 90 days delinquent and still accruing interest. In each of the other years shown in the table above, the Bank had no loans greater than 90 days delinquent that were accruing interest.

The Bank retains the services an external independent loan review firm. The loan review firm performs periodic examinations of selected commercial loans after the Bank has extended credit.  This review process is intended to identify adverse developments in individual credits, regardless of payment history.  The loan review firm also monitors the integrity of our credit risk rating system. The loan review firm reports directly to the audit committee of our board of directors and provides the audit committee with reports on asset quality.  The loan review firm's reports are presented to our board of directors.

Allowance for Loan Losses

Our ALLL totaled $8.4 million, $8.3 million and $8.3 million, respectively, at December 31, 2018, 2017, and 2016.

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The following is an analysis of the activity in the allowance for loan losses for the periods indicated (dollars in thousands):

| | 2018 | 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|---|
| Balance, January 1 | $ 8,317 | $ 8,287 | $ 8,020 | $ 7,192 | $ 5,775 |
| Charge-offs: | | | | | |
| Residential mortgages | (100) | (49) | (158) | — | (32) |
| Consumer loans | — | (96) | (1) | — | (93) |
| Home equity | (958) | (171) | (155) | — | (72) |
| Commercial and industrial | (48) | (90) | (1,026) | (264) | (327) |
| Commercial real estate | (47) | — | — | (60) | (940) |
| Recoveries: | | | | | |
| Residential mortgages | 33 | — | — | — | — |
| Commercial real estate | 30 | 30 | 35 | 226 | — |
| Commercial and industrial | 9 | 1 | 2 | 2 | 4 |
| Consumer loans | 7 | 5 | — | — | — |
| Net charge-offs | (1,074) | (370) | (1,303) | (96) | (1,460) |
| Reclass reserve for unfunded loans | — | — | — | — | (198) |
| Provision charged to expense | 1,150 | 400 | 1,570 | 924 | 3,075 |
| Balance, December 31 | $ 8,393 | $ 8,317 | $ 8,287 | $ 8,020 | $ 7,192 |
| Ratio of net charge-offs to average loans Outstanding | 0.15 % | 0.05 % | 0.20 % | 0.27 % | 0.27 % |

The following table sets forth, for each of the Company’s major lending areas, the amount and percentage of the Company’s allowance for loan losses attributable to such category, and the percentage of total loans represented by such category, as of the periods indicated (dollars in thousands):

| | 2018 | | | 2017 | | |
|---|---|---|---|---|---|---|
| | Amount | % of ALLL | % of Total Loans | Amount | % of ALLL | % of Total Loans |
| Balance applicable | | | | | | |
| Residential and commercial real estate | $ 6,850 | 81.62 % | 91.26 % | $ 6,239 | 75.02 % | 88.82 % |
| Commercial and industrial | 231 | 2.75 % | 3.24 % | 575 | 6.91 % | 3.78 % |
| Home equity | 733 | 8.73 % | 5.46 % | 403 | 4.85 % | 7.36 % |
| Consumer | 20 | 0.24 % | 0.04 % | 50 | 0.60 % | 0.04 % |
| | 7,834 | 93.34 % | 100.00 % | 7,267 | 87.38 % | 100.00 % |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Unallocated | | 559 | 6.66 | % | 1,050 | 12.62 | % |
| | $ | 8,393 | 100.00 | % | $ 8,317 | 100.00 | % |

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| | 2016 | | | 2015 | | | 2014 | | |
|---|---|---|---|---|---|---|---|---|---|
| | Amount | % of ALLL | % of Total Loans | Amount | % of ALLL | % of Total Loans | Amount | % of ALLL | % of Total Loans |
| Balance applicable to: | | | | | | | | | |
| Residential and commercial real estate | $ 6,479 | 78.18 % | 86.48 % | $ 6,138 | 76.53 % | 78.92 % | $ 5,298 | 73.67 % | 76.95 % |
| Commercial and industrial | 809 | 9.76 % | 4.58 % | 1,066 | 13.29 % | 10.83 % | 1,128 | 15.68 % | 11.86 % |
| Home equity | 425 | 5.13 % | 8.84 % | 573 | 7.14 % | 9.81 % | 500 | 6.95 % | 10.98 % |
| Consumer | 6 | 0.07 % | 0.10 % | 39 | 0.49 % | 0.44 % | 24 | 0.33 % | 0.21 % |
| | 7,719 | 93.14 % | 100.00 % | 7,816 | 97.45 % | 100.00 % | 6,950 | 96.63 % | 100.00 % |
| Unallocated | 568 | 6.86 % | | 204 | 2.55 % | | 242 | 3.37 % | |
| | $ 8,287 | 100.00 % | | $ 8,020 | 100.00 % | | $ 7,192 | 100.00 % | |

The provision for loan losses represents our determination of the amount necessary to bring the ALLL to a level that we consider adequate to provide for probable losses inherent in our loan portfolio as of the consolidated balance sheet date. We evaluate the adequacy of the ALLL by performing periodic, systematic reviews of the loan portfolio. While allocations are made to specific loans and pools of loans, the total allowance is available for any loan losses. Although the ALLL is our best estimate of the inherent loan losses as of the balance sheet date, the process of determining the adequacy of the ALLL is judgmental and subject to changes in external conditions. Accordingly, existing levels of the ALLL may ultimately prove inadequate to absorb actual loan losses. However, we have determined, and believe, that the ALLL is at a level adequate to absorb the probable loan losses in our loan portfolio as of the balance sheet dates.

Investment Securities

In addition to our loan portfolio, we maintain an investment portfolio which is available to fund increased loan demand or deposit withdrawals and other liquidity needs, and which provides an additional source of interest income. During 2018 and 2017, the portfolio was composed of U.S. Treasury securities, obligations of U.S. Government Agencies and MBS and obligations of states and political subdivisions.

Securities are classified as held to maturity, referred to as "HTM," trading, or available for sale, referred to as "AFS," at the time of purchase. Securities are classified as HTM if management intends and has the ability to hold them to maturity. Such securities are stated at cost, adjusted for unamortized purchase premiums and discounts. Securities which are bought and held principally for the purpose of selling them in the near term are classified as trading securities, which are carried at fair value. Realized gains and losses, as well as gains and losses from marking trading securities to fair value, are included in trading revenue. Securities not classified as HTM or trading securities are classified as AFS and are stated at fair value. Unrealized gains and losses on AFS securities are excluded from results of operations, and are reported as a component of accumulated other comprehensive income (loss), which is included in stockholders' equity. Securities classified as AFS include securities that may be sold in response to changes in interest rates, changes in prepayment risks, the need to increase regulatory capital, or other similar requirements.

At December 31, 2018, total securities aggregated $38.1 million, of which $32.3 million were classified as AFS and $5.8 million were classified as HTM. The Company had no securities classified as trading.

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The following table sets forth the carrying value of the Company's security portfolio as of the December 31, 2018, 2017, and 2016, respectively (in thousands):

| | 2018 Amortized Cost | 2018 Fair Value | 2017 Amortized Cost | 2017 Fair Value | 2016 Amortized Cost | 2016 Fair Value |
|---|---|---|---|---|---|---|
| Available for Sale | | | | | | |
| Government sponsored enterprise obligations | $ 26,704 | $ 26,265 | $ 47,439 | $ 47,072 | $ 55,506 | $ 55,321 |
| U.S. Treasury obligations | 6,171 | 6,028 | 6,286 | 6,162 | 6,400 | 6,268 |
| Total available for sale | 32,875 | 32,293 | 53,725 | 53,234 | 61,906 | 61,589 |
| Held to Maturity | | | | | | |
| Obligations of states and political subdivisions | 5,852 | 5,852 | 6,058 | 6,058 | 7,343 | 7,343 |
| Total held to maturity | 5,852 | 5,852 | 6,058 | 6,058 | 7,343 | 7,343 |
| Total Investment Securities | $ 38,727 | $ 38,145 | $ 59,783 | $ 59,292 | $ 69,249 | $ 68,932 |

The following tables set forth as of December 31, 2018 and 2017, the maturity distribution of the Company's debt investment portfolio (in thousands):

| 2018 | Securities Held to Maturity Amortized Cost | Securities Held to Maturity Fair Value | Securities Available for Sale Amortized Cost | Securities Available for Sale Fair Value | Weighted Average Yield | |
|---|---|---|---|---|---|---|
| 1 year or less | | | | | | |
| Government sponsored enterprise obligations | $ — | $ — | $ 10,491 | $ 10,403 | 1.46 | % |
| Obligations of states and political subdivisions | 5,852 | 5,852 | — | — | 1.80 | % |
| | 5,852 | 5,852 | 10,491 | 10,403 | 1.58 | % |
| After 1 year to 5 years | | | | | | |
| Government sponsored enterprise obligations | — | — | 4,949 | 4,869 | 1.91 | % |
| U.S. Treasury obligations | — | — | 6,171 | 6,028 | 1.10 | % |
| | — | — | 11,120 | 10,897 | 1.46 | % |
| Greater than five years | | | | | | |
| Government sponsored enterprise obligations | — | — | 11,264 | 10,993 | 2.05 | % |
| | — | — | 11,264 | 10,993 | 2.05 | % |

| | | | | | |
|---|---|---|---|---|---|
| Total | $ 5,852 | $ 5,852 | $ 32,875 | $ 32,293 | 1.68 % |

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| | Securities Held to Maturity | | Securities Available for Sale | | Weighted | |
|---|---|---|---|---|---|---|
| | Amortized | Fair | Amortized | Fair | Average | |
| 2017 | Cost | Value | Cost | Value | Yield | |
| 1 year or less | | | | | | |
| Government sponsored enterprise obligations | $ — | $ — | $ 18,047 | $ 17,933 | 0.93 | % |
| Obligations of states and political subdivisions | 6,058 | 6,058 | — | — | 1.50 | % |
| | 6,058 | 6,058 | 18,047 | 17,933 | 1.07 | % |
| After 1 year to 5 years | | | | | | |
| Government sponsored enterprise obligations | — | — | 15,406 | 15,303 | 1.61 | % |
| U.S. Treasury obligations | — | — | 6,286 | 6,162 | 1.10 | % |
| | — | — | 21,692 | 21,465 | 1.46 | % |
| Greater than five years | | | | | | |
| Government sponsored enterprise obligations | — | — | 13,986 | 13,836 | 2.06 | % |
| | — | — | 13,986 | 13,836 | 2.06 | % |
| Total | $ 6,058 | $ 6,058 | $ 53,725 | $ 53,234 | 1.44 | % |

During 2018 and 2017, the Company did not sell any securities from its portfolio. The decrease in the portfolio is due to calls and maturities of securities.

Deposits

Deposits remain our primary source of funds. Total deposits decreased to $736.7 million at December 31, 2018 from $788.3 million at December 31, 2017, a decrease of $51.6 million, or 6.5%. Total brokered deposits were $16.9 million and $25.4 million at December 31, 2018 and 2017 respectively. The Bank seeks to increase its core deposits, while reducing its reliance on potentially volatile municipal deposits and their effects of seasonal fluctuations related to real estate tax inflows and payments, and the increasingly competitive rates required to obtain and retain these deposits. The Company has no foreign deposits, nor are there any material customer concentrations of deposits.

The following table sets forth the actual amount of various types of deposits for each of the periods indicated:

December 31,

(dollars in thousands)

| | 2018 | | 2017 | | 2016 | |
|---|---|---|---|---|---|---|
| | Amount | Average Yield/Rate | Amount | Average Yield/Rate | Amount | Average Yield/Rate |
| Non-interest bearing demand | $ 118,489 | | $ 133,661 | | $ 137,564 | |
| Interest bearing demand and money markets | 239,671 | 0.61 % | 200,304 | 0.39 % | 174,396 | 0.37 % |
| Savings | 58,437 | 1.14 % | 107,279 | 0.92 % | 113,286 | 0.92 % |
| Time deposits | 320,105 | 1.87 % | 347,049 | 1.59 % | 292,742 | 1.59 % |
| | $ 736,702 | | $ 788,293 | | $ 717,988 | |

The Company does not actively solicit short-term deposits of $100,000 or more because of the liquidity risks posed by such deposits.  The following table summarizes the maturity of time deposits of denominations of $100,000 or more as of December 31, 2018 (in thousands):

| | |
|---|---|
| Three months or less | $ 38,244 |
| Over three months through 6 months | 19,654 |
| Over six months through twelve months | 55,118 |
| Over one year through three years | 82,752 |
| Over three years | 71,005 |
| | $ 266,773 |

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Return on Equity and Assets

The following table summarizes our (i) return on average assets, or net income divided by average total assets, (ii) return on average equity, or net income divided by average equity, (iii) equity to assets ratio, or average equity divided by average total assets and (iv) dividend payout ratio, or dividends declared per share divided by net income.

| | At or for the year ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| Selected Financial Ratios: | 2018 | | 2017 | | 2016 | |
| Return on Average Assets (ROA) | 0.62 | % | 0.41 | % | 0.49 | % |
| Return on Average Equity (ROE) | 6.33 | % | 4.43 | % | 5.31 | % |
| Equity to Total Assets | 9.83 | % | 9.39 | % | 9.38 | % |
| Dividend Payout Ratio | 0.07 | % | 19.49 | % | 28.19 | % |

Liquidity

Our liquidity is a measure of our ability to fund loans, withdrawals or maturities of deposits, and other cash outflows in a cost-effective manner.  Our principal sources of funds are deposits, scheduled amortization and prepayments of loan principal, maturities of investment securities, and funds provided by operations.  While scheduled loan payments and maturing investments are relatively predictable sources of funds, deposit flow and loan prepayments are greatly influenced by general interest rates, economic conditions, and competition.  In addition, if warranted, we would be able to borrow funds.

As of December 31, 2018, the Company had a $5.0 million line of credit with Atlantic Community Bankers Bank. In addition, the Bank had a $16.0 million overnight line of credit with Zions First National Bank, a $12.0 million overnight line of credit with First Tennessee Bank and a $10.0 million overnight line of credit with Atlantic Community Bankers Bank for the purchase of federal funds in the event that temporary liquidity needs arise.  There were no amounts outstanding under any of the facilities at December 31, 2018.  We are an approved member of the FHLBNY.  The FHLBNY relationship could provide additional sources of liquidity, if required.  At December 31, 2018, we have $51.7 million of borrowed funds and a $40 million Municipal Letter of Credit from the FHLBNY. The amount of credit available from the FHLBNY is dependent upon the amount of qualifying collateral we pledge. Based on the qualifying collateral the Bank has pledged to FHLBNY, in the form of loans and securities, the Bank has a remaining borrowing potential of approximately $54.1 million as of December 31, 2018.

Total deposits equaled $736.7 million and $788.3 million, respectively, at December 31, 2018 and 2017. Cash and cash equivalents decreased from $92.6 million at December 31, 2017 to $64.5 million at December 31, 2018.

Through the investment portfolio, we have generally sought to obtain a safe, yet slightly higher yield than would have been available to us as a net seller of overnight federal funds, while maintaining liquidity. Through our investment portfolio, we also attempt to manage our maturity gap, by seeking maturities of investments which coincide with maturities of deposits. The investment portfolio also includes securities available for sale to provide liquidity for anticipated loan demand and other liquidity needs. (See “Investment Securities”)

We believe that our current sources of funds provide adequate liquidity for our current cash flow needs.

Interest Rate Sensitivity Analysis

We manage our assets and liabilities with the objectives of evaluating the interest-rate risk included in certain balance sheet accounts; determining the level of risk appropriate given our business focus, operating environment, capital and liquidity requirements; establishing prudent asset concentration guidelines; and managing risk consistent with guidelines approved by our board of directors.  We seek to reduce the vulnerability of our operations to changes in interest rates and to manage the ratio of interest-rate sensitive assets to interest-rate sensitive liabilities within specified maturities or re-pricing dates.  Our actions in this regard are taken under the guidance of the asset/liability committee of our board of directors, or “ALCO.”  ALCO generally reviews our liquidity, cash flow needs, maturities of investments, deposits and borrowings, and current market conditions and interest rates.

We currently utilize net interest income simulation and economic value of equity (“EVE”) models to measure the potential impact to the Bank of future changes in interest rates. As of December 31, 2018, the results of the models were

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within guidelines prescribed by our Board of Directors. If model results were to fall outside prescribed ranges, action, including additional monitoring and reporting to the Board, would be required by the ALCO and Bank's management.

The net interest income simulation model attempts to measure the change in net interest income over the next one-year period, and over the next two-year period on a cumulative basis, assuming certain changes in the general level of interest rates.

Based on our model, which was run as of December 31, 2018, we estimated that over the next one-year period a 200 basis-point instantaneous increase in the general level of interest rates would increase our net interest income by 4.7%, while a 100 basis-point instantaneous decrease in interest rates would decrease net interest income by 3.2%.

Based on our model, which was run as of December 31, 2018, we estimated that over the next two years, on a cumulative basis, a 200 basis-point instantaneous increase in the general level of interest rates would increase our net interest income by 3.9%, while a 100 basis-point instantaneous decrease in interest rates would decrease net interest income by 3.6%.

An EVE analysis is also used to dynamically model the present value of asset and liability cash flows. The economic value of equity is likely to be different as interest rates change. Our EVE as of December 31, 2018, would decline by 12.2% with an instantaneous rate shock of up 200 basis points, and increase by 4.4% with an instantaneous rate shock of down 100 basis points.

The following table illustrates the most recent results for EVE and NII as of December 31, 2018 with dollars in thousands:

| Interest Rates (basis points) | Estimated EVE | Estimated Change in EVE Amount | % | Interest Rates (basis points) | Estimated NII | Estimated Change in NII (12 month) Amount | % |
|---|---|---|---|---|---|---|---|
| + 400 | $ 83,790 | $ (29,484) | (26.0) | + 400 | $ 26,731 | $ 2,163 | 8.8 |
| + 300 | 91,536 | (21,738) | (19.2) | + 300 | 26,230 | 1,662 | 6.8 |
| + 200 | 99,494 | (13,780) | (12.2) | + 200 | 25,717 | 1,149 | 4.7 |
| + 100 | 107,494 | (5,780) | (5.1) | + 100 | 25,152 | 584 | 2.4 |
| 0 | 113,274 | — | — | 0 | 24,568 | — | — |
| - 100 | 118,259 | 4,985 | 4.4 | - 100 | 23,786 | (782) | (3.2) |
| - 200 | 125,921 | 12,647 | 11.2 | - 200 | 22,887 | (1,681) | (6.8) |

Market Risk

Market risk is the risk of loss from adverse changes in market prices and rates.  Our market risk arises primarily from interest rate risk inherent in our lending and deposit taking activities.  Thus, we actively monitor and manage our interest rate risk exposure.

Our profitability is affected by fluctuations in interest rates.  A sudden and substantial increase or decrease in interest rates may adversely impact our earnings to the extent that the interest rates borne by assets and liabilities do not change at the same speed, to the same extent, or on the same basis.  We monitor the impact of changing interest rates on our net interest income using several tools, two of which are described above.

Our primary objective in managing interest rate risk is to minimize the adverse impact of changes in interest rates on our net interest income and capital, while structuring our asset-liability structure to obtain the maximum yield-cost spread on that structure.  We rely primarily on our asset-liability structure to control interest rate risk.

We continually evaluate interest rate risk management opportunities.  During 2018, we believed that available hedging instruments were not cost-effective, and therefore, focused our efforts on our yield-cost spread through retail growth opportunities.

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The following table discloses our financial instruments that are sensitive to change in interest rates, categorized by expected maturity at December 31, 2018. Market risk sensitive instruments are generally defined as on- and off-balance sheet financial instruments.

Expected Maturity/Principal Repayment

December 31, 2018

(Dollars in thousands)

| | Avg. Int. Rate | 2019 | 2020 | 2021 | 2022 | 2023 | There-After | Total | Fair Va |
|---|---|---|---|---|---|---|---|---|---|
| st Rate ive : | | | | | | | | | |
| | 4.60 % | $ 163,358 | $ 35,367 | $ 60,853 | $ 126,985 | $ 153,694 | $ 225,662 | $ 765,919 | $ 737, |
| ties | 1.79 % | 16,255 | 10,897 | — | — | — | 10,993 | 38,145 | 38,1 |
| unds Sold | 1.44 % | 1,977 | — | — | — | — | — | 1,977 | 1,97 |
| st-earning nd time ts | 1.71 % | 59,024 | — | — | — | — | — | 59,024 | 59,0 |
| st Rate ive ities: | | | | | | | | | |
| st bearing ction nts | 0.61 % | 239,671 | — | — | — | — | — | 239,671 | 239, |
| gs ts | 1.14 % | 58,437 | — | — | — | — | — | 58,437 | 58,4 |
| deposits | 1.87 % | 135,103 | 55,728 | 40,123 | 73,638 | 15,513 | — | 320,105 | 323, |
| wed | 2.40 % | $ 19,609 | $ 20,000 | $ 12,049 | $ — | $ — | $ — | $ 51,658 | $ 51,6 |

Although certain assets and liabilities may have similar maturities or periods of re-pricing, they may react in different degrees to changes in market interest rates. The maturity of certain types of assets and liabilities may fluctuate in advance of changes in market rates, while maturity of other types of assets and liabilities may lag behind changes in market rates. In the event of a change in interest rates, prepayment and early withdrawal levels could deviate significantly from the maturities assumed in calculating this table.

Capital

A significant measure of the strength of a financial institution is its capital base. In July 2013, the federal banking agencies issued final rules to implement the Basel Committee on Banking Supervision's capital guidelines for U.S. banks (commonly known as Basel III) and changes required by the Dodd-Frank Act. The final rules call for a minimum ratio of common equity tier 1 capital to risk-weighted assets of 4.5%, a minimum ratio of tier 1 capital to risk-weighted assets of 6%, a minimum ratio of total capital to risk-weighted assets of 8% (no change from the current rule) and a minimum leverage ratio of 4%.

In addition, the final rules establish a common equity tier 1 capital conservation buffer of 2.5% of risk-weighted assets applicable to all banking organizations. If a banking organization fails to hold capital above the minimum capital ratios and the capital conservation buffer, it will be subject to certain restrictions on capital distributions and discretionary bonus payments. The phase-in period for the capital conservation, as well as countercyclical capital buffers, which increase the required amount of capital in times of economic expansion, consistent with safety and soundness, began for all banking organizations on January 1, 2016 at the 0.625% level, and is 2.5% effective January 1, 2019.

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The following table summarizes the Bank's risk-based capital and leverage ratios at December 31, 2018, as well as regulatory capital category definitions:

| | December 31, 2018 | Minimum Required For Capital Adequacy Purposes | Minimum Capital With Phase-in Buffer Schedule | To Be Well Capitalized Under Prompt Corrective Action Regulations |
|---|---|---|---|---|
| Risk-Based Capital: | | | | |
| Common Equity Tier 1 Capital | 11.17 % | 4.50 % | 6.375 % | 6.50 % |
| Tier 1 Capital Ratio | 11.17 % | 6.00 % | 7.875 % | 8.00 % |
| Total Capital Ratio | 12.26 % | 8.00 % | 9.875 % | 10.00 % |
| Leverage Ratio | 10.06 % | 4.00 % | N/A | 5.00 % |

As we continue to employ our capital and continue to grow our operations, we expect to remain a "well-capitalized" institution. Our capital planning will be guided based on our loan growth.

As the Company has less than $3.0 billion in consolidated assets, it is not subject to minimum consolidated capital ratio requirements.

See "Regulatory Capital Changes" in Part I, Item 1 of this report for additional information regarding regulatory capital requirements.

Contractual Obligations

As of December 31, 2018, the Company had the following contractual obligations as provided in the table below (in thousands):

| | Payment due by Period | | | | |
|---|---|---|---|---|---|
| | Less than 1 year | 1 to 3 years | 4 to 5 years | After 5 years | Total Amounts Committed |
| | $ 1,174 | $ 1,526 | $ 641 | $ 592 | $ 3,933 |

| | | | | | |
|---|---|---|---|---|---|
| Minimum annual rental under non-cancelable operating leases | | | | | |
| Remaining contractual maturities of borrowed funds | 19,609 | 32,049 | — | — | 51,658 |
| Remaining contractual maturities of time deposits | 135,103 | 95,851 | 89,151 | — | 320,105 |
| Total Contractual Obligations | $ 155,886 | $ 129,426 | $ 89,792 | $ 592 | $ 375,696 |

Additionally, the Bank had certain commitments to extend credit to customers. A summary of commitments to extend credit at December 31, 2018 is provided as follows (in thousands):

| | |
|---|---|
| Commercial real estate, construction, and land development secured by land | $ 54,675 |
| Home equities | 34,533 |
| Standby letters of credit and other | 2,992 |
| | $ 92,200 |

Off-Balance Sheet Arrangements

The Bank’s commitments to extend credit and letters of credit constitute financial instruments with off-balance sheet risk. See Note 14 of the notes to consolidated financial statements included in this report for additional discussion of “Off-Balance Sheet” items, which discussion is incorporated in this item by reference.

Impact of Inflation and Changing Prices

The consolidated financial statements of the Company and notes thereto, included in Part II, Item 8 of this annual report, have been prepared in accordance with accounting principles generally accepted in the United States of America, which require the measurement of financial position and operating results in terms of historical dollars without considering the change in the relative purchasing power of money over time and due to inflation. The impact of inflation is reflected in

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

## Recently Issued Accounting Standards

Refer to Note 18 of the notes to consolidated financial statements for discussion of recently issued accounting standards.

## ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest rate risk management is our primary market risk. See “Item 7 – Management’s Discussion and Analysis of Financial Condition and Results of Operation – Interest Rate Sensitivity Analysis” herein for a discussion of our management of our interest rate risk.

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## ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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

## INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders

Bancorp of New Jersey, Inc.

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated balance sheets of Bancorp of New Jersey, Inc. and subsidiary (collectively the "Company") as of December 31, 2018 and 2017, and the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows, for each of the years then ended, and the related notes (collectively referred to as the "consolidated financial statements"). We also have audited the Company's internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control – Integrated Framework: (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO").

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the years then ended in conformity with accounting principles generally accepted in the United States of America ("US GAAP"). Also, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control – Integrated Framework: (2013) issued by COSO.

Basis for Opinion

The Company's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's consolidated financial statements and an opinion on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with US GAAP. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with US GAAP, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance

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regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the consolidated financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

We have served as the Company’s auditor since 2016

/s/ Baker Tilly Virchow Krause, LLP

Iselin, New Jersey

March 18, 2019

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CONSOLIDATED BALANCE SHEETS

December 31, 2018 and 2017

(Dollars in thousands, except share data)

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| Assets | | |
| Cash and due from banks | $ 3,541 | $ 1,627 |
| Interest bearing deposits | 59,024 | 90,540 |
| Federal funds sold | 1,977 | 452 |
| Total cash and cash equivalents | 64,542 | 92,619 |
| Interest bearing time deposits | 500 | 1,000 |
| Securities available for sale | 32,293 | 53,234 |
| Securities held to maturity (fair value $5,852 and $6,058 at December 31, 2018 and December 31, 2017, respectively) | 5,852 | 6,058 |
| Restricted investment in bank stock, at cost | 3,239 | 1,380 |
| Loans receivable | 765,919 | 721,191 |
| Deferred loan fees and costs, net | (937) | (798) |
| Allowance for loan losses | (8,393) | (8,317) |
| Net loans | 756,589 | 712,076 |
| Premises and equipment, net | 13,440 | 13,725 |
| Accrued interest receivable | 2,841 | 2,695 |
| Other real estate owned | 511 | 415 |
| Other assets | 3,929 | 4,205 |
| Total assets | $ 883,736 | $ 887,407 |
| Liabilities and Stockholders' Equity | | |
| LIABILITIES: | | |
| Deposits: | | |
| Noninterest-bearing demand deposits | $ 118,489 | $ 133,661 |
| Savings and interest bearing transaction accounts | 298,108 | 307,583 |
| Time deposits $250 and under | 213,855 | 231,224 |
| Time deposits over $250 | 106,250 | 115,825 |
| Total deposits | 736,702 | 788,293 |
| Borrowed funds | 51,658 | 13,385 |
| Accrued expenses and other liabilities | 6,269 | 2,420 |
| Total liabilities | 794,629 | 804,098 |
| Stockholders' equity: | | |
| Common stock, no par value, authorized 20,000,000 shares; issued and outstanding 7,295,466 at December 31, 2018 and 6,932,690 at December 31, 2017 | 76,713 | 70,182 |
| Retained earnings | 12,814 | 13,482 |
| Accumulated other comprehensive loss | (420) | (355) |
| Total stockholders' equity | 89,107 | 83,309 |

| | | |
|---|---|---|
| Total liabilities and stockholders’ equity | $ 883,736 | $ 887,407 |

See accompanying notes to consolidated financial statements

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CONSOLIDATED STATEMENTS OF INCOME

Years ended December 31, 2018 and 2017

(Dollars in thousands, except per share data)

| | 2018 | 2017 |
|---|---|---|
| Interest income: | | |
| Loans, including fees | $ 33,953 | $ 30,707 |
| Securities | 916 | 862 |
| Interest-earning deposits in banks | 1,234 | 1,065 |
| Federal funds sold | 9 | 7 |
| Total interest income | 36,112 | 32,641 |
| Interest expense: | | |
| Savings and money markets | 2,245 | 1,756 |
| Time deposits | 6,459 | 5,577 |
| Borrowed funds | 607 | 278 |
| Total interest expense | 9,311 | 7,611 |
| Net interest income | 26,801 | 25,030 |
| Provision for loan losses | 1,150 | 400 |
| Net interest income after provision for loan losses | 25,651 | 24,630 |
| Non interest income | | |
| Fees and service charges on deposit accounts | 420 | 448 |
| Total non interest income | 420 | 448 |
| Non interest expense | | |
| Salaries and employee benefits | 10,075 | 9,012 |
| Occupancy and equipment expense | 3,345 | 2,966 |
| FDIC and state assessments | 547 | 729 |
| Legal fees | 612 | 398 |
| Other real estate owned related expenses | 12 | 70 |
| Professional fees | 895 | 1,248 |
| Data processing | 1,052 | 1,433 |
| Other operating expenses | 2,418 | 1,975 |
| Total non interest expenses | 18,956 | 17,831 |
| Income before income taxes | 7,115 | 7,247 |
| Income tax expense | 1,634 | 3,673 |
| Net income | $ 5,481 | $ 3,574 |
| Earnings per share: | | |
| Basic | $ 0.77 | $ 0.55 |
| Diluted | $ 0.77 | $ 0.54 |

See accompanying notes to consolidated financial statements

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CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Years ended December 31, 2018 and 2017

(Dollars in Thousands)

| | For the Year Ended December 31, | |
|---|---|---|
| | 2018 | 2017 |
| Net income | $ 5,481 | $ 3,574 |
| Other comprehensive loss | | |
| Unrealized losses on securities available for sale, net of deferred income tax benefit of $26 and $69, respectively | (65) | (104) |
| Comprehensive income | $ 5,416 | $ 3,470 |

See accompanying notes to consolidated financial statements

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CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

Years ended December 31, 2018 and 2017

(Dollars in Thousands)

| | Common Stock | Retained Earnings | Accumulated Other Comprehensive (Loss) | Total |
|---|---|---|---|---|
| Balance at January 1, 2017 | 61,524 | 15,813 | (193) | 77,144 |
| Exercise of stock options | 2,993 | — | — | 2,993 |
| Stock based compensation | 397 | — | — | 397 |
| Dividends on common stock ($0.10 per share) | — | (693) | — | (693) |
| Net income | — | 3,574 | — | 3,574 |
| 5% Stock dividend (319,294 shares) | 5,270 | (5,270) | — | — |
| Dividends in lieu of fractional shares of stock dividend | (2) | — | — | (2) |
| Reclassification related to adoption of ASU 2018-02 | — | 58 | (58) | — |
| Other comprehensive loss, net of tax | — | — | (104) | (104) |
| Balance at December 31, 2017 | 70,182 | 13,482 | (355) | 83,309 |
| Exercise of stock options | 7 | — | — | 7 |
| Stock based compensation | 379 | — | — | 379 |
| Net income | — | 5,481 | — | 5,481 |
| 5% Stock dividend (347,214 shares) | 6,149 | (6,149) | — | — |
| Dividends in lieu of fractional shares of stock dividend | (4) | — | — | (4) |
| Other comprehensive loss, net of tax | — | — | (65) | (65) |
| Balance at December 31, 2018 | $ 76,713 | $ 12,814 | $ (420) | $ 89,107 |

See accompanying notes to consolidated financial statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31, 2018 and 2017

(Dollars in Thousands)

| | For the Year Ended December 31, | |
|---|---|---|
| | 2018 | 2017 |
| Cash flows from operating activities: | | |
| Net income | $ 5,481 | $ 3,574 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Provision for loan losses | 1,150 | 400 |
| Amortization of securities premiums | 175 | 193 |
| Deferred income taxes | 210 | 1,028 |
| Depreciation | 862 | 669 |
| Stock based compensation | 379 | 397 |
| Accretion of net loan origination fees and costs | 139 | 212 |
| Loss on sale disposition of fixed assets | 35 | — |
| Gain on sale of other real estate owned | — | (18) |
| Write down of other real estate owned | — | 41 |
| Changes in operating assets and liabilities: | | |
| Increase in accrued interest receivable | (146) | (329) |
| Decrease in other assets | 92 | 210 |
| Increase in accrued interest payable and other liabilities | 3,850 | 121 |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | 12,227 | 6,498 |
| | | |
| Cash flows from investing activities: | | |
| Purchases of securities available for sale | — | (15,064) |
| Purchases of securities held to maturity | (5,852) | (10,148) |
| Proceeds from maturities of securities held to maturity | 6,058 | 11,433 |
| Proceeds from calls, maturities and other principal payments of securities available for sale | 20,674 | 23,052 |
| Proceeds from maturities of certificates of deposit | 500 | — |
| Purchase of restricted investment in bank stock | (2,161) | (56) |
| Proceeds from calls of restricted investment of bank stock | 302 | 659 |
| Proceeds from sale of other real estate owned | 415 | 176 |
| Net increase in loans | (46,313) | (60,990) |
| Purchases of premises and equipment | (612) | (897) |
| NET CASH USED IN INVESTING ACTIVITIES | (26,989) | (51,835) |
| | | |
| Cash flows from financing activities: | | |
| Net (decrease) increase in deposits | (51,591) | 70,305 |
| Net increase (decrease) in borrowed funds | 38,273 | (11,623) |
| Dividends paid | (4) | (695) |
| Proceeds from exercise of stock options | 7 | 2,993 |

| | | |
|---|---|---|
| NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES | (13,315) | 60,980 |
| (Decrease) increase in cash and cash equivalents | (28,077) | 15,643 |
| Cash and cash equivalents at beginning of year | 92,619 | 76,976 |
| CASH AND CASH EQUIVALENTS, END OF YEAR | $ 64,542 | $ 92,619 |
| Supplemental information: | | |
| Cash paid during the year for: | | |
| Interest | $ 9,159 | $ 7,476 |
| Income taxes | $ 994 | $ 2,605 |
| Supplemental disclosure of non-cash investing and financing transactions: | | |
| Loans transferred to other real estate owned | $ 511 | $ — |

See accompanying notes to consolidated financial statements

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## NOTE 1. Summary of Significant Accounting Policies

### Basis of Financial Statement Presentation

The accompanying consolidated financial statements include the accounts of Bancorp of New Jersey, Inc. (together with its consolidated subsidiary, the "Company"), and its direct wholly-owned subsidiary, Bank of New Jersey (the "Bank") and the Bank's wholly-owned subsidiaries, BONJ-New York Corp., BONJ-New Jersey Investment Company, BONJ- Delaware Investment Company, and BONJ REIT Inc. Bancorp of New Jersey is incorporated under the laws of the State of New Jersey to serve as a holding company for the Bank. All significant inter-company accounts and transactions have been eliminated in consolidation.

### Nature of Operations

The Company's primary business is ownership and supervision of the Bank. The Bank commenced operations as of May 10, 2006. The Company, through the Bank, conducts a traditional commercial banking business, accepting deposits from the general public, including individuals, businesses, non-profit organizations, and governmental units. The Bank makes commercial loans, consumer loans and commercial real estate loans. In addition, the Bank provides other customer services and makes investments in securities, as permitted by law.

Since opening in May, 2006, the Bank has established nine branch offices in addition to its main office.

During the second quarter of 2009, the Bank formed BONJ-New York Corporation. The New York subsidiary was engaged in the business of acquiring, managing and administering portions of Bank of New Jersey's investment and loan portofolios. During 2014, the Bank formed BONJ-Delaware Investment Company and BONJ-New Jersey Investment Company to use to acquire, manage and administer portions of the Bank of New Jersey's investments and loans. Also in 2014, the Bank formed BONJ-REIT, Inc. This company was formed to acquire, manage and administer portions of the Bank's loans. BONJ-Reit, Inc. is owned by BONJ-Delaware Investment Company.

### Use of Estimates

Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses, the valuation of the deferred tax asset and the determination of other-than-temporary impairment on securities. While management uses available information to recognize estimated losses on loans, future additions may be necessary based on changes in economic conditions. In addition, various regulatory agencies, as an integral part of their examination process, periodically review the Company's allowance for loan losses. These agencies may require the Company to recognize additions to the allowance based on their judgements of information available to them at the time of their examination.

The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("US GAAP"). In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and revenues and expenses for the period indicated. Actual results could differ significantly from those estimates. Certain 2017 information has been reclassified for consistency with the 2018 presentation.

Significant Group of Concentration of Credit Risk

The Company's activities are, primarily, with customers located within Bergen County, New Jersey. The Company does not have any significant concentration to any one industry or customers within its primary service area. Note 3 describes the types of lending in which the Company engages. Although the Company actively manages the diversification of the loan portfolio, a substantial portion of the debtors' ability to honor their contracts is dependent on the strength of the local economy.

Cash and Cash Equivalents

Cash and cash equivalents include cash and due from banks, interest-bearing deposits in banks, and federal funds sold, which are generally sold for one-day periods.

Interest-bearing deposits in banks

Interest-bearing deposits in banks are carried at cost, which approximate fair value.

Regulators

The Bank is subject to federal and New Jersey statutes applicable to banks chartered under the New Jersey banking laws. The Bank's deposits are insured by the Federal Deposit Insurance Corporation ("FDIC"). Accordingly, the Bank is subject to regulation, supervision, and examination by the New Jersey State Department of Banking and Insurance and the FDIC. The Company is subject to regulation, supervision and examination by the Board of Governors of the Federal Reserve System ("FRB").

Investment Securities

The Company reports investment securities in one of the following categories: (i) held to maturity (management has the intent and ability to hold to maturity), which are reported at amortized cost; (ii) trading (held for current resale), which are reported at fair value, with unrealized gains and losses included in earnings and (iii) available for sale, which are reported at fair value, with unrealized gains and lossess excluded from earnings and reported as a separate component of stockholders' equity. The Company has classified all of its holdings of investment securities as either held to matruity or available for sale. At the time a security is purchased, a determination is made as to the approproiate classification.

Premiums and discounts on investment securities are amortized as expense and accreted as income over the estimated life of the respective security using a method that generally approximates the level-yield method. Gains and losses on the sales of investment securities are recognized upon realization, using the specific identification method and shown separately in the Consolidated Statements of Income.

Management evaluates securities for other than temporary impairment ("OTTI") on at least a quarterly basis, and more frequently when economic or market conditions warrant such an evaluation. For securities in an unrealized loss position, management considers the extent and duration of the unrealized loss and the financial condition and near-term prospects of the issuer. Management also assesses whether it intends to sell, or it is more likely than not that it will be required to sell, a security in an unrealized loss position before recovery of its amortized cost basis. If either of the criteria regarding intent or requirment to sell is met, the entire difference between amortized cost and fair value is recognized as impairment through earnings. For debt securities that do not meet the aforementioned criteria, the amount of impairment is split into two components as follows: 1) OTTI related to credit loss, which must be recognized in the statement of income and 2) OTTI related to other factors, which is recognized in other comprehensive income (loss). The credit loss is defined as the difference between the present value of the cash flows expected to be collected and the amortized cost basis. For equity securities, the entire amount of impairment is recognized through earnings.

Premises and Equipment

Premises and equipment are stated at historical cost, less accumulated depreciation and amortization. Depreciation of fixed assets is accumulated on a straight-line basis over the estimated useful lives of the related assets. Leasehold improvements are amortized on a straight-line basis over the shorter of their estimated useful lives or the term of the related lease. The estimated lives of the Company's premises and equipment range from 3 years for certain computer related equipment to 39 years for building costs associated with newly constructed buildings. Maintenance and repairs are charged to expense in the year incurred.

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Loans and Allowance for Loan Losses

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are stated at their outstanding unpaid principal balances, net of an allowance for loan losses and any deferred fees or costs. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized as an adjustment of the yield (interest income) of the related loans. The Company is generally amortizing these amounts over the contractual life of the loan. Premiums and discounts on purchased loans are amortized as adjustments to interest income using the effective yield method.

For all commercial loans receivable, the accrual of interest on loans is discontinued when the contractual payment of principal or interest has become 90 days past due or management has serious doubts about further collectability of principal or interest, even though the loan is currently performing. A loan may remain on accrual status if it is in the process of collection and is either guaranteed or well secured. When a loan is classified as nonaccrual, interest accruals discontinue and all past due interest, including interest applicable to prior years, is reversed and charged against current income. Interest received on nonaccrual loans, including impaired loans, generally is either applied against principal or reported as interest income, according to management's judgment as to the collectability of principal. Generally, loans are restored to accrual status when the obligation is brought current, has performed in accordance with the contractual terms for a reasonable period of time (generally six months) and the ultimate collectability of the total contractual principal and interest is no longer in doubt. The past due status of loans receivable is determined based on contractual due dates for loan payments.

The allowance for loan losses represents management's estimate of losses inherent in the loan portfolio as of the balance sheet date and is recorded as a reduction to loans. The allowance for loan losses is increased by the provision for loan losses, and decreased by charge-offs, net of recoveries. Loans deemed to be uncollectible are charged against the allowance for loan losses, and subsequent recoveries, if any, are credited to the allowance. All, or part, of the principal balance of loans receivable are charged off to the allowance as soon as it is determined that the repayment of all, or part, of the principal balance is highly unlikely. Because all identified losses are immediately charged off, no portion of the allowance for loan losses is restricted to any individual loan or groups of loans, and the entire allowance is available to absorb any and all loan losses.

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

The allowance for loan losses consists of general and unallocated components. The general component covers pools of loans by loan class including commercial loans not considered impaired, as well as smaller balance homogeneous loans, such as residential real estate, home equity and other consumer loans. These pools of loans are evaluated for loss exposure based upon historical loss rates for each of these categories of loans, adjusted for qualitative factors. These qualitative risk factors include:

1. Lending policies and procedures, including underwriting standards and collection, charge-off, and recovery practices.
2. National, regional, and local economic and business conditions as well as the condition of various market segments, including the value of underlying collateral for collateral dependent loans.
3. Nature and volume of the portfolio and terms of loans.
4. Experience, ability, and depth of lending management and staff.
5. Volume and severity of past due, classified and nonaccrual loans as well as and other loan modifications.
6. Quality of the Company's loan review system, and the degree of oversight by the Company's Board of Directors.
7. Existence and effect of any concentrations of credit and changes in the level of such concentrations.
8. Effect of external factors, such as competition and legal and regulatory requirements.

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

An unallocated component is maintained to cover uncertainties that could affect management’s estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. 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. Impairment is measured on a loan by loan basis by either the present value of expected future cash flows discounted at the loan’s effective interest rate or the fair value of the collateral if the loan is collateral dependent.  Loans for which the terms have been modified resulting in a concession, and for which the borrower is experiencing financial difficulties, are considered troubled debt restructurings (“TDR”) and classified as impaired.

All or part of the principal balance of a loan is charged-off for an impaired loan if its carrying value exceeds its estimated fair value. The estimated fair values of substantially all of the Company’s impaired loans are measured based on the estimated fair value of the loan’s collateral.

For commercial loans secured by real estate, estimated fair values are determined primarily through third-party appraisals. When a real estate secured loan becomes impaired, a decision is made regarding whether an updated certified appraisal of the real estate is necessary. This decision is based on various considerations, including the age of the most recent appraisal, the loan-to-value ratio based on the original appraisal and the condition of the property. Appraised values are discounted to arrive at the estimated selling price of the collateral, which is considered to be the estimated fair value. The discounts also include estimated costs to sell the property.

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

Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Company does not separately identify individual residential mortgage loans, home equity loans and other consumer loans for impairment disclosures, unless such loans are the subject of a TDR agreement.

Loans whose terms are modified are classified as TDRs if the Company grants such borrowers concessions and it is deemed that those borrowers are experiencing financial difficulty. Concessions granted under a TDR generally involve a temporary reduction in interest rate or an extension of a loan's stated maturity date. Loans classified as TDRs are designated as impaired and evaluated for impairment until they are ultimately repaid in full or foreclosed and sold. Nonaccrual TDRs are restored to accrual status if principal and interest payments, under the modified terms, are current for six consecutive months after modification.

The Company's methodology for the determination of the allowance for loan losses includes further segregation of loan classes into risk rating categories. The borrower's overall financial condition, repayment sources, guarantors and value of collateral, if appropriate, are evaluated annually for commercial loans or when credit deficiencies arise, such as delinquent loan payments, for commercial and consumer loans. Credit quality risk ratings include regulatory classifications of special mention, substandard, doubtful and loss. Loans classified as special mention have potential weaknesses that deserve management's close attention. If uncorrected, the potential weaknesses may result in deterioration of the repayment prospects. Loans classified substandard have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They include loans that are

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inadequately protected by the current sound net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans classified doubtful have all the weaknesses inherent in loans classified substandard with the added characteristic that collection or liquidation in full, on the basis of current conditions and facts, is highly improbable. Loans classified as a loss are considered uncollectible and are charged to the allowance for loan losses. Loans not classified are rated pass.

In addition to the Company's methodology, Federal regulatory agencies, as an integral part of their examination process, periodically review the Company's allowance for loan losses and may require the Company to recognize additions to the allowance based on their judgments about information available to them at the time of their examination, which may not be currently available to management. Management believes the level of the allowance for loan losses was adequate to absorb losses inherent in the loan portfolio as of December 31, 2018.

Other Real Estate Owned

Other real estate owned consists of real estate acquired by foreclosure or deed in lieu and is initially recorded at fair value, less estimated selling costs, establishing a new cost basis. Subsequent to foreclosure, revenues are included in non-interest income and expenses from operations and lower of cost or market changes in the valuation are included in non-interest expenses.

Stock-Based Compensation

Accounting Standards Codification ("ASC") Topic 718 Compensation-Stock Compensation addresses the accounting for share-based payment transactions in which an enterprise receives employee service in exchange for (a) equity instruments of the enterprise or (b) liabilities that are based on the fair value of the enterprise's equity instruments or that may be settled by the issuance of such equity instruments. Guidance requires an entity to recognize the grant-date fair value of stock options and other equity-based compensation issued to employees within the income statement using a fair-value-based method. The Company accounts for stock options under these recognition and measurement principles.

The Company recorded stock-based compensation expense of $379 thousand and $397 thousand during 2018 and 2017, respectively. At December 31, 2018, the Company had $29 thousand of unrecognized compensation expense related to stock options. At December 31, 2018, the Company had $250 thousand of unrecognized compensation expense related to unvested restricted stock.

Income Taxes

The Company uses the asset and liability method of accounting for income taxes. There are two components of the income tax expense: current and deferred. Current income tax expense reflects taxes to be paid or refunded for the current period by applying the provisions of the enacted law to the taxable income or excess of deductions and revenues. Deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates in effect for the year in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

As required by ASC Topic 740, Income Taxes, the Company recognizes the financial statement benefit of a tax position only after determining that the relevant tax authority would more likely than not sustain the position following an audit. For tax positions meeting the more-likely-than-not threshold, the amount recognized in the financial statements is the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement with the relevant tax authority. The Bank applied ASC Topic 740 to all tax positions for which the statute of limitations remained open. There was no material effect on the Company’s consolidated financial position or results of operations and no adjustment to retained earnings.

The Company recognizes interest and penalties on income taxes as a component of income tax.

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Earnings Per Share

Basic earnings per share excludes dilution and represents the effect of earnings upon the weighted average number of shares outstanding for the period. Diluted earnings per share reflects the effect of earnings upon weighted average shares including the potential dilution that could occur if securities or contracts to issue common stock were converted or exercised, utilizing the treasury stock method.

Comprehensive Income

Comprehensive income consists of net income for the current period and income, expenses, or gains and losses not included in the Consolidated Statements of Income and which are reported directly as a separate component of stockholders' equity.

Advertising

The Company expenses advertising costs as incurred. Advertising expenses totaled $281 thousand and $216 thousand for 2018 and 2017, respectively and are included in other operating expenses.

Transfer of Financial Assets

Transfers of financial assets, including loan and loan participation sales, are accounted for as sales, when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Company, (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 Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity, or the ability to unilaterally cause the holder to return specific assets.

Restricted Investment in Bank Stock

Restricted investment in bank stocks which represent required investments in the common stock of correspondent banks, is carried at cost and consists of the common stock of the Federal Home Loan Bank of New York ("FHLB") of

$3.14 million and Atlantic Community Bankers Bank, (“ACBB”) of $100 thousand respectively as of December 31, 2018. Federal law requires a member institution of the FHLB to hold stock according to a predetermined formula.

Management believes no impairment charge is necessary related to the FHLB or ACBB restricted stock as of December 31, 2018.

Restrictions on Cash and Amounts Due From Banks

The Bank is required to maintain average balances on hand or with the Federal Reserve Bank of New York (“FRBNY”). At December 31, 2018 and 2017, these reserve balances amounted to $4.8 million and $3.8 million, respectively, and are reflected in interest bearing deposits in banks.

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NOTE 2. Securities

A summary of securities held to maturity and securities available for sale at December 31, 2018 and 2017 is as follows (in thousands):

| 2018 | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|---|---|---|---|---|
| Securities Held to Maturity: | | | | |
| Obligations of states and political subdivisions | $ 5,852 | $ — | $ — | $ 5,852 |
| Total securities held to maturity | 5,852 | — | — | 5,852 |
| Securities Available for Sale: | | | | |
| U.S. Treasury securities | 6,171 | — | (143) | 6,028 |
| Government sponsored enterprise obligations | | | | |
| Agency backed | 15,440 | — | (168) | 15,272 |
| Mortgage backed | 11,264 | — | (271) | 10,993 |
| Total securities available for sale | 32,875 | — | (582) | 32,293 |
| | $ 38,727 | $ — | $ (582) | $ 38,145 |

| 2017 | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|---|---|---|---|---|
| Securities Held to Maturity: | | | | |
| Obligations of states and political subdivisions | $ 6,058 | $ — | $ — | $ 6,058 |
| Total securities held to maturity | 6,058 | — | — | 6,058 |
| Securities Available for Sale: | | | | |
| U.S. Treasury securities | 6,286 | — | (124) | 6,162 |
| Government sponsored enterprise obligations | | | | |
| Agency backed | 33,453 | — | (218) | 33,235 |
| Mortgage backed | 13,986 | — | (149) | 13,837 |
| Total securities available for sale | 53,725 | — | (491) | 53,234 |
| | $ 59,783 | $ — | $ (491) | $ 59,292 |

For the year ended December 31, 2018 and 2017, the Company did not sell any securities from its available for sale portfolio and therefore no loss or gain was recognized. The Company did not sell any securities from its held to maturity portfolio in 2018 or 2017.

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The unrealized losses, categorized by the length of time of continuous loss position, and the fair value of related securities available for sale at December 31, 2018 and 2017 are as follows (in thousands):

| | Less than 12 Months | | More than 12 Months | | Total | |
|---|---|---|---|---|---|---|
| 2018 | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| Securities Available for Sale: | | | | | | |
| U.S. Treasury securities | — | — | 6,028 | (143) | 6,028 | (143) |
| Government sponsored enterprise obligations | — | — | 26,265 | (439) | 26,265 | (439) |
| Total securities available for sale | — | — | 32,293 | (582) | 32,293 | (582) |
| Total securities | $ — | $ — | $ 32,293 | $ (582) | $ 32,293 | $ (582) |

| | Less than 12 Months | | More than 12 Months | | Total | |
|---|---|---|---|---|---|---|
| 2017 | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| Securities Available for Sale: | | | | | | |
| U.S. Treasury securities | — | — | 6,162 | (124) | 6,162 | (124) |
| Government sponsored enterprise obligations | 23,691 | (201) | 23,381 | (166) | 47,072 | (367) |
| Total securities available for sale | 23,691 | (201) | 29,543 | (290) | 53,234 | (491) |
| Total securities | $ 23,691 | $ (201) | $ 29,543 | $ (290) | $ 53,234 | $ (491) |

Unrealized losses at December 31, 2018 consisted of losses on eight investments in government sponsored enterprise obligations, and two in U. S. Treasury securities, all of which were caused by interest rate increases. All ten of the investments with unrealized losses at December 31, 2018 were in a loss position for more than twelve months. The contractual terms of those investments do not permit the issuer to settle the securities at a price less than the amortized cost basis of the investments. Because the Company does not intend to sell the investments and it is not more likely than not that the Company will be required to sell the investments before recovery of their amortized cost basis, which may be maturity, the Company does not consider those investments to be other-than-temporarily impaired at December 31, 2018.

The following table sets forth as of December 31, 2018, the maturity distribution of the Company’s held to maturity and available for sale portfolios (in thousands):

| | Securities Held to Maturity | | Securities Available for Sale | |
|---|---|---|---|---|
| | Amortized Cost | Fair Value | Amortized Cost | Fair Value |
| One year or less | $ 5,852 | $ 5,852 | $ 10,491 | $ 10,403 |
| After one to five years | — | — | 11,120 | 10,897 |
| Greater than five years | — | — | 11,264 | 10,993 |
| Total | $ 5,852 | $ 5,852 | $ 32,875 | $ 32,293 |

Actual maturities may differ from contractual maturities due to the borrowers' ability to call or prepay their obligations.

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NOTE 3. Loans and Allowance for Loan Losses

Loans at December 31, 2018 and 2017, are summarized as follows (in thousands):

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| Commercial real estate | $ 640,627 | $ 573,941 |
| Residential mortgages | 58,281 | 66,497 |
| Commercial and industrial | 24,852 | 27,237 |
| Home equity | 41,833 | 53,199 |
| Consumer | 326 | 317 |
| | $ 765,919 | $ 721,191 |

Our market area is concentrated in Bergen County, New Jersey, with commercial loans made to borrowers located primarily in New Jersey, New York and a defined radius of the headquarters. Our borrowers' abilities to repay their obligations are dependent upon various factors, including the borrowers' income and net worth, cash flows generated by the underlying collateral, value of the underlying collateral and priority of the Company's lien on the property. Such factors are dependent upon various economic conditions and individual circumstances beyond the Company's control; the Company is therefore subject to risk of loss. The Company believes its lending policies and procedures adequately manage the potential exposure to such risks and an allowance for loan losses is provided for management's best estimate of probable loan losses.

The following table presents the activity in the allowance for loan losses and recorded investment in loan receivables as of and for the year ended December 31, 2018 (in thousands):

| | Commercial Real Estate | Residential Mortgages | Commercial & Industrial | Home Equity | Consumer | Unallocated | Total |
|---|---|---|---|---|---|---|---|
| Allowance for loan losses: | | | | | | | |
| Beginning Balance | $ 5,867 | $ 372 | $ 575 | $ 403 | $ 50 | $ 1,050 | $ 8,317 |
| Charge-offs | (47) | (100) | (48) | (958) | — | — | (1,153) |
| Recoveries | 30 | 33 | 9 | — | 7 | — | 79 |
| Provision | 658 | 37 | (305) | 1,288 | (37) | (491) | 1,150 |
| Ending balance | $ 6,508 | $ 342 | $ 231 | $ 733 | $ 20 | $ 559 | $ 8,393 |
| Ending balance: individually | $ — | $ — | $ — | $ — | $ — | $ — | $ — |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| evaluated for impairment | | | | | | | |
| Ending balance: collectively evaluated for impairment | $ 6,508 | $ 342 | $ 231 | $ 733 | $ 20 | $ 559 | $ 8,393 |
| Loan receivables: | | | | | | | |
| Ending balance | $ 640,627 | $ 58,281 | $ 24,852 | $ 41,833 | $ 326 | $ — | $ 765,919 |
| Ending balance: individually evaluated for impairment | $ 8,190 | $ 5,129 | $ 1,802 | $ 816 | $ — | $ — | $ 15,937 |
| Ending balance: collectively evaluated for impairment | $ 632,437 | $ 53,152 | $ 23,050 | $ 41,017 | $ 326 | $ — | $ 749,982 |

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The following table presents the activity in the allowance for loan losses and recorded investment in loan receivables as of and for the year ended December 31, 2017 (in thousands):

| | Commercial Real Estate | Residential Mortgages | Commercial & Industrial | Home Equity | Consumer | Unallocated | Total |
|---|---|---|---|---|---|---|---|
| Allowance for loan losses: | | | | | | | |
| Beginning Balance | $ 5,925 | $ 554 | $ 809 | $ 425 | $ 6 | $ 568 | $ 8,287 |
| Charge-offs | — | (49) | (90) | (171) | (97) | — | (407) |
| Recoveries | 30 | — | 1 | — | 6 | — | 37 |
| Provision | (88) | (133) | (145) | 149 | 135 | 482 | 400 |
| Ending balance | $ 5,867 | $ 372 | $ 575 | $ 403 | $ 50 | $ 1,050 | $ 8,317 |
| Ending balance: individually evaluated for impairment | $ — | $ — | $ — | $ — | $ — | $ — | $ — |
| Ending balance: collectively evaluated for impairment | $ 5,867 | $ 372 | $ 575 | $ 403 | $ 50 | $ 1,050 | $ 8,317 |
| Loan receivables: | | | | | | | |
| Ending balance | $ 573,941 | $ 66,497 | $ 27,237 | $ 53,199 | $ 317 | $ — | $ 721,191 |
| Ending balance: individually evaluated for impairment | $ 11,554 | $ 8,966 | $ 2,957 | $ 3,214 | $ — | $ — | $ 26,691 |
| Ending balance: collectively evaluated for impairment | $ 562,387 | $ 57,531 | $ 24,280 | $ 49,985 | $ 317 | $ — | $ 694,500 |

The performance and credit quality of the loan portfolio is also monitored by analyzing the age of the loans receivable as determined by the length of time a recorded payment is past due. The following tables present the classes of the loan portfolio summarized by the past due status as of December 31, 2018 and 2017 (in thousands):

| 2018 | 30-59 Days Past Due | 60-89 Days Past Due | 90+ Days Past Due | Total Past Due | Current | Total Loans Receivables | Nonaccrual Loans |
|---|---|---|---|---|---|---|---|
| Commercial real estate | $ 2,502 | $ 183 | $ 1,678 | $ 4,363 | $ 636,264 | $ 640,627 | $ 1,678 |
| Residential mortgages | 3,113 | — | 2,172 | 5,285 | 52,996 | 58,281 | 5,129 |
| Commercial and industrial | 175 | — | 1,802 | 1,977 | 22,875 | 24,852 | 1,802 |
| Home equity | 298 | — | 568 | 866 | 40,967 | 41,833 | 778 |
| Consumer | 19 | — | — | 19 | 307 | 326 | — |
| | $ 6,107 | $ 183 | $ 6,220 | $ 12,510 | $ 753,409 | $ 765,919 | $ 9,387 |

| 2017 | 30-59 Days Past Due | 60-89 Days Past Due | 90+ Days Past Due | Total Past Due | Current | Total Loans Receivables | Nonaccrual Loans |
|---|---|---|---|---|---|---|---|
| Commercial real estate | $ 209 | $ — | $ 3,344 | $ 3,553 | $ 570,388 | $ 573,941 | $ 3,344 |
| Residential mortgages | 4,527 | 974 | 2,026 | 7,527 | 58,970 | 66,497 | 9,052 |
| Commercial and industrial | — | 25 | 2,957 | 2,982 | 24,255 | 27,237 | 2,957 |
| Home equity | 3,265 | 1,230 | 1,022 | 5,517 | 47,682 | 53,199 | 3,073 |
| Consumer | — | — | — | — | 317 | 317 | — |
| | $ 8,001 | $ 2,229 | $ 9,349 | $ 19,579 | $ 701,612 | $ 721,191 | $ 18,426 |

As of December 31, 2018 the Company had one accruing loan that was delinquent for more than 90 days. As of December 31, 2017 the Company had no accruing loans greater than 90 days delinquent.

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The following tables present the classes of the loan portfolio summarized by the aggregate pass rating and the classified ratings of special mention, substandard and doubtful within the Company's internal risk rating system as of December 31, 2018 and 2017 (in thousands):

| 2018 | Commercial Real Estate | Residential Mortgages | Commercial & Industrial | Home Equity | Consumer | Total |
|---|---|---|---|---|---|---|
| Pass | $ 632,437 | $ 52,064 | $ 22,821 | $ 41,017 | $ 326 | $ 748,665 |
| Special Mention | — | 1,088 | 229 | — | — | 1,317 |
| Substandard | 8,190 | 5,129 | 1,802 | 816 | — | 15,937 |
| Doubtful | — | — | — | — | — | — |
| | $ 640,627 | $ 58,281 | $ 24,852 | $ 41,833 | $ 326 | $ 765,919 |

| 2017 | Commercial Real Estate | Residential Mortgages | Commercial & Industrial | Home Equity | Consumer | Total |
|---|---|---|---|---|---|---|
| Pass | $ 562,387 | $ 56,407 | $ 24,051 | $ 49,985 | $ 317 | $ 693,147 |
| Special Mention | — | 1,124 | 229 | — | — | 1,353 |
| Substandard | 11,554 | 8,966 | 2,957 | 3,214 | — | 26,691 |
| Doubtful | — | — | — | — | — | — |
| | $ 573,941 | $ 66,497 | $ 27,237 | $ 53,199 | $ 317 | $ 721,191 |

The following tables provide information about the Company's impaired loans as of and for the years ended December 31, 2018 and 2017 (in thousands):

| 2018 | Recorded Investment | Unpaid Principal Balance | Related Allowance |
|---|---|---|---|
| Commercial real estate | $ 8,190 | $ 8,191 | $ — |
| Residential mortgages | 5,129 | 6,684 | — |
| Commercial and industrial | 1,802 | 1,812 | — |
| Home equity | 816 | 1,282 | — |
| Total impaired loans | $ 15,937 | $ 17,969 | $ — |

| 2017 | Recorded Investment | Unpaid Principal Balance | Related Allowance |
|---|---|---|---|
| Commercial real estate | $ 11,554 | $ 11,578 | $ — |

| | | | |
|---|---|---|---|
| Residential mortgages | 8,966 | 10,287 | — |
| Commercial and industrial | 2,957 | 3,057 | — |
| Home equity | 3,214 | 3,509 | — |
| Total impaired loans | $ 26,691 | $ 28,431 | $ — |

| | Year Ended December 31, 2018 | | Year Ended December 31, 2017 | |
|---|---|---|---|---|
| | Average Recorded Investment | Interest Income Received | Average Recorded Investment | Interest Income Received |
| Impaired loans with no specific reserves: | | | | |
| Commercial real estate | 9,892 | — | 10,232 | — |
| Residential mortgages | 6,843 | — | 9,360 | — |
| Commercial and industrial | 2,158 | — | 3,149 | — |
| Home equity | 1,437 | — | 3,205 | — |
| Consumer | — | — | — | — |
| | $ 20,330 | $ — | $ 25,946 | $ — |

If interest had been accrued on non-accrual loans, the interest income recognized would have been approximately $463 thousand and $636 thousand for the years ended December 31, 2018 and 2017 respectively.

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The following table presents TDR loans (all of which are classified as impaired loans) as of December 31, 2018 and 2017 (in thousands):

| 2018 | Accrual Status | Number of Loans | Nonaccrual Status | Number of Loans | Total |
|---|---|---|---|---|---|
| Residential mortgages | $ 2,274 | 5 | $ 3,832 | 8 | $ 6,106 |
| Home equity | — | — | 671 | 4 | 671 |
| | $ 2,274 | 5 | $ 4,503 | 12 | $ 6,777 |

| 2017 | Accrual Status | Number of Loans | Nonaccrual Status | Number of Loans | Total |
|---|---|---|---|---|---|
| Commercial real estate | $ — | — | $ 338 | 1 | $ 338 |
| Residential mortgages | 637 | 3 | 7,446 | 10 | 8,083 |
| Home equity | — | — | 2,959 | 8 | 2,959 |
| | $ 637 | 3 | $ 10,743 | 19 | $ 11,380 |

The following table summarizes information in regards to troubled debt restructurings that occurred during the year ended December 31, 2018 and 2017 (in thousands):

| 2018 | Number of Loans | Pre-Modification Outstanding Recorded Investments | Post-Modification Outstanding Recorded Investments |
|---|---|---|---|
| Residential mortgages | 3 | $ 2,331 | $ 2,331 |
| | 3 | $ 2,331 | $ 2,331 |

| 2017 | Number of Loans | Pre-Modification Outstanding Recorded Investments | Post-Modification Outstanding Recorded Investments |
|---|---|---|---|
| Residential mortgages | 4 | $ 3,695 | $ 3,695 |
| Home equity | 1 | 320 | 320 |
| | 5 | $ 4,015 | $ 4,015 |

The following table displays the nature of modifications during the year ended December 31, 2018 (in thousands):

| 2018 | Rate Modification | Term Modification | Interest Only Modification | Payment Modification | Combination Modification | Total Modifications |
|---|---|---|---|---|---|---|
| Pre-modification outstanding recorded investment: | | | | | | |
| Residential mortgages | $ — | $ 989 | $ — | $ 1,342 | $ — | $ 2,331 |
| Home equity | — | — | — | — | — | — |
| | $ — | $ 989 | $ — | $ 1,342 | $ — | $ 2,331 |

During the years ended December 31, 2018 and 2017, the Company had no loans meeting the definition of a TDR which were placed on default status.

The Company may obtain physical possession of real estate collateralizing loans via foreclosure or an in-substance repossession into other real estate owned. As of December 31, 2018 and 2017, the Company has no foreclosed residential real estate properties. In addition, as of December 31, 2018 and 2017, the Company had loans with a carrying value of $3.7 million and $2.6 million respectively, collateralized by residential real estate property for which formal foreclosure proceedings were in process.

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NOTE 4. Premises and Equipment

At December 31, 2018 and 2017, premises and equipment consists of the following (in thousands):

| | 2018 | 2017 |
|---|---|---|
| Land | $ 4,828 | $ 4,828 |
| Building | 10,374 | 10,468 |
| Furniture and fixtures | 1,336 | 1,309 |
| Equipment | 3,115 | 2,512 |
| | 19,653 | 19,117 |
| Less accumulated depreciation and amortization | (6,213) | (5,392) |
| Total premises and equipment, net | $ 13,440 | $ 13,725 |

Depreciation expense amounted to $862 thousand and $669 thousand for the years ended December 31, 2018 and 2017, respectively.

NOTE 5. Deposits

At December 31, 2018 and 2017, respectively, a summary of the maturity of time deposits (which includes certificates of deposit and individual retirement account (IRA) certificates) is as follows (in thousands):

| | 2018 | 2017 |
|---|---|---|
| 3 months or less | $ 45,591 | $ 43,535 |
| Over 3 months through 12 months | 89,512 | 95,818 |
| Over 1 year through 2 years | 55,728 | 62,356 |
| Over 2 years through 3 years | 40,123 | 29,110 |
| Over 3 years through 4 years | 73,638 | 40,250 |

| | | |
|---|---|---|
| Over 4 years through 5 years | 15,513 | 75,980 |
| | $ 320,105 | $ 347,049 |

At December 31, 2018 and 2017, the Company’s brokered deposits are as follows:

| | 2018 | 2017 |
|---|---|---|
| CDARS* | | |
| Public Funds Reciprocal | $ 5,056 | $ 8,191 |
| Non-Public Funds Reciprocal | 11,212 | 15,186 |
| FTN** | | |
| Non-Reciprocal Funds | 588 | 2,063 |
| | 16,856 | 25,440 |

*Certificate of Deposit Account Registry Service

**First Tennessee National Bank

At December 31, 2018 and 2017, deposits of certain municipalities and local government agencies were collateralized by a Municipal Letter of Credit from FHLB in the amount of $40 million and securities with a fair value of $20.0 million were also pledged at December 31, 2017.

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NOTE 6. Borrowed Funds

Borrowings may consist of fixed rate advances from the FHLB as well as short term borrowings through lines of credit with other financial institutions. Information concerning long-term borrowings at December 31, 2018 and 2017 is as follows (in thousands):

| | 2018 | | | |
|---|---|---|---|---|
| | Amount | Rate | Original Term (years) | Maturity |
| Fixed Rate Note | $ 10,000 | 2.75 % | 0.5 | April 2019 |
| Fixed Rate Note | 10,000 | 2.90 % | 3 | April 2021 |
| Fixed Rate Note | 10,000 | 2.95 % | 2 | June 2020 |
| Fixed Rate Note | 5,000 | 2.97 % | 1 | December 2019 |
| Fixed Rate Note | 10,000 | 3.02 % | 2 | December 2020 |
| Fixed Rate Amortizing Note | 603 | 1.50 % | 5 | June 2019 |
| Fixed Rate Amortizing Note | 1,033 | 1.51 % | 5 | July 2019 |
| Fixed Rate Amortizing Note | 1,084 | 1.51 % | 5 | August 2019 |
| Fixed Rate Amortizing Note | 2,049 | 2.02 % | 7 | August 2021 |
| Fixed Rate Amortizing Note | 1,889 | 1.48 % | 5 | October 2019 |
| | $ 51,658 | 2.75 % | | |

| | 2017 | | | |
|---|---|---|---|---|
| | Amount | Rate | Original Term (years) | Maturity |
| Fixed Rate Amortizing Note | 1,624 | 1.50 % | 5 | June 2019 |
| Fixed Rate Amortizing Note | 2,563 | 1.51 % | 5 | July 2019 |
| Fixed Rate Amortizing Note | 2,511 | 1.51 % | 5 | August 2019 |
| Fixed Rate Amortizing Note | 2,766 | 2.02 % | 7 | August 2021 |
| Fixed Rate Amortizing Note | 3,921 | 1.48 % | 5 | October 2019 |
| | $ 13,385 | 1.61 % | | |

In addition to the advances listed above, the Bank had Municipal Letters of Credit issued by FHLB in the amount of $40 million at both December 31, 2018 and 2017.

At December 31, 2018 and 2017, loans with a carrying value of approximately $199.3 million and $149.3 million and securities with a fair value of $8.0 million and $11.0 million, respectively, were pledged to secure advances and municipal letters of credit from FHLB.

The Company has a $5.0 million line of credit with the ACBB. In addition, the Bank has a $16.0 million overnight line of credit facility available with Zions First National Bank, a $12.0 million overnight line of credit facility available with First Tennessee Bank and a $10.0 million overnight line of credit with ACBB for the purchase of federal funds in the event that temporary liquidity needs arise. Additionally, the Bank is a member of the FHLB. The FHLB relationship provides additional borrowing capacity. There were no outstanding borrowings on any of the lines of credit at December 31, 2018 and December 31, 2017.

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NOTE 7. Income Taxes

The current and deferred amounts of the provision for income taxes expense (benefit) for the years ended December 31, 2018 and 2017 is as follows (in thousands):

| | 2018 | 2017 |
|---|---|---|
| Current tax expense: | | |
| Federal | $ 1,265 | $ 2,259 |
| State | 158 | 268 |
| Deferred income tax benefit: | | |
| Federal | 193 | (218) |
| Re-measurement of deferred taxes due to Tax Act | — | 1,393 |
| State | 18 | (29) |
| | $ 1,634 | $ 3,673 |

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities as of December 31, 2018 and 2017 are as follows (in thousands):

| | 2018 | 2017 |
|---|---|---|
| Deferred tax assets: | | |
| Start up expenses | $ 58 | $ 82 |
| Allowance for loan losses | 2,455 | 2,488 |
| Accrued expenses | 265 | 224 |
| Stock compensation plans | 93 | 129 |
| Unrealized losses on securities available for sale | 162 | 135 |
| Other | 680 | 728 |
| Total | 3,713 | 3,786 |
| Deferred tax liabilities: | | |
| Deferred loan costs | (47) | (52) |
| Prepaid expenses | (98) | (133) |
| Depreciation | (342) | (191) |
| Total | (487) | (376) |
| Net deferred tax asset | $ 3,226 | $ 3,410 |

The realizability of deferred tax assets is dependent upon a variety of factors, including the generation of future taxable income, the existence of taxes paid and recoverable, the reversal of deferred tax liabilities and tax planning strategies. During 2018 and 2017, the Company sustained continued profitability, continued to pay taxes, and recognized deferred tax benefits. Based upon these and other factors, management believes it is more likely than not that the Company will realize the benefits of these remaining deferred tax assets. The net deferred tax asset is included in other assets on the Consolidated Balance Sheets.

The Tax Act that was signed into law on December 22, 2017 resulted in re-measurement of the Company's deferred tax assets and liabilities at the new 21% federal tax rate compared to a 34% federal tax rate previously in effect. The impact of the re-measurement is recorded as a component of income tax expense in the Consolidated Statements of Income for the year ended December 31, 2017.

Deferred tax assets related to securities available for sale losses that were revalued as of December 31, 2017 created a "stranded tax effect" in Accumulated Other Comprehensive Income (AOCI) due to the enactment of the Tax Act. The issue arose due to the nature of US GAAP recognition of the effect on tax rate changes on the deferred tax assets related to securities available for sale. As mentioned above, the entirety of the revaluation was recorded as an adjustment to income tax provision. There was no corresponding impact to AOCI. In January 2018, the FASB issued ASU 2018-02 (see Note 18). The Company early adopted the provisions of ASU 2018-02 as of December 31, 2017 and recorded a one-time reclassification of $58 thousand from AOCI to retained earnings for stranded tax effects resulting from the newly enacted corporate tax rate. The amount of the

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reclassificaiton was the difference between the 34% historical corporate tax rate and the newly enacted 21% corporate tax rate. See Statement of Changes in Stockholders' Equity for details of the reclassification.

A reconciliation between the amount of the effective income tax expense and the income tax expense that would have been provided at the federal statutory rate of 21% for December 31, 2018 and 34% for December 31, 2017, is shown below (in thousands):

| | 2018 | 2017 |
|---|---|---|
| Federal income tax expense at statutory rate | $ 1,494 | $ 2,464 |
| Increase (decrease) in taxes resulting from: | | |
| State taxes, net of federal income tax expense | 139 | 158 |
| Tax exempt income | (15) | (20) |
| Stock-based compensation | 27 | (317) |
| Meals and entertainment | 6 | 4 |
| Re-measurement of deferred taxes due to Tax Act | — | 1,393 |
| Other | (17) | (9) |
| Effective Income Tax | $ 1,634 | $ 3,673 |

The Company is subject to income taxes in the U.S. and various states. Tax regulations are subject to interpretation of the related tax laws and regulations and require significant judgment to apply.

NOTE 8. Leases

The Company leases facilities under operating leases which expire at various dates through December 31, 2026. These leases do contain certain options to renew the leases. Rental expense amounted to $1.4 million, for the years ended December 31, 2018 and December 31, 2017, respectively.

The following is a schedule of future minimum lease payments (exclusive of payments for maintenance, insurance, taxes and any other costs associated with offices) for operating leases with initial or remaining terms in excess of one year from December 31, 2018 (in thousands):

| | |
|---|---|
| Year ending December 31, | |
| 2019 | $ 1,174 |

| | |
|---|---|
| 2020 | 879 |
| 2021 | 648 |
| 2022 | 369 |
| 2023 | 271 |
| Thereafter | 592 |
| | $ 3,933 |

NOTE 9. Related-party Transactions

The Company has made, and expects to continue to make, loans in the future to its directors and executive officers and their family members, and to firms, corporations, and other entities in which they and their family members maintain interests. All such loans require the prior approval of the Bank's Board of Directors. None of those loans was on nonaccrual, past due, or restructured at December 31, 2018 and 2017. Related party deposit balances were $34.7 million and $34.9 million at December 31, 2018 and 2017, respectively.

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The following table represents a summary of related-party loan activity during the years ended December 31, 2018 and 2017 (in thousands):

| | 2018 | 2017 |
|---|---|---|
| Outstanding loans at beginning of the year | $ 17,246 | $ 22,994 |
| Advances | 235 | 7,039 |
| Repayments | (477) | (5,314) |
| Former director | — | (7,473) |
| Outstanding loans at end of the year | $ 17,004 | $ 17,246 |

Two of the Company’s directors have acted as the Company’s legal counsel on loan closings. During 2018 and 2017 the total cost of such work has been reimbursed by the respective loan customers and totals $103 thousand and $119 thousand respectively. Additionally, these directors have acted as legal counsel to the Bank on various matters. The total amount paid for legal fees, for non-loan related matters was approximately $1 thousand and $15 thousand for the years ended December 31, 2018 and 2017, respectively.

The Company’s or the Bank’s commercial insurance policy, as well as other policies, has been placed with various insurance carriers by an insurance agency of which one of the Company’s directors is the president. Gross insurance premiums paid to carriers through this agency was approximately $228 thousand and $220 thousand for the years ended December 31, 2018 and 2017, respectively.

The Bank rents office space from entities related to two of the Company’s directors. The total amount of rent expense to these entities was $180 thousand and $226 thousand for the years ended December 31, 2018 and 2017, respectively.

NOTE 10. Earnings Per Share

The Company’s calculation of earnings per share is as follows:

| | For the year ended December 31, | |
|---|---|---|
| (In thousands except per share data) | 2018 | 2017 |
| Net income available to common stockholders | $ 5,481 | $ 3,574 |
| Weighted average number of common shares outstanding - basic | 7,108 | 6,556 |
| Basic earnings per share | $ 0.77 | $ 0.55 |

| | | |
|---|---|---|
| Net income available to common stockholders | $ 5,481 | $ 3,574 |
| Weighted average number of common shares outstanding - basic | 7,108 | 6,556 |
| Effect of dilutive options | 19 | 16 |
| Weighted average number of common shares outstanding- diluted | 7,127 | 6,572 |
| Diluted earnings per share | $ 0.77 | $ 0.54 |

Non-qualified options to purchase 94,854 shares of common stock at a weighted average price of $10.83 were included in the computation of diluted earnings per share for the year ended December 31, 2018.

Non-qualified options to purchase 97,453 shares of common stock at a weighted average price of $11.62 were included in the computation of diluted earnings per share for the year ended December 31, 2017.

## NOTE 11. Stockholders' Equity and Dividend Restrictions

In 2018, the Company declared a 5% stock dividend that was paid on August 1, 2018.

In 2017, the Company declared a 5% stock dividend and a cash dividend in the amount of $0.10 per share. The stock dividend was paid to shareholders on August 1, 2017 and the cash dividend was paid to shareholders on December 27, 2017.

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The decision to pay, as well as the timing and amount of any future dividends to be paid by the Company will be determined by the board of directors, giving consideration to the Company's earnings, capital needs, financial condition, regulatory requirements and other relevant factors.

Under applicable New Jersey law, the Company is permitted to pay dividends on its capital stock if, following the payment of the dividend, it is able to pay its debts as they become due in the usual course of business, or its total assets are greater than its total liabilities. Further, it is the policy of the FRB that bank holding companies should pay dividends only out of current earnings and only if future retained earnings would be consistent with the holding company's capital, liquidity, asset quality and financial condition. As part of its supervisory authority, the FRB may impose informal or formal restrictions on the Company's ability to pay dividends, including requiring the non-objection of the FRB for payment of any dividends.

Under the New Jersey Banking Act of 1948, as amended, the Bank may declare and pay dividends only if, after payment of the dividend, the capital stock of the Bank will be unimpaired and either the Bank will have a surplus of not less than 50% of its capital stock or the payment of the dividend will not reduce the Bank's surplus. The FDIC prohibits payment of cash dividends if, as a result, the Bank would be undercapitalized.

## NOTE 12. Benefit Plans

Stock option and restricted share information, and the related activity, for the periods presented have been adjusted for a 5% stock dividend declared on June 28, 2018 and June 26, 2017, respectively.

### 2006 Stock Option Plan

During 2006, the Bank's stockholders approved the 2006 Stock Option Plan (the "2006 Plan"). At the time of the holding company reorganization, the 2006 Plan was assumed by the Company. The 2006 Plan allows the Company to grant Incentive Stock Options ("ISO") and Non-Qualified Stock Options ("NQO") to directors and employees of the Company and to purchase up to 264,582 shares of the Company's common stock. At December 31, 2018, stock options to purchase 229,664 shares, net of forfeitures have been issued to directors and employees of the Company under the 2006 Plan, of which options to purchase 51,174 shares were outstanding. There are no shares available for grants under the 2006 Plan as the plan has expired.

During 2016, the Company granted 70,523 NQOs to employees of the Company. The fair value of the NQOs granted was $2.50 per NQO on the date of grant. The fair value of the NQOs was determined using the Black-Scholes option pricing model. The following assumptions were used in determining the fair value of the NQOs granted: expected dividend yield of 2.149%, risk free interest rate of 1.57%, expected volatility of 26.54% and expected lives of 10 years. One third of the NQOs granted vest each on February 1, 2017, February 1, 2018 and February 1, 2019.

There were 17,208 unvested options at December 31, 2018 and 36,249 unvested options at December 31, 2017. At December 31, 2018 there was $4 thousand of unrecognized compensation expense related to unvested options. For the three months and year ended December 31, 2018, $11 thousand and $43 thousand, respectively, were recorded as expenses for options that have been issued through the 2006 Plan. For the three months and year ended December 31, 2017, $1 thousand and $49 thousand, respectively were recorded as expenses for options that have been issued through the 2006 Plan.

During the year ended December 31, 2018 options to purchase 617 shares common stock at a price of $10.13 per share were exercised for a total price of $7 thousand. During the year ended December 31, 2017 options to purchase 33,077 and 927 shares of common stock at prices of $10.43 and $10.13 per share respectively, were exercised for a total price of $354 thousand.

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A summary of stock option activity under the 2006 Plan during the years ended December 31, 2017 and 2018 are presented below:

| | Number of Shares | Weighted Average Exercise Price per Share | Aggregate Intrinsic Value (1) | Weighted Average Remaining Contractual Term (Years) |
|---|---|---|---|---|
| Outstanding at January 1, 2017 | 94,868 | $ 10.24 | | |
| Forfeited | (7,045) | 10.13 | | |
| Exercised | (34,004) | 10.42 | | |
| Outstanding at December 31, 2017 | 53,819 | $ 10.13 | $ 390,064 | 8.56 |
| Exercisable at December 31, 2017 | 17,570 | $ 10.13 | $ 127,342 | 8.56 |

| | Number of Shares | Weighted Average Exercise Price per Share | Aggregate Intrinsic Value (1) | Weighted Average Remaining Contractual Term (Years) |
|---|---|---|---|---|
| Outstanding at January 1, 2018 | 53,819 | $ 10.13 | | |
| Forfeited | (2,028) | 10.13 | | |
| Exercised | (617) | 10.13 | | |
| Outstanding at December 31, 2018 | 51,174 | $ 10.13 | $ 147,724 | 7.56 |
| Exercisable at December 31, 2018 | 33,966 | $ 10.13 | $ 98,050 | 7.56 |

(1) The aggregate intrinsic value of a stock option in the table above represents the total pre-tax intrinsic value (the amount by which the current market value of the underlying stock exceeds the exercise price of the option) that would have been received by the option holders had they exercised their options on December 31, 2018 and 2017, respectively. This amount changes based on the changes in the market value in the Company's common stock.

2007 Director Plan

During 2007, the Bank's stockholders approved the 2007 Non-Qualified Stock Option Plan for Directors (the "2007 Director Plan"). At the time of the holding company reorganization, the 2007 Director Plan was assumed by the Company. This plan provides for 529,200 options to purchase shares of the Company's common stock to be issued to non-employee directors of the Company. At December 31, 2018, stock options to purchase 424,830 shares, net of forfeitures, have been issued to non-employee directors of the Company under the 2007 Director Plan. No options to purchase shares were outstanding at December 31, 2018. There are no shares available for grants under the 2007 Director Plan as the plan has expired.

No options were exercised during the year ended December 31, 2018, as there were no options outstanding. During the three months and year ended December 31, 2017, options to purchase 253,050 shares of common stock at a price of $10.43 per share were exercised for a total price of $2.64 million.

There were no unvested options and no unrecognized compensation expense at December 31, 2018 and 2017. In connection with the 2007 Director Plan, no share based compensation expense was recognized for the three months and year ended December 31, 2018 and 2017.

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A summary of stock option activity under the 2007 Director Plan during the years ended December 31, 2017 and 2018 are presented below:

| | Number of Shares | Weighted Average Exercise Price per Share | Aggregate Intrinsic Value (1) | Weighted Average Remaining Contractual Term (Years) |
|---|---|---|---|---|
| Outstanding at January 1, 2017 | 341,775 | $ 10.43 | | |
| Expired | (88,725) | 10.43 | | |
| Exercised | (253,050) | 10.43 | | |
| Outstanding at December 31, 2017 | — | $ — | $ — | — |
| Exercisable at December 31, 2017 | — | $ — | $ — | — |

| | Number of Shares | Weighted Average Exercise Price per Share | Aggregate Intrinsic Value (1) | Weighted Average Remaining Contractual Term (Years) |
|---|---|---|---|---|
| Outstanding at January 1, 2018 | — | $ — | | |
| Outstanding at December 31, 2018 | — | $ — | $ — | — |
| Exercisable at December 31, 2018 | — | $ — | $ — | — |

(1) The aggregate intrinsic value of a stock option in the table above represents the total pre-tax intrinsic value (the amount by which the current market value of the underlying stock exceeds the exercise price of the option) that would have been received by the option holders had they exercised their options on December 31, 2018 and 2017. This amount changes based on the changes in the market value in the Company's common stock.

2011 Equity Incentive Plan

During 2011, the stockholders of the Company approved the Bancorp of New Jersey, Inc. 2011 Equity Incentive Plan (the "2011 Plan"). The 2011 Plan authorizes the issuance of up to 275,625 shares of the Company's common stock, subject to adjustment in certain circumstances described in the 2011 Plan, pursuant to awards of incentive stock options or non-qualified stock options, stock appreciation rights, restricted stock, restricted stock units or performance awards. Employees, directors, consultants, and other service providers of the Company and its affiliates (primarily the Bank) are eligible to receive awards under the 2011 Plan, provided, that only employees are eligible to receive incentive stock options. At December 31, 2018, there were 173,607 shares, net of forfeitures, issued to employees and directors of the Company under the 2011 Plan. There are 102,018 shares available for grants under the 2011 Plan as of December 31, 2018.

The following is a summary of the non-vested restricted stock awards granted under the 2011 Plan:

| | 2017 | |
|---|---|---|
| | Number of Shares | Weighted Average Grant Date Fair Value |
| Outstanding at January 1, 2017 | 30,863 | $ 11.79 |
| Granted | 33,075 | 13.60 |
| Forfeited | (4,410) | 11.79 |
| Vested | (25,353) | 12.58 |
| Outstanding at December 31, 2017 | 34,175 | $ 12.96 |

| | 2018 | |
|---|---|---|
| | Number of Shares | Weighted Average Grant Date Fair Value |
| Outstanding at January 1, 2018 | 34,175 | $ 12.96 |
| Granted | 15,750 | 16.70 |
| Forfeited | (2,103) | 16.70 |
| Vested | (26,297) | 13.14 |
| Outstanding at December 31, 2018 | 21,525 | $ 15.11 |

Approximately $250 thousand remains to be expensed over the next fourteen months related to the unvested restricted stock as of December 31, 2018. For the three months and year ended December 31, 2018, $49 thousand and $302 thousand, respectively, was recorded as compensation expense for restricted stock that had been issued through the 2011 Plan. For the three months and year ended December 31, 2017, $83 thousand and $290 thousand, respectively, were recorded as compensation expenses for restricted stock that had been issued through the 2011 Plan.

During 2016, the Company granted 33,075 NQOs to an executive of the Company. The fair value of the NQOs granted was $2.65 per NQO on the date of grant. The fair value of the NQOs was determined using the Black-Scholes option pricing model. The following assumptions were used in determining the fair value of the NQOs granted: expected dividend yield of 2.137%, risk free interest rate of 1.87%, expected volatility of 27.0% and expected lives of 10 years. One third of the NQOs granted vested immediately, with the remaining NQOs vesting over a two year period.

In July 2017, the Company granted 15,435 NQOs to employees of the Company. The fair value of the NQOs granted was $6.62 per NQO on the date of grant. The fair value of the NQOs was determined using the Black-Scholes option pricing model. The following assumptions were used in determining the fair value of the NQOs granted: expected dividend yield of 0.00%, risk free interest rate of 2.31%, expected volatility of 26.81% and expected lives of 10 years. One third of the NQOs granted vest each on February 1, 2018, February 1, 2019 and February 1, 2020.

There were 6,930 unvested options at December 31, 2018 and 26,460 unvested options at December 31, 2017. At December 31, 2018 there was $25 thousand of unrecognized compensation expense related to unvested options. For the three months and year ended December 31, 2018, zero and $35 thousand, respectively, were recorded as expenses for options that have been issued through the 2011 Plan. For the three months and year ended December 31, 2017, $24 thousand and $57 thousand, respectively, were recorded as expenses for options that have been issued through the 2011 Plan.

No options were exercised under the 2011 Plan during the years ended December 31, 2018 and 2017.

A summary of stock option activity under the 2011 Plan during the years ended December 31, 2017 and 2018 are presented below:

| | Number of Shares | Weighted Average Exercise Price per Share | Aggregate Intrinsic Value (1) | Weighted Average Remaining Contractual Term (Years) |
|---|---|---|---|---|
| Outstanding at January 1, 2017 | 33,075 | $ 10.19 | | |
| Granted | 15,435 | 16.24 | | |
| Outstanding at December 31, 2017 | 48,510 | $ 12.11 | $ 255,466 | 8.71 |
| | | | | |
| Exercisable at December 31, 2017 | 22,050 | $ 10.19 | $ 158,551 | 8.31 |

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| | Number of Shares | Weighted Average Exercise Price per Share | Aggregate Intrinsic Value (1) | Weighted Average Remaining Contractual Term (Years) |
|---|---|---|---|---|
| Outstanding at January 1, 2018 | 48,510 | $ 12.11 | | |
| Forfeited | (4,830) | 16.24 | | |
| Outstanding at December 31, 2018 | 43,680 | $ 11.66 | $ 93,586 | 7.61 |
| Exercisable at December 31, 2018 | 36,750 | $ 10.80 | $ 93,586 | 7.43 |

(1) The aggregate intrinsic value of a stock option in the table above represents the total pre-tax intrinsic value (the amount by which the current market value of the underlying stock exceeds the exercise price of the option) that would have been received by the option holders had they exercised their options on December 31, 2018 and 2017. This amount changes based on the changes in the market value in the Company's common stock.

Defined Contribution Plan

The Company currently offers a Safe Harbor 401(k) Plan ("Plan") covering eligible employees, wherein employees can invest eligible pretax and after tax earnings up to the Plan and legal limits. The Company makes safe harbor matching contributions equal to 100% of the employees' earnings deferrals that do not exceed 4% of the employees' compensation. The Company recorded matching contributions of approximately $55 thousand and $58 thousand during the three months ended December 31, 2018 and 2017, respectively and approximately $234 thousand and $216 thousand during the year ended December 31, 2018 and 2017, respectively.

NOTE 13. Regulatory Capital Requirements

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's consolidated financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. Capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to meet a minimum Tier 1 leverage ratio, Common equity tier 1 risk-based capital ratio, Tier 1 risk-based ratio and Total risk-based capital ratio (as defined in the regulations). As of December 31, 2018 and 2017, management believes that the Bank meets all capital adequacy requirements to which it is subject.

As of December 31, 2018, the most recent notification from the Federal Deposit Insurance Corporation categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain minimum Tier 1 leverage capital, Common equity tier 1 capital, Tier 1 risk-based capital and Total risk-based capital as set forth in the tables. There are no conditions or events since that notification that management believes have changed the Bank's category.

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The following is a summary of the Bank's actual capital amounts and ratios as of December 31, 2018 and 2017 compared to the FDIC minimum capital adequacy requirements and the FDIC requirements for classification as a well-capitalized institution.

| | Bank actual | | FDIC requirements Minimum Capital Adequacy | | Minimum Capital With Phase-in Buffer | | For Classification As Well Capitalized | |
|---|---|---|---|---|---|---|---|---|
| | Amount | Ratio | Amount | Ratio | Amount | Ratio | Amount | Ratio |
| 2018 | | | | | | | | |
| Leverage (Tier 1) Capital Ratio | $ 89,528 | 10.06 % | $ 35,613 | 4.00 % | $ N/A | | $ 44,517 | 5.00 % |
| Risk-Based Capital: | | | | | | | | |
| Common Equity Tier 1 Capital | $ 89,528 | 11.17 % | $ 36,058 | 4.50 % | $ 51,082 | 6.375 % | $ 52,083 | 6.50 % |
| Tier 1 Capital Ratio | $ 89,528 | 11.17 % | $ 48,077 | 6.00 % | $ 63,101 | 7.875 % | $ 64,102 | 8.00 % |
| Total Capital Ratio | $ 98,261 | 12.26 % | $ 64,102 | 8.00 % | $ 79,126 | 9.875 % | $ 80,128 | 10.00 % |
| 2017 | | | | | | | | |
| Leverage (Tier 1) Capital Ratio | $ 83,664 | 9.59 % | $ 34,888 | 4.00 % | $ N/A | | $ 43,610 | 5.00 % |
| Risk-based capital: | | | | | | | | |
| Common Equity Tier 1 Capital | $ 83,664 | 10.84 % | $ 34,746 | 4.50 % | $ 44,397 | 5.75 % | $ 50,188 | 6.50 % |
| Tier 1 Capital Ratio | $ 83,664 | 10.84 % | $ 46,327 | 6.00 % | $ 55,979 | 7.25 % | $ 61,770 | 8.00 % |
| Total Capital Ratio | $ 92,265 | 11.95 % | $ 61,770 | 8.00 % | $ 71,421 | 9.25 % | $ 77,212 | 10.00 % |

Since the Company has less than $3 billion in assets, it is not subject to minimum consolidated capital ratio requirements.

NOTE 14. Financial Instruments with Off-Balance Sheet Risk

The Company is a party to financial instruments with off-balance-sheet risk in the normal course of business in order to meet the financing needs of its customers. These financial instruments consist of commitments to extend credit and letters of credit and involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the accompanying consolidated balance sheets.

The Company uses the same credit policies and collateral requirements in making commitments and conditional obligations as it does for on-balance-sheet loans.  Commitments to extend credit are agreements to lend to customers 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 the commitments may expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements.  The Company evaluates each customer's creditworthiness on a case-by-case basis.  The amount of collateral obtained, if deemed necessary by the Company upon extension of credit, is based on management's credit evaluation of the borrower.  Outstanding available loan commitments, primarily for commercial real estate, construction, and land development loans totaled $89.8 million and $83 million at December 31, 2018 and 2017, respectively.

At December 31, 2018 and 2017, the Company had outstanding letters of credit to customers totaling $3.0 million and $3.4 million, respectively, whereby the Company guarantees performance to a third party.  These letters of credit generally have fixed expiration dates of one year or less. The fair value of these letters of credits is estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements.  At December 31, 2018 and 2017, such amounts were deemed not material.

NOTE 15. Financial Information of Parent Company

The following information represents Bancorp of New Jersey, Inc. only balance sheets as of December 31, 2018 and 2017, respectively, the statements of income for the years ended December 31, 2018 and December 31, 2017, and the statements of cash flows for the years December 31, 2018 and December 31, 2017 and should be read in conjunction with the notes to the consolidated financial statements.

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Balance Sheets

(in thousands)

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| Assets: | | |
| Investment in subsidiary, net | $ 89,107 | $ 83,309 |
| Total assets | $ 89,107 | $ 83,309 |
| | | |
| Liabilities and stockholders’ equity: | | |
| Stockholders’ equity | $ 89,107 | $ 83,309 |
| | $ 89,107 | $ 83,309 |

Statements of Income and Comprehensive Income

Years ended December 31,

(in thousands)

| | 2018 | 2017 |
|---|---|---|
| Equity in undistributed earnings of subsidiary bank | $ 5,481 | $ 3,574 |
| Net income | 5,481 | 3,574 |
| | | |
| Other comprehensive (loss) income | (65) | (162) |
| Comprehensive income | $ 5,416 | $ 3,412 |

Statements of Cash Flow

Years ended December 31,

(in thousands)

| | 2018 | 2017 |
|---|---|---|
| Cash flow from operating activities: | | |
| Net income | $ 5,481 | $ 3,574 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Equity in undistributed earnings of the subsidiary bank | (5,481) | (3,574) |

| | | |
|---|---|---|
| Net cash provided by operating activities: | — | — |
| | | |
| Cash flows from investing activities: | | |
| Cash dividends received from subsidiary bank | 4 | 695 |
| Net cash provided by investing activities | 4 | 695 |
| | | |
| Cash flows from financing activities: | | |
| Cash dividends paid | (4) | (695) |
| Net cash provided by financing activities | (4) | (695) |
| | | |
| Net change in cash for the period | — | — |
| Net cash at beginning of year | — | — |
| Net cash at end of year | $ — | $ — |

NOTE 16. Fair Value Measurement and Fair Value of Financial Instruments

US GAAP establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets and liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

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The three levels of the fair value hierarchy are as follows:

- Level 1 Inputs - Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.
- Level 2 Inputs - Quoted prices in markets that are not active, or inputs that are observable either directly or indirectly, for substantially the full term of the asset or liability.
- Level 3 Inputs - Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (i.e. supported with little or no market activity).

An asset's or liability's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement of that asset and liability.

For financial assets measured at fair value on a recurring basis, the fair value measurements by level within the fair value hierarchy used at December 31, 2018 and December 31, 2017, respectively, are as follows (in thousands):

| Description | December 31, 2018 | (Level 1) Quoted Prices in Active Markets for Identical Assets | (Level 2) Significant Other Observable Inputs | (Level 3) Significant Unobservable Inputs |
|---|---|---|---|---|
| Securities available for sale: | | | | |
| U.S. Treasury securities | $ 6,028 | $ — | $ 6,028 | $ — |
| Government sponsored enterprise obligations: | | | | |
| Agency backed | 15,272 | — | 15,272 | — |
| Mortgage backed | 10,993 | — | 10,993 | — |
| Total securities available for sale | $ 32,293 | $ — | $ 32,293 | $ — |

| Description | December 31, 2017 | (Level 1) Quoted Prices in Active Markets for Identical Assets | (Level 2) Significant Other Observable Inputs | (Level 3) Significant Unobservable Inputs |
|---|---|---|---|---|

| | | | | |
|---|---|---|---|---|
| Securities available for sale: | | | | |
| U.S. Treasury securities | $ 6,162 | $ — | $ 6,162 | $ — |
| Government sponsored enterprise obligations: | | | | |
| Agency backed | 33,235 | — | 33,235 | — |
| Mortgage backed | 13,837 | — | 13,837 | — |
| Total securities available for sale | $ 53,234 | $ — | $ 53,234 | $ — |

For financial assets measured at fair value on a nonrecurring basis, the fair value measurements by level within the fair value hierarchy used at December 31, 2018 and December 31, 2017, respectively, is as follows (in thousands):

| Description | December 31, 2018 | (Level 1) Quoted Prices in Active Markets for Identical Assets | (Level 2) Significant Other Observable Inputs | (Level 3) Significant Unobservable Inputs |
|---|---|---|---|---|
| Other real estate owned | $ 511 | $ — | $ — | $ 511 |

| Description | December 31, 2017 | (Level 1) Quoted Prices in Active Markets for Identical Assets | (Level 2) Significant Other Observable Inputs | (Level 3) Significant Unobservable Inputs |
|---|---|---|---|---|
| Other real estate owned | $ 415 | $ — | $ — | $ 415 |

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The following table presents additional quantitative information about assets measured at fair value on a nonrecurring basis and for which the Company has utilized Level 3 inputs to determine fair value (in thousands):

| December 31, 2018 | Fair Value Estimate | Valuation Techniques | Unobservable Input | Range (Weighted Average) |
|---|---|---|---|---|
| Other real estate owned | $ 511 | Appraisal of Collateral (1) | Appraisal Adjustments (2) | 8.5% |
| | | | Liquidation Expenses (2) | 15.1% |

| December 31, 2017 | Fair Value Estimate | Valuation Techniques | Unobservable Input | Range (Weighted Average) |
|---|---|---|---|---|
| Other real estate owned | $ 415 | Appraisal of Collateral (1) | Appraisal Adjustments (2) | 21.8% |
| | | | Liquidation Expenses (2) | 6.8% |

(1) Fair value is generally determined through independent appraisals of the underlying collateral, which generally include various Level 3 inputs which are not identifiable.
(2) Appraisals may be adjusted for qualitative factors such as economic conditions and estimated liquidation expenses. The range and weighted average of liquidation expenses and other appraisal adjustments are presented as a percent of the appraisal.

Management uses its best judgment in estimating the fair value of the Company's financial instruments; however, there are inherent weaknesses in any estimation technique. Therefore, for substantially all financial instruments, the fair value estimates herein are not necessarily indicative of the amounts the Company could have realized in sales transaction on the dates indicated. The estimated fair value amounts have been measured as of their respective period end and have not been re-evaluated or updated for purposes of these financial statements subsequent to those respective dates. As such, the estimated fair values of these financial instruments subsequent to the respective reporting dates may be different than the amounts reported at each period end.

The following information should not be interpreted as an estimate of the fair value of the entire Company since a fair value calculation is only provided for a limited portion of the Company's assets and liabilities. Due to a wide range of valuation techniques and the degree of subjectivity used in making the estimates, comparisons between the Company's disclosures and those of other companies may not be meaningful.

Fair value estimates for the Company's financial instruments are as follows at December 31, 2018 and 2017 (in thousands):

| | December 31, 2018 Carrying amount | Estimated Fair Value | (Level 1) Quoted Prices in Active Markets for Identical Assets | (Level 2) Significant Other Observable Inputs | (Level 3) Significant Unobservable Inputs |
|---|---|---|---|---|---|
| Financial assets: | | | | | |
| Cash and cash equivalents | $ 64,542 | $ 64,542 | $ 64,542 | $ — | $ — |
| Interest bearing time deposits | 500 | 500 | — | 500 | — |
| Securities available for sale | 32,293 | 32,293 | — | 32,293 | — |
| Securities held to maturity | 5,852 | 5,852 | — | 5,852 | — |
| Restricted investment in bank stock | 3,239 | 3,239 | — | 3,239 | — |
| Loans receivable, net | 756,589 | 728,086 | — | — | 728,086 |
| Accrued interest receivable | 2,841 | 2,841 | — | 2,841 | — |
| Financial liabilities: | | | | | |
| Deposits | 736,702 | 739,940 | — | 739,940 | — |
| Borrowed funds | 51,658 | 51,681 | — | 51,681 | — |
| Accrued interest payable | 803 | 803 | — | 803 | — |

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| | December 31, 2017 Carrying amount | Estimated Fair Value | (Level 1) Quoted Prices in Active Markets for Identical Assets | (Level 2) Significant Other Observable Inputs | (Level 3) Significant Unobservable Inputs |
|---|---|---|---|---|---|
| Financial assets: | | | | | |
| Cash and cash equivalents | $ 92,619 | $ 92,619 | $ 92,619 | $ — | $ — |
| Interest bearing time deposits | 1,000 | 1,000 | — | 1,000 | — |
| Securities available for sale | 53,234 | 53,234 | — | 53,234 | — |
| Securities held to maturity | 6,058 | 6,058 | — | 6,058 | — |
| Restricted investment in bank stock | 1,380 | 1,380 | — | 1,380 | — |
| Loans receivable, net | 712,076 | 703,901 | — | — | 703,901 |
| Accrued interest receivable | 2,695 | 2,695 | — | 2,695 | — |
| Financial liabilities: | | | | | |
| Deposits | 788,293 | 793,879 | — | 793,879 | — |
| Borrowed funds | 13,385 | 13,307 | — | 13,307 | — |
| Accrued interest payable | 651 | 651 | — | 651 | — |

The following methods and assumptions were used to estimate the fair values of the Company’s financial instruments at December 31, 2018 and 2017.

Cash and Cash Equivalents and Interest Bearing Time Deposits

The carrying amounts reported in the balance sheet for cash and cash equivalents approximate those assets’ fair values.

Securities

The fair value of securities available for sale (carried at fair value) and held to maturity (carried at amortized cost) are determined by obtaining market prices on nationally recognized securities exchanges (Level 1), or matrix pricing (Level 2), which is a mathematical technique used widely in the industry to value debt securities without relying exclusively on quoted market prices for the specific securities but rather by relying on the securities’ relationship to other benchmark quoted prices. For certain securities which are not traded in active markets or are subject to transfer restrictions, valuations may be adjusted to reflect illiquidity and/or non-transferability, and such adjustments are generally based on available market evidence (Level 3). In the absence of such evidence, management's best estimate is used. Management's best estimate consists of both internal and external support on certain Level 3 investments. Internal cash flow models using a present value formula that includes assumptions market participants would use along with indicative exit pricing obtained from broker/dealers (where available) would be used to support fair values of certain Level 3 investments, if applicable.

Restricted Investment in Bank Stock

The carrying amount of restricted investment in bank stock approximates fair value, and considers the limited marketability of such securities.

Loans Receivable

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

Accrued Interest Receivable and Payable

The carrying amount of accrued interest receivable and accrued interest payable approximates fair value.

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Other real estate owned

Other real estate owned assets are adjusted to fair value less estimated selling costs upon transfer of the loans to other real estate owned, establishing a new cost basis. The fair value of other real estate owned is based upon independent third party appraisal values of the collateral or management's estimation of the value of the collateral.  These assets are included as Level 3 fair values.

Deposits

The fair values disclosed for demand deposits (e.g., interest and noninterest checking, passbook savings and money market accounts) are, by definition, equal to the amount payable on demand at the reporting date (i.e., their carrying amounts).  Fair values for fixed rate certificates of deposit are estimated using a discounted cash flow calculation that applies interest rates currently being offered in the market on certificates to a schedule of aggregated expected monthly maturities of time deposits.

Borrowed Funds

The fair value of borrowed funds is estimated using quoted market prices, if available, or by discounting future cash flows using current interest rates for similar financial instruments.

Limitation

The preceding fair value estimates were made at December 31, 2018 and 2017 based on pertinent market data and relevant information on the financial instruments.  These estimates do not include any premium or discount that could result from an offer to sell at one time the Company's entire holdings of a particular financial instrument or category thereof.  Since no market exists for a substantial portion of the Company's financial instruments, fair value estimates were necessarily based on judgments regarding future expected loss experience, current economic conditions, risk assessment of various financial instruments, and other factors.  Given the innately subjective nature of these estimates, the uncertainties surrounding them and the matter of significant judgment that must be applied, these fair value estimates cannot be calculated with precision.  Modifications in such assumptions could meaningfully alter these estimates.

Since these fair value approximations were made solely for on and off-balance sheet financial instruments at December 31, 2018 and 2017, no attempt was made to estimate the value of anticipated future business. Furthermore, certain tax implications related to the realization of the unrealized gains and losses could have a substantial impact on these fair value estimates and have not been incorporated into the estimates.

NOTE 17. Accumulated Other Comprehensive Income (Loss)

There were no reclassifications out of accumulated comprehensive income due to sale of securities for the years ended December 31, 2018 and 2017.

NOTE 18. Recent Accounting Pronouncements

This section provides a summary description of recent accounting standards that have significant implications (elected or required) within the consolidated financial statements, or that management expects may have a significant impact on financial statements issued in the near future.

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

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2014-09, Revenue from Contracts with Customers. The amendments in this ASU establish a comprehensive revenue recognition standard for virtually all industries under U.S. GAAP, including those that previously followed industry-specific guidance such as the real estate, construction and software industries. The revenue standard’s core principle is built on the contract between a vendor and a customer for the provision of goods and services. It attempts to depict the exchange of rights and obligations between the parties in the pattern of revenue recognition based on the consideration to which the vendor is entitled. To accomplish this objective, the standard requires five basic steps: (i) identify the contract

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with the customer, (ii) identify the performance obligations in the contract, (iii) determine the transaction price, (iv) allocate the transaction price to the performance obligations in the contract, and (v) recognize revenue when (or as) the entity satisfies a performance obligation. The Company applied the five-step method outlined in the ASU to all revenue streams scoped-in by the ASU and elected the modified retrospective implementation method. Substantially all of the Company's interest income and certain noninterest income were not impacted by the adoption of this ASU because the revenue from those contracts with customers is covered by other guidance in U.S. GAAP. The Company's largest source of noninterest revenue which is subject to the guidance is service charges on deposit accounts. The Company adopted ASU 2014-09 on January 1, 2018. The adoption of ASU 2014-09 did not change the timing and pattern of the Company's revenue recognition related to scoped-in noninterest income. The adoption did not have a material impact on the Company's consolidated financial statements.

ASU 2016-1, Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities.

In January 2016 the FASB issued ASU 2016-1, Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities. ASU 2016-01 requires equity investments, with certain exceptions, to be measured at fair value with changes in fair value recognized in net income, simplifies the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment; eliminates the requirement for public business entities to disclose the methods and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet; requires public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes; requires an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments; requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset on the balance sheet or the accompanying notes to the financial statements; and clarifies that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale. The Company adopted ASU 2016-01 on January 1, 2018. The adoption did not have a material impact on the Company's consolidated financial statements.

ASU 2016-02, Leases.

In February 2016 the FASB issued ASU 2016-02, Leases. ASU 2016-02 amends existing lease accounting guidance to include the requirement to recognize most lease arrangements on the balance sheet. The adoption of this standard will require the Company to recognize the rights and obligations arising from operating leases as assets and liabilities. ASU 2016-02 will be effective for fiscal years beginning after December 15, 2018, early adoption is permitted. The Company is currently evaluating the potential impact the adoption of ASU 2016-02 will have on its consolidated financial statements.

ASU 2016-13, Financial Instruments – Credit Losses

In June 2016, the FASB issued ASU 2016-13, Financial Instruments - Credit Losses. ASU 2016-13 requires entities to report “expected” credit losses on financial instruments and other commitments to extend credit rather than the current “incurred loss” model. These expected credit losses for financial assets held at the reporting date are to be based on historical experience, current conditions, and reasonable and supportable forecasts. This ASU will also require enhanced disclosures to help investors and other financial statement users better understand significant estimates and judgments used in estimating credit losses, as well as the credit quality and underwriting standards of an entity’s portfolio. These disclosures include qualitative and quantitative requirements that provide additional information about the amounts recorded in the financial statements. For public business entities that are U.S. Securities and Exchange Commission filers, the amendments are effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. For all other public business entities, the amendments are effective for fiscal years beginning after December 15, 2020, including interim periods within those fiscal years. For all other entities, the amendments in this Update are effective for fiscal years beginning after December 15, 2020, and interim periods within fiscal years beginning after December 15, 2021. The Company is currently evaluating the potential impact the adoption of ASU 2016-13 will have on its consolidated financial statements and results of operations.

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ASU 2018-02, Income Statement – Reporting Comprehensive Income

On February 2, 2018, the FASB issued ASU 2018-02, Income Statement—Reporting Comprehensive Income (Topic 202). The amendments in this ASU affect any entity that is required to apply the provisions of Topic 220, Income Statement—Reporting Comprehensive Income, and has items of other comprehensive income for which the related tax effects are presented in other comprehensive income as required by US GAAP. The amendments in this ASU allow a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the 2017 Tax Reform Act; eliminates the stranded tax effects resulting from the 2017 Tax Reform Act. The amendments in this ASU are effective for all entities for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption of the amendments in this update is permitted, including adoption in any interim period, for public business entities for reporting periods for which financial statements have not yet been issued. The amendments in this ASU should be applied either in the period of adoption or retrospectively to each period (or periods) in which the effect of the change in the U.S. federal corporate income tax rate in the 2017 Tax Reform Act is recognized. BONJ adopted the provision of ASU 2018-02 effective December 31, 2017. The effect of adoption at BONJ resulted in a reclassification of $58,000 from accumulated other comprehensive loss to retained earnings in the Consolidated Statements of Stockholders' Equity.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not applicable.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this Annual Report on Form 10-K, the Company’s management including the Chief Executive Officer and President (and, in such capacity, the Company’s principal executive officer) and the Company’s Senior Vice President and Chief Financial Officer (the Company’s principal financial and accounting officer) evaluated the Company’s disclosure controls and procedures related to the recording, processing, summarization, and reporting of information in the Company’s periodic reports that the Company files with the Securities and Exchange Commission.

Based on their evaluation as of December 31, 2018, the Company’s principal executive and principal financial officer have concluded that the Company’s disclosure controls and procedures are effective to ensure that the information required to be disclosed by the Company in the reports that the Company files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized, and reported within the time periods specified in SEC rules and forms.

Management's Annual Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting for the Company.

Our internal control over financial reporting is a process designed by, or under the supervision of, our principal executive officer and principal financial officer, and effected by our board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.  It includes policies and procedures that pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of our assets; provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of our management and board of directors; and provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements.

Our management, with the participation of our principal executive officer and principal financial officer, evaluated the effectiveness of our internal control over financial reporting as of December 31, 2018, using the "Internal Control -

Integrated Framework" (2013) set forth by the Committee of Sponsoring Organizations ("COSO"). Based on such evaluation, management determined that, as of December 31, 2018, our internal control over financial reporting was effective.

Baker Tilly Virchow Krause, LLP, the independent registered public accounting firm that audited the Company's consolidated financial statements included in this Annual Report on Form 10-K, has issued an audit report on the Company's internal control over financial reporting as of December 31, 2018. The report is included in Item 8 under the heading "Report of Independent Registered Public Accounting Firm."

Changes in Internal Controls over Financial Reporting

There were no changes in the Company's internal control over financial reporting that occurred during the last fiscal quarter to which this Annual Report on Form 10-K relates that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Limitations on Effectiveness of Controls

All internal control systems, no matter how well designed and operated, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance that the objectives of the internal control system will be met. The design of any control system is based, in part, upon the benefits of the control system relative to its costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision making can be faulty, and that controls can be circumvented by the individual acts of some persons, by collusion of two or more people or by management override of controls. In addition, over time, controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. In addition, the design of any control system is based in part upon certain assumptions about the likelihood of future events. Because of inherent limitation in a cost effective control system, misstatements due to error or fraud may occur and not be detected.

ITEM 9B. OTHER INFORMATION

Not applicable.

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## PART III

### ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The Company responds to this Item by incorporating by reference the material responsive to this Item in the Company's definitive proxy statement to be filed with the Securities and Exchange Commission in connection with its 2019 Annual Meeting of Shareholders to be held May 23, 2019.

### ITEM 11. EXECUTIVE COMPENSATION

The Company responds to this Item by incorporating by reference the material responsive to this Item in the Company's definitive proxy statement to be filed with the Securities and Exchange Commission in connection with its 2019 Annual Meeting of Shareholders to be held May 23, 2019.

### ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The Company responds to this Item by incorporating by reference the material responsive to this Item in the Company's definitive proxy statement to be filed with the Securities and Exchange Commission in connection with its 2019 Annual Meeting of Shareholders to be held May 23, 2019.

### ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The Company responds to this Item by incorporating by reference the material responsive to this Item in the Company's definitive proxy statement to be filed with the Securities and Exchange Commission in connection with its 2019 Annual Meeting of Shareholders to be held May 23, 2019.

### ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The Company responds to this Item by incorporating by reference the material responsive to this Item in the Company's definitive proxy statement to be filed with the Securities and Exchange Commission in connection with its 2019 Annual Meeting of Shareholders to be held May 23, 2019.

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PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a) The following portions of the Company's consolidated financial statements are set forth in Item 8 of this Annual Report:

(i) Consolidated Balance Sheets as of December 31, 2018 and 2017.

(ii) Consolidated Statements of Income for the years ended December 31, 2018 and 2017.

(iii) Consolidated Statements of Comprehensive Income for the years ended December 31, 2018 and 2017.

(iv) Consolidated Statements of Stockholders' Equity for the years ended December 31, 2018 and 2017.

(v) Consolidated Statements of Cash Flows for the years ended December 31, 2018 and 2017.

(vi) Notes to Consolidated Financial Statements

(vii) Report of Independent Registered Public Accounting Firm

(b) Financial Statement Schedules

All financial statement schedules are omitted as the information, if applicable, is presented in the consolidated financial statement or notes thereto.

(c) Exhibits

The exhibits filed or incorporated by reference as a part of this report are listed in the Exhibit Index which appears at page 81.

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| Exhibit No. | | Description |
|---|---|---|
| 3.1 | (A) | Certificate of Incorporation |
| 3.2 | (B) | Amended and Restated Bylaws |
| 4.1 | (A) | Specimen form of stock certificate |
| 10.8 | (A) | 2006 Stock Option Plan* |
| 10.9 | (A) | Form of Stock Option Award Agreement* |
| 10.10 | (F) | 2007 Non-Qualified Stock Option Plan For Directors* |
| 10.11 | (G) | Form of Stock Option Award Agreement* |
| 10.12 | (H) | 2011 Equity Incentive Plan* |
| 10.13 | (I) | Form of Restricted Stock Award Agreement* |
| 10.14 | (J) | Amended and Restated Employment Agreement dated March 23, 2017, by and among the Registrant, Bank of New Jersey and Nancy E. Graves |
| 10.15 | (K) | Bancorp of New Jersey, Inc. Severance Policy |
| 21 | | Subsidiaries of the Registrant |
| 23 | | Consent of Baker Tilly Virchow Krause, LLP |
| 31.1 | | Rule 13a-14(a) Certification of the Principal Executive Officer |
| 31.2 | | Rule 13a-14(a) Certification of the Principal Financial Officer |
| 32 | | Section 1350 Certifications |
| 101 | | Interactive Data Files |
| 101.INS | | XBRL Instance Document |
| 101.SCH | | XBRL Taxonomy Extension Schema Document |
| 101.CAL | | XBRL Taxonomy Extension Calculation Linkbase Document |
| 101.DEF | | XBRL Taxonomy Extension Definition Linkbase |

| | |
|---|---|
| | Document |
| 101.LAB | XBRL Taxonomy Extension Labels Linkbase Document |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document |

* Management contract or compensatory plan, contract or arrangement.

(A) Incorporated by reference to the exhibit to registrant's Registration Statement on Form S-4 (Registration No. 333-141124), filed with the Securities and Exchange Commission on March 7, 2007, as amended by Amendment No. 1 on Form S-4/A, filed on April 27, 2007, and Amendment No. 2 on Form S-4/A, filed on May 15, 2007.
(B) Incorporated by reference to exhibit 3.1 to registrant's Current Report on Form 8-K, filed with the Securities and Exchange Commission on March 30, 2011.
(C) Incorporated by reference to exhibit 10.1 attached to registrant's Current Report on Form 8-K, filed with the Securities and Exchange Commission on June 6, 2014.
(D) Incorporated by reference to the exhibit to registrant's Quarterly Report on Form 10-Q, for the quarterly period ended September 30, 2015, filed with the Securities and Exchange Commission on November 16, 2015.
(E) Incorporated by reference to exhibit 10.1 attached to registrant's Current Report on Form 8-K, filed with the Securities and Exchange Commission on December 18, 2015.
(F) Incorporated by reference to "Exhibit A" to the proxy statement/prospectus included in the registrant's Registration Statement on Form S-4 (Registration No. 333-141124), filed with the Securities and Exchange Commission on March 7, 2007, as amended by Amendment No. 1 on Form S-4/A, filed on April 27, 2007, and Amendment No. 2 on Form S-4/A, filed on May 15, 2007.
(G) Incorporated by reference to exhibit 10.2 to registrant's Quarterly Report on Form 10-Q, for the quarterly period ended September 30, 2007, filed with the Securities and Exchange Commission on November 14, 2007.
(H) Incorporate by reference to exhibit 10.1 to registrant's Current Report on Form 8-K, filed with the Securities and Exchange Commission on May 27, 2011.
(I) Incorporated by reference to exhibit 10.1 to registrant's Current Report on Form 8-K, filed with the Securities and Exchange Commission on March 7, 2013.
(J) Incorporated by reference to Exhibits 10.1 to Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on March 28, 2017.
(K) Incorporated by Reference to Exhibit 10.01 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on July 28, 2016.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

BANCORP OF NEW JERSEY, INC.

By: /s/ Nancy E. Graves
Nancy E. Graves
Chief Executive Officer and President
(Principal Executive Officer)

BANCORP OF NEW JERSEY, INC.

By: /s/ Matthew Levinson
Matthew Levinson
Senior Vice President and Chief Financial Officer
(Principal Financial and Accounting Officer)

Dated: March 18, 2019

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Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

| Name | Title | Date |
|---|---|---|
| /s/ Gerald A. Calabrese, Jr.<br>Gerald A. Calabrese, Jr. | Chairman | March 18, 2019 |
| /s/ Albert L. Buzzetti<br>Albert L. Buzzetti | Vice Chairman | March 18, 2019 |
| /s/ Nancy E. Graves<br>Nancy E. Graves | Director, President & Chief Executive Officer | March 18, 2019 |
| /s/ Michael Bello<br>Michael Bello | Director | March 18, 2019 |
| /s/ Jay Blau<br>Jay Blau | Director | March 18, 2019 |
| /s/ Stephen Crevani<br>Stephen Crevani | Director | March 18, 2019 |
| /s/ Anthony M. Lo Conte<br>Anthony M. Lo Conte | Director | March 18, 2019 |
| /s/ Rosario Luppino<br>Rosario Luppino | Director | March 18, 2019 |
| /s/ Joel P. Paritz<br>Joel P. Paritz | Director | March 18, 2019 |
| /s/ Christopher M. Shaari<br>Christopher M. Shaari | Director | March 18, 2019 |
| /s/ Anthony Siniscalchi<br>Anthony Siniscalchi | Director | March 18, 2019 |
| /s/ Mark Sokolich<br>Mark Sokolich | Director | March 18, 2019 |