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Section 1: 10-K (10-K)

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2017

or

☐ **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 333-183118

First Priority Financial Corp.

(Exact name of registrant as specified in its charter)

Pennsylvania	**20-8420347**
(State or other jurisdiction of Incorporation)	**(IRS Employer Identification No.)**
2 West Liberty Boulevard, Suite 104 Malvern, Pennsylvania	**19355**
(Address of principal executive offices)	**(Zip Code)**

Registrant's telephone number, including area code (877) 533-4420

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

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act: Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act: Yes ☐ No ☒

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 and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted 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 and post such files). Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) 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 amendment to this Form 10-K. ☒

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

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

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

The approximate aggregate market value of the voting and non-voting common equity held by non-affiliates based on number of shares outstanding as of February 28, 2018 and the last known trade as of June 30, 2017 is $41,081,000.

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date.

Title of Each Class	Number of Shares Outstanding as of March 16, 2018
Common Stock, $1.00 par value	**6,646,469 (Outstanding Shares)**

DOCUMENTS INCORPORATED BY REFERENCE

None

FIRST PRIORITY FINANCIAL CORP.
TABLE OF CONTENTS

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K contains forward-looking statements, and as such, statements containing the words “believes,” “expects,” “anticipates,” “estimates,” “plans,” “projects,” “predicts,” “intends,” “seeks,” “will,” “may,” “should,” “would,” “continues,” “hope” and similar expressions, or the negative of these terms, constitute forward-looking statements that involve risks and uncertainties. Such statements are based on current expectations and are subject to risks, uncertainties and changes in condition, significance, value, and effect. Such risks, uncertainties and changes in condition, significance, value and effect could cause First Priority Financial Corp.’s actual results to differ materially from those anticipated.

Although First Priority believes its plans, intentions, and expectations as reflected in or suggested by these forward-looking statements are reasonable, it can give no assurance that its plans, intentions, or expectations will be achieved. This includes statements regarding the planned merger of First Priority with and into Mid Penn Bancorp, Inc. (“Mid Penn”) with Mid Penn as the surviving corporation (the “Merger”). Accordingly, you should not place undue reliance on them. Listed below, and discussed elsewhere, are some important risks, uncertainties, and contingencies that could cause actual results, performances, or achievements to be materially different from the forward-looking statements made in this document. These factors, risks, uncertainties, and contingencies include, but are not limited to, the following:

- the strength of the United States economy in general and the strength of the regional and local economies in which First Priority conducts operations;
- the effects of changing economic conditions in First Priority’s market areas and nationally;
- the effects of, and changes in, trade, monetary, and fiscal policies and laws, including interest rate policies of the Board of Governors of the Federal Reserve System;
- changes in federal and state banking, insurance, and investment laws and regulations which could impact First Priority’s operations;
- inflation, interest rate, market, and monetary fluctuations;
- First Priority’s timely development of competitive new products and services in a changing environment and the acceptance of such products and services by customers;
- the impact of changes in financial services policies, laws, and regulations, including laws, regulations, policies, and practices concerning taxes, banking, capital, liquidity, proper accounting treatment, securities, and insurance, and the application thereof by regulatory bodies and the impact of changes in and interpretations of generally accepted accounting principles;
- the occurrence of adverse changes in the securities markets;
- the effects of changes in technology or in consumer spending and savings habits;
- terrorist attacks in the United States or upon United States interests abroad, or armed conflicts involving the United States military;
- Security breaches and other disruptions could compromise our information and expose us to liability, which would cause our business and reputation to suffer;
- regulatory or judicial proceedings;
- changes in asset quality;
- the ability to obtain requisite approvals and satisfy other closing conditions to complete the Merger in a timely manner; and
- First Priority’s success in managing the risks involved in the foregoing.

The effects of these factors are difficult to predict. New factors emerge from time to time, and we are not able to assess the impact of any such factor on the business or the extent to which any factor, or combination of factors, may cause results to differ materially from those contained in any forward-looking statement. Any forward-looking statements speak only as of the date of this document.

Because these forward-looking statements are subject to assumptions and uncertainties, actual results may differ materially from those expressed or implied by these forward-looking statements. You are cautioned not to place undue reliance on these statements, which speak only as of the date of this annual report or the date of any document incorporated by reference in this annual report.

PART I

em 1. Business.

First Priority Financial Corp.

First Priority Financial Corp. ("First Priority", the "Company") is a bank holding company incorporated under the laws of the Commonwealth of Pennsylvania on February 13, 2007. On May 11, 2007, as a result of a reorganization and merger, First Priority Bank (the "Bank") became a wholly-owned subsidiary of First Priority. First Priority, primarily through the Bank, serves residents and businesses in the Delaware Valley with branches in Berks, Bucks, Chester and Montgomery counties in Pennsylvania. The Bank, headquartered in Malvern, PA, has seven retail branch office locations and one loan production office and is a locally managed community bank providing commercial banking products, primarily loans and deposits. Additionally on February 26, 2018, the Bank opened its eighth retail branch office in West Chester, Chester County, Pennsylvania. First Priority provides banking services through the Bank and does not engage in any business other than banking and related activities.

On January 16, 2018, Mid Penn Bancorp, Inc. ("Mid Penn") (NASDAQ: MPB), headquartered in Millersburg, Pennsylvania, and First Priority jointly announced the signing of a definitive merger agreement pursuant to which Mid Penn will acquire First Priority in an all-stock transaction. The merger, unanimously approved by both boards of directors, will create a community banking franchise with approximately $2.2 billion in assets, $1.8 billion in deposits and $1.6 billion in loans. Under the terms of the merger agreement, shareholders of First Priority common stock will receive 0.3481 shares of Mid Penn common stock for each share of First Priority common stock they own. The merger is subject to customary closing conditions, including the receipt of regulatory and shareholder approvals. The merger is expected to close in the third quarter of 2018. Following completion of the merger, First Priority Bank will be merged with and into Mid Penn Bank and will operate as "First Priority Bank, a division of Mid Penn Bank."

First Priority Bank

The Bank is a state-chartered commercial banking institution which was incorporated under the laws of the Commonwealth of Pennsylvania on May 25, 2005. The Bank's deposits are insured by the FDIC up to the maximum amount permitted for all banks.

The Bank engages in a full service commercial and consumer banking business with strong private banking and individual wealth management services. The Bank offers a variety of consumer, private banking and commercial loans, mortgage products and commercial real estate financing. The Company's operations are significantly affected by prevailing economic conditions, competition, and the monetary, fiscal, and regulatory policies of governmental agencies. Lending activities are influenced by a number of factors, including the general credit needs of individuals and small and medium-sized businesses in the Company's market area, competition, the current regulatory environment, the level of interest rates, and the availability of funds. Deposit flows and costs of funds are influenced by prevailing market rates of interest, competition, account maturities, and the level of personal income and savings in the market area.

The Bank also offers certain financial planning and investment management services. These investment services are provided by First Priority Financial Services, a Division of First Priority Bank, through third party providers. In addition, the Bank has entered into solicitation agreements with several investment advisors to provide portfolio management services to customers of the Bank.

The Bank currently seeks deposits and commercial and private banking relationships through its banking offices. The Bank provides deposit products that include checking, money market and savings accounts and certificates of deposit as well as other deposit services, including cash management, electronic banking and mobile products as well as online account opening capabilities. The Bank obtains funding in the local community by providing excellent service and competitive rates to its customers and utilizes various advertising to attract current and potential deposit customers. The Bank also uses brokered certificates of deposit as a cost effective funding alternative.

At December 31, 2017, First Priority had 69 full time equivalent employees consisting of 66 full time employees and 6 part-time employees. None of such employees is covered by a collective bargaining agreement, and First Priority believes that it enjoys good relations with its personnel.

Supervision and Regulation

The Company is subject to the provisions of the Bank Holding Company Act of 1956, as amended (the "BHCA"), and to supervision and examination by the Board of Governors of the Federal Reserve System (the "FRB"). The Bank is also subject to the supervision and examination by the Federal Deposit Insurance Corporation (the "FDIC"), as its primary federal regulator and as the insurer of the Bank's deposits. The Bank is also regulated and examined by the Pennsylvania Department of Banking and Securities (the "Department").

The FRB has issued regulations under the BHCA that require a bank holding company to serve as a source of financial and managerial strength to its subsidiary banks. As a result, the FRB, pursuant to such regulations, may require the Company to stand ready to use its resources to provide adequate capital funds to the Bank during periods of financial stress or adversity. The BHCA requires the Company to secure the prior approval of the FRB before it can acquire all or substantially all of the assets of any bank, or acquire ownership or control of 5% or more of any voting shares of any bank. Such a transaction would also require approval of the Department.

A bank holding company is prohibited under the BHCA from engaging in, or acquiring direct or indirect control of, more than 5% of the voting shares of any company engaged in nonbanking activities unless the FRB, by order or regulation, has found such activities to be so closely related to banking or managing or controlling banks as to be a proper incident thereto. Under the BHCA, the FRB has the authority to require a bank holding company to terminate any activity or relinquish control of a nonbank subsidiary (other than a nonbank subsidiary of a bank) 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.

Bank holding companies are required to comply with the FRB's risk-based capital guidelines. The risk-based capital rules are designed to make regulatory capital requirements more sensitive to differences in risk profiles among banks and bank holding companies and to minimize disincentives for holding liquid assets. Currently, the required minimum ratio of total capital to risk-weighted assets (including certain off-balance sheet activities, such as standby letters of credit) is 8%. At least half of the total capital is required to be Tier 1 capital, consisting principally of common shareholders' equity, less certain intangible assets. The remainder ("Tier 2 capital") may consist of certain preferred stock, a limited amount of subordinated debt, certain hybrid capital instruments and other debt securities, 45% of net unrealized gains on marketable equity securities, and a limited amount of the general loan loss allowance. The risk-based capital guidelines are required to take adequate account of interest rate risk, concentration of credit risk, and risks of nontraditional activities.

In addition to the risk-based capital guidelines, the FRB requires each bank holding company to comply with the leverage ratio, under which the bank holding company must maintain a minimum level of Tier 1 capital to average total consolidated assets of 3% for those bank holding companies which have the highest regulatory examination ratings and are not contemplating or experiencing significant growth or expansion. All other bank holding companies are expected to maintain a leverage ratio of at least 4% to 5%. The Bank is subject to similar capital requirements adopted by the FDIC.

In July 2013, the federal bank regulatory agencies adopted revisions to the agencies' capital adequacy guidelines and prompt corrective action rules, which were designed to enhance such requirements and implement the revised standards of the Basel Committee on Banking Supervision, commonly referred to as Basel III. The final rules generally implement higher minimum capital requirements, add a new common equity tier 1 capital requirement, and establish criteria that instruments must meet to be considered common equity tier 1 capital, additional tier 1 capital or tier 2 capital. The new minimum capital to risk-adjusted assets requirements are a common equity tier 1 capital ratio of 4.5% (6.5% to be considered "well capitalized") and a tier 1 capital ratio of 6.0%, increased from 4.0% (and increased from 6.0% to 8.0% to be considered "well capitalized"); the total capital ratio remains at 8.0% under the new rules (10.0% to be considered "well capitalized"). Under the new rules, in order to avoid limitations on capital distributions (including dividend payments and certain discretionary bonus payments to executive officers), a banking organization must hold a capital conservation buffer comprised of common equity tier 1 capital above its minimum risk-based capital requirements in an amount greater than 2.5% of total risk-weighted assets. The new minimum capital requirements became effective on January 1, 2015. The capital contribution buffer requirements are being phased in over a three-year period beginning January 1, 2016 and was 0.625% in 2016, 1.25% during 2017 and is 1.875% in 2018.

Dividends

Federal and state laws impose limitations on the payment of dividends by the Bank. The Pennsylvania Banking Code restricts the availability of capital funds for payment of dividends by the Banks to their additional paid-in capital.

In addition to the dividend restrictions described above, the banking regulators have the authority to prohibit or to limit the payment of dividends by the banks if, in the banking regulator's opinion, payment of a dividend would constitute an unsafe or unsound practice in light of the financial condition of the banks.

Under Pennsylvania law, the Company may not pay a dividend, if, after giving effect thereto, it would be unable to pay its debts as they become due in the usual course of business and, after giving effect to the dividend, the total assets of the Company would be less than the sum of its total liabilities plus the amount that would be needed, if the Company were to be dissolved at the time of distribution, to satisfy the preferential rights upon dissolution of shareholders whose rights are superior to those receiving the dividend.

It is also the policy of the FRB that a bank holding company generally only pay dividends on common stock out of net income available to common shareholders over the past year and only if the prospective rate of earnings retention appears consistent with a bank holding company's capital needs, asset quality, and overall financial condition. In the current financial and economic environment, the FRB has indicated that bank holding companies should carefully review their dividend policy and has discouraged dividend pay-out ratios at the 100% level unless both asset quality and capital are very strong. A bank holding company also should not maintain a dividend level that places undue pressure on the capital of such institution's subsidiaries, or that may undermine the bank holding company's ability to serve as a source of strength for such subsidiaries.

Regulation of the Bank

The Bank is regulated by the FDIC and the Department. The laws that such agencies enforce limit the specific types of businesses in which the Bank may engage, and the products and services that the Bank may offer to customers. Generally, these limitations are designed to protect the insurance fund of the FDIC and/or the customers of the Bank, and not the Bank or its shareholders. From time to time, various types of new federal and state legislation have been proposed that could result in additional regulation of, and restrictions of, the business of the Bank. It cannot be predicted whether any such legislation will be adopted or how such legislation would affect business of the Bank. As a consequence of the extensive regulation of commercial banking activities in the United States, the Bank's business is particularly susceptible to being affected by federal legislation and regulations that may increase the costs of doing business. Some of the major regulatory provisions that affect the business of the Bank are discussed briefly below.

Prompt Corrective Action

The FDIC has specified the levels at which an insured institution will be considered "well-capitalized," "adequately capitalized," "undercapitalized," and "critically undercapitalized." In the event an institution's capital deteriorates to the "undercapitalized" category or below, the Federal Deposit Insurance Act (the "FDIA") and FDIC regulations prescribe an increasing amount of regulatory intervention, including: (1) the institution of a capital restoration plan by a bank and a guarantee of the plan by a parent institution and liability for civil money damages for failure to fulfill its commitment on that guarantee; and (2) the placement of a hold on increases in assets, number of branches, or lines of business. If capital has reached the significantly or critically undercapitalized levels, further material restrictions can be imposed, including restrictions on interest payable on accounts, dismissal of management and (in critically undercapitalized situations) appointment of a receiver. For well-capitalized institutions, the FDIA provides authority for regulatory intervention where the institution is deemed to be engaging in unsafe or unsound practices or receives a less than satisfactory examination report rating for asset quality, management, earnings or liquidity.

Deposit Insurance

The Bank's deposits are insured up to $250,000 per related ownership category, as defined by the FDIC. The FDIC maintains the Deposit Insurance Fund (the "DIF") by assessing depository institutions an insurance premium.

Beginning with the second quarter of 2011, as mandated by the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"), the assessment base that the FDIC uses to calculate assessment premiums became a bank's average assets minus average tangible equity. Assessment rates range from a low of 2.5 basis points to a high of 45 basis points, per $100 of assets.

The FDIC is required under the Dodd-Frank Act to establish assessment rates that will allow the DIF to achieve a reserve ratio of 1.35% of insurance fund insured deposits by September 2020. In addition, the FDIC has established a "designated reserve ratio" of 2.0%, a target ratio that, until it is achieved, will not likely result in the FDIC reducing assessment rates. In attempting to achieve the mandated 1.35% ratio, the FDIC is required to implement assessment formulas that charge banks over $10 billion in asset size more than banks under that size. Those new formulas began in the second quarter of 2011, but did not affect the Bank. Under the Dodd-Frank Act, the FDIC is authorized to make reimbursements from the insurance fund to banks if the reserve ratio exceeds 1.50%, but the FDIC has adopted the "designated reserve ratio" of 2.0% and has announced that any reimbursements from the fund are indefinitely suspended.

Other Legislation

The Dodd-Frank Act was enacted in July 2010. This law has affected bank regulatory structure and the lending, deposit, investment, trading and operating activities of financial institutions and their holding companies.

Certain provisions of the Dodd-Frank Act have and will continue to impact the Company. For example, effective July 21, 2011, a provision of the Dodd-Frank Act eliminated the federal prohibitions on paying interest on demand deposits, thus allowing businesses to have interest bearing checking accounts. This significant change affects competition for deposits and could have an adverse impact on the Company's interest expense.

The Dodd-Frank Act also broadens the base for FDIC insurance assessments. Under the Dodd-Frank Act, the assessment base will no longer be an institution's deposit base, but rather its average consolidated total assets less its average tangible equity during the assessment period. The Dodd-Frank Act also permanently increased the maximum amount of deposit insurance for banks, savings institutions and credit unions to $250,000 per depositor, retroactive to January 1, 2008.

Bank and thrift holding companies with assets of less than $15 billion as of December 31, 2009, such as the Company, will be permitted to include trust preferred securities that were issued before May 19, 2010, as Tier 1 capital; however, trust preferred securities issued by a bank or thrift holding company (other than those with assets of less than $500 million) after May 19, 2010, will no longer count as Tier 1 capital. Trust preferred securities still will be entitled to be treated as Tier 2 capital.

The Dodd-Frank Act requires publicly traded companies to give shareholders a nonbinding vote on executive compensation and so-called "golden parachute" arrangements, and may allow greater access by shareholders to the company's proxy material by authorizing the SEC to promulgate rules that would allow shareholders to nominate their own candidates using a company's proxy materials. The legislation also directs the FRB to promulgate rules prohibiting excessive compensation paid to bank holding company executives, regardless of whether the company is publicly traded.

The Dodd-Frank Act created a new Consumer Financial Protection Bureau with broad powers to supervise and enforce consumer protection laws. The Consumer Financial Protection Bureau has broad rule-making authority for a wide range of consumer protection laws that apply to all banks and savings institutions, including the authority to prohibit "unfair, deceptive or abusive" acts and practices. The Consumer Financial Protection Bureau has examination and enforcement authority over all banks and savings institutions with more than $10 billion in assets. Banks and savings institutions with $10 billion or less in assets such as the Bank will continue to be examined for compliance with the consumer laws by their primary bank regulators. The Dodd-Frank Act also weakens the federal preemption rules that have been applicable for national banks and federal savings associations, and gives state attorneys general the ability to enforce federal consumer protection laws.

The Sarbanes-Oxley Act of 2002 was enacted to enhance penalties for accounting and auditing improprieties at publicly traded companies and to protect investors by improving the accuracy and reliability of corporate disclosures under the federal securities laws. The Sarbanes-Oxley Act generally applies to all companies, including the Company, that file or are required to file periodic reports with the Securities and Exchange Commission under the Securities Exchange Act of 1934, or the Exchange Act. The legislation includes provisions, among other things, governing the services that can be provided by a public company's independent auditors and the procedures for approving such services, requiring the chief executive officer and principal accounting officer to certify certain matters relating to the company's periodic filings under the Exchange Act, requiring expedited filings of reports by insiders of their securities transactions and containing other provisions relating to insider conflicts of interest, increasing disclosure requirements relating to critical financial accounting policies and their application, increasing penalties for securities law violations, and creating a new public accounting oversight board, a regulatory body subject to SEC jurisdiction with broad powers to set auditing, quality control, and ethics standards for accounting firms. In response to the legislation, the national securities exchanges have adopted new rules relating to certain matters, including the independence of members of a company's audit committee as a condition to listing or continued listing.

Congress is often considering some financial industry legislation, and the federal banking agencies routinely propose new regulations. The Company cannot predict how any new legislation, or new rules adopted by federal or state banking agencies, may affect the business of the Company and its subsidiaries in the future. Given that the financial industry remains under stress and severe scrutiny, the Company expects that there will be significant legislation and regulatory actions that may materially affect the banking industry for the foreseeable future.

Environmental Laws

Environmentally related hazards have become a source of high risk and potential liability for financial institutions relating to their loans. Environmentally contaminated properties owned by an institution's borrowers may result in a drastic reduction in the value of the collateral securing the institution's loans to such borrowers, high environmental cleanup costs to the borrower affecting its ability to repay the loans, the subordination of any lien in favor of the institution to a state or federal lien securing cleanup costs, and liability to the institution for cleanup costs if it forecloses on the contaminated property or becomes involved in the management of the borrower. The Company is not aware of any borrower who is currently subject to any environmental investigation or cleanup proceeding that is likely to have a material adverse effect on the financial condition or results of operations of the Company.

Effect of Government Monetary Policies

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 had, and will likely continue to have, an important impact on the operating results of commercial banks through its power to implement national monetary policy in order, among other things, to curb inflation or combat a recession. The FRB has a major effect upon the levels of bank loans, investments, and deposits through its open market operations in the United States Government securities and through its regulation of, among other things, the discount rate on borrowing of member banks and the reserve requirements against member bank deposits. It is not possible to predict the nature and impact of future changes in monetary and fiscal policies.

Item 1A. Risk Factors.

Not applicable.

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

The principal executive offices of First Priority and First Priority Bank, and the full-service main office of First Priority Bank, are located in an office building in Malvern, Pennsylvania. First Priority Bank currently has offices located in Chester, Berks, Bucks and Montgomery Counties, Pennsylvania, at the following locations:

Office	Office Location	Square Footage	Owned / Leased
Malvern—Headquarters /Main Office	2 W. Liberty Blvd., Malvern, PA 19355	11,775	Leased
Bala Cynwyd-(loan production office)	33 Rock Hill Rd., Suite 100, Bala Cynwyd, PA 19004	1,625	Leased
Blue Bell	10 Sentry Parkway, Suite 100, Blue Bell, PA 19422	2,575	Leased
Exeter	4541 Perkiomen Avenue, Reading, PA 19606	2,931	Owned(1)
Muhlenberg	4200 N. 5th Street Highway, Temple, PA 19560	3,000	Owned(1)
Newtown	104 Pheasant Run, Suite 130, Newtown, PA 18940	3,600	Leased
Sinking Spring	3101 Shillington Rd., Sinking Spring, PA 19608	3,000	Leased
West Chester	237 E. Gay St., West Chester, PA 19380	5,551	Leased
Wyomissing	1310 Broadcasting Rd., Wyomissing, PA 19610	9,602	Leased

(1) The buildings located at the Exeter and Muhlenberg locations are owned; but are located on leased real estate. Upon expiration or termination of the lease, the buildings will become property of the landlord.

Item 3. Legal Proceedings.

A certain amount of litigation arises in the ordinary course of the business of First Priority and the Bank. In the opinion of the management of First Priority, there are no proceedings pending to which First Priority or the Bank is a party or to which any of their property is subject, that, if determined adversely to them, would be material in relation to First Priority's shareholders' equity or financial condition, nor are there any proceedings pending other than ordinary routine litigation incident to the business of First Priority and the Bank. In addition, no material proceedings are pending or are known to be threatened or contemplated against First Priority or the Bank by governmental authorities.

Item 4. Mine Safety Disclosures.

Not Applicable.

PART II

Item 5. Market for Registrant’s Common Equity, Related Shareholder Matters and Issuer Purchases of Equity Securities.

(a) Market Price of and Dividends on Registrant’s Common Equity

First Priority’s common stock began trading on March 12, 2015 on the OTCQX marketplace, under the symbol FPBK. Before March 12, 2015 First Priority had not historically traded on a national securities exchange, listing service, or similar trading platform for listing or quotation of securities, and there had been no active or liquid public trading market for First Priority common stock.

There were approximately 485 shareholders of record who owned 6.6 million shares of common stock outstanding at March 16, 2018. High and low sales prices are set forth in the following tables:

	2017	
	High	**Low**
First quarter	$8.00	$6.45
Second quarter	8.07	7.85
Third quarter	8.10	7.90
Fourth quarter	8.90	7.95

	2016	
	High	**Low**
First quarter	$6.05	$5.30
Second quarter	6.40	5.75
Third quarter	6.00	5.75
Fourth quarter	6.64	5.85

First Priority has never paid a dividend on its common stock, and no assurance can be given that dividends will be declared on First Priority common stock in the foreseeable future. First Priority has no significant source of cash flow other than dividends from First Priority Bank. First Priority’s ability to pay dividends is subject to restrictions under both Federal and state banking laws which limit its ability to pay dividends. For a description of such restrictions see “Business-Supervision and Regulation” under Item 1 of Part I.

The information required with respect to securities authorized for issuance under First Priority’s compensation plans is set forth in “Item 12 – Security Ownership of Certain Beneficial Owners and Management and Related Shareholder Matters”, and incorporated herein by reference.

The Company has a shareholder approved 2005 Stock Compensation Program, which was amended at the Company’s annual meeting on April 23, 2009, as the 2009 Stock Compensation Program (the “Program”) and further amended effective March 18, 2010. The Program allows equity benefits to be awarded in the form of Incentive Stock Options, Compensatory Stock Options or Restricted Stock. The Program authorizes the Board of Directors to grant a combination of options and restricted stock, up to an aggregate maximum of 1,207,957 shares to officers, other employees and directors of the Company, including 382,957 shares which were authorized for grant under the Program as a result of the merger with Affinity Bancorp, Inc. (“Affinity”). Only employees of the Company will be eligible to receive Incentive Stock Options and such grants are subject to the limitations under Section 422 of the Internal Revenue Code. The number of shares of common stock available for issuance under the Program is subject to adjustment, as described in the Program. This includes, in the event of any merger, reorganization, consolidation, recapitalization, stock dividend, or other change in corporate structure affecting the stock, substitution or adjustment shall be made in the aggregate number of shares reserved for issuance under the Program, in the number and option price of shares subject to outstanding options granted under the Program and in the number and price of shares subject to other awards, as described in the Program.

The following table sets forth information regarding outstanding options and shares under equity compensation plans at December 31, 2017:

Program Category	(a) Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights		(b) Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights	(c) Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a))
Equity compensation program approved by security holders	807,870	$	5.84	147,288
Equity compensation program not approved by security holders	-		-	-
Total	807,870	$	5.84	147,288

(b) Recent Sales of Unregistered Securities

None.

(c) Purchases of Equity Securities by First Priority and Affiliated Purchasers

None.

Item 6. Selected Financial Data.

The following table provides historical consolidated summary financial data for First Priority. The data at or for the five years ended December 31, 2017, as presented below, is derived from First Priority's audited financial statements for the periods then ended, and should be read in conjunction with the Consolidated Financial Statements and Notes thereto, contained elsewhere herein.

	At or for the Year Ended December 31,				
(In thousands, except per share data)	2017	2016	2015	2014	2013
Selected Financial Data:					
Total assets	$ 609,942	$ 597,795	$ 546,540	$ 492,311	$ 446,088
Securities available for sale	52,373	70,560	94,704	75,557	78,636
Securities held to maturity	18,665	19,043	19,886	15,956	10,963
Loans receivable	518,927	488,243	409,153	375,222	335,737
Allowance for loan losses	3,405	3,330	2,795	2,313	2,273
Deposits	523,150	467,688	408,687	378,209	357,420
Federal Home Loan Bank of Pittsburgh advances	24,625	68,164	74,725	62,472	44,625
Subordinated debt	9,231	9,207	9,201	-	-
Shareholders' equity (1)	50,496	48,046	52,091	50,211	42,392
Book value per common share	$ 7.16	$ 6.84	$ 6.58	$ 6.33	$ 5.12
Tangible book value per common share (2)	$ 6.72	$ 6.38	$ 6.11	$ 5.85	$ 4.62
Selected Operating Data:					
Interest income	$ 24,053	$ 21,246	$ 19,510	$ 18,647	$ 17,649
Interest expense	5,849	4,530	3,325	2,872	3,149
Net interest income before provision for loan losses	18,204	16,716	16,185	15,775	14,500
Provision for loan losses	385	710	610	1,132	645
Net interest income after provision for loan losses	17,819	16,006	15,575	14,643	13,855
Non-interest income	1,041	1,545	1,155	1,007	739
Merger related costs	-	-	-	-	1,534
Non-interest expense	14,401	14,123	13,683	13,227	12,831
Income before tax (benefit) expense	4,459	3,428	3,047	2,423	229
Income tax (benefit) expense (3)	2,001	1,128	935	(4,502)	33
Net income	$ 2,458	$ 2,300	$ 2,112	$ 6,925	$ 196
Preferred stock dividends, including net amortization	306	407	801	579	532
Income (loss) to common shareholders	$ 2,152	$ 1,893	$ 1,311	$ 6,346	$ (336)
Income (loss) per common share:					
Basic	$ 0.33	$ 0.29	$ 0.20	$ 0.98	$ (0.06)
Diluted	$ 0.32	$ 0.29	$ 0.20	$ 0.98	$ (0.06)
Cash dividends per common share	$ -	$ -	$ -	$ -	$ -
Return on average assets	0.43%	0.44%	0.44%	1.56%	0.05%
Return on average shareholders' equity	4.92%	4.81%	4.11%	15.16%	0.47%
Average equity to average assets	8.66%	9.20%	10.64%	10.28%	10.50%

(1) For the year ended December 31, 2016, Shareholders' Equity reflects a $6 million redemption of preferred stock; See Note 13, "Shareholders' Equity" of the Notes to Consolidated Financial Statements.

(2) See the discussion below entitled "GAAP versus Non-GAAP Presentation".

(3) For the year ended December 31, 2017, income tax expense included a non-recurring non-cash reduction in the value of First Priority's net deferred tax asset ("DTA") which resulted in a charge of $571 thousand as a result of the Tax Cuts and Jobs Act, enacted on December 22, 2017, which lowered the Company's future maximum corporate tax rate from 34 percent to 21 percent. For the year ended December 31, 2014 an income tax benefit of $4.5 million resulted from the reversal of the valuation allowance on net deferred tax assets.

GAAP versus Non-GAAP Presentation – The Corporation supplements its traditional GAAP measurements with an additional Non-GAAP measurement, Tangible Book Value Per Common Share. As a result of prior merger transactions, intangible assets, consisting of goodwill and core deposit intangibles, were created. The Non-GAAP disclosures are intended to eliminate the effects of the intangible assets and allow for better comparisons to periods when such assets did not exist. However, not all companies use the same calculation methods for the same non-GAAP measurements and therefore may not be comparable. The following table shows the adjustments made between the GAAP and NON-GAAP measurements for Tangible Book Value Per Share:

	For the year ended	
	December 31, 2017	**December 31, 2016**
(Dollars in thousands, except shares and per share data)		
Shareholders' Equity	$ 50,496	$ 48,046
Less: Preferred Stock Issued and Outstanding	3,404	3,404
Less: Goodwill	2,725	2,725
Less: Intangible Assets with Finite Lives, Net	169	235
Tangible Equity	$ 44,198	$ 41,682
Common Shares Issued and Outstanding	6,577,969	6,529,719
Tangible Book Value per Common Share	$ 6.72	$ 6.38

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following discussion summarizes First Priority's results of operations for the years ended December 31, 2017 and 2016, and its financial condition as of December 31, 2017 and 2016 and highlights material changes. This discussion is intended to provide additional information about the significant changes in the results of operations presented in the accompanying consolidated financial statements, contained in this document, for First Priority and its wholly owned subsidiary, First Priority Bank. First Priority's consolidated financial condition and results of operations consist essentially of the Bank's financial condition and results of operations. Current performance does not guarantee, and may not be indicative of, similar performance in the future. This discussion and analysis of financial condition and results of operations contains forward-looking statements that involve risks and uncertainties, such as First Priority's plans, objectives, expectations and intentions.

Readers should note that many factors, some of which are discussed elsewhere in this report, could affect the future financial results of First Priority and could cause those results to differ materially from those expressed or implied in the forward-looking statements contained in this document.

Overview

The following table sets forth selected measures of First Priority's financial position or performance for the dates or periods indicated (dollars in thousands).

	As of December 31, and for the year ended December 31,				
	2017	**2016**	**2015**	**2014**	**2013**
Total revenue (1)	$ 19,245	$ 18,261	$ 17,340	$ 16,782	$ 15,239
Net income (2)	2,458	2,300	2,112	6,925	196
Total assets	609,942	597,795	546,540	492,311	446,088
Total loans receivable	518,927	488,243	409,153	375,222	335,737
Total deposits	523,150	467,688	408,687	378,209	357,420

(1) Total revenue equals net interest income plus non-interest income.

(2) Net income in 2017 includes a non-recurring charge of $571 thousand to income tax expense to reduce the value of First Priority's net deferred tax asset as a result of the Tax Cuts and Jobs Act, enacted on December 22, 2017, which lowered the Company's future maximum corporate tax rate from 34 percent to 21 percent. Net income in 2014 includes an income tax benefit of $4.50 million which resulted from the reversal of the valuation allowance on the Company's net deferred tax assets.

Like most financial institutions, First Priority derives the majority of its income from interest it receives on its interest-earning assets, such as loans and investments. First Priority's primary source of funds for making these loans and investments is its deposits, on which it pays interest. Consequently, one of the key measures of First Priority's success is its amount of net interest income, or the difference between the income on its average interest-earning assets and the expense on its average interest-bearing liabilities, such as deposits and borrowings. Another key measure is the spread between the yield First Priority earns on these average interest-earning assets and the rate it pays on its average interest-bearing liabilities, which is called its net interest spread.

There are risks inherent in all loans, and First Priority maintains an allowance for loan losses to absorb probable losses on existing loans that may become uncollectible. This allowance is maintained by charging a provision for loan losses against operating earnings. A detailed discussion of this process, as well as several tables describing the allowance for loan losses is included herein.

In addition to earning interest on its loans and investments, First Priority earns income through other sources, such as fees and other charges to its banking customers and income from providing wealth management services, as well as net gains or losses realized from the sale of assets. The various components of non-interest income, as well as non-interest expense, are described in this section.

Critical Accounting Policies, Judgments and Estimates

First Priority has adopted various accounting policies that govern the application of accounting principles generally accepted in the United States of America and that are consistent with general practices within the banking industry in the preparation of its consolidated financial statements. First Priority's significant accounting policies are described in Note 1 of the Notes to Consolidated Financial Statements.

Certain accounting policies involve significant judgments and assumptions by First Priority that have a material impact on the carrying value of certain assets and liabilities. First Priority considers these accounting policies to be critical accounting estimates. The judgment and assumptions used are based on historical experience and other factors, which First Priority believes to be reasonable under the circumstances and have been reasonably consistent with prior results. Because of the nature of the judgments and assumptions made, actual results could differ from these estimates, which could have a material impact on the carrying values of its assets and liabilities and its results of operations. Material estimates that are particularly susceptible to significant change in the near term relate to investment securities impairment evaluation, valuation of acquired loans, the determination of the allowance for loan losses, valuation of other real estate owned, impairment of goodwill, the valuation of deferred tax assets and accounting for stock-based compensation.

Investment Securities Impairment Evaluation. In estimating other-than-temporary impairment losses, management considers (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. When a determination is made that an other-than-temporary impairment exists but the Company does not intend to sell the debt security and it is more likely than not that it will not be required to sell the debt security prior to its anticipated recovery, the other-than-temporary impairment is separated into (a) the amount of the total other-than-temporary impairment related to a decrease in cash flows expected to be collected from the debt security (the credit loss) and (b) the amount of the total other-than-temporary impairment related to all other factors. The amount of the total other-than-temporary impairment related to the credit loss is recognized in earnings. The amount of the total other-than-temporary impairment related to all other factors is recognized in other comprehensive income. Management believes that there are no investment securities with other-than-temporary impairment for each of the reporting periods presented.

Acquired Loans. Fair values for loans which resulted from bank acquisitions are based on a discounted cash flow methodology that involves significant assumptions and judgments as to estimate of credit risk, prepayment risk, liquidity risk, default rates, loss severity, payment speeds, collateral values and discount rate.

Allowance for Loan Losses. The allowance for loan losses represents management's estimate of losses inherent in the loan portfolio as of the balance sheet date and is recorded as a reduction to loans.

Pools of loans are evaluated for loss exposure based upon historical loss rates in each category of loans and adjusted for qualitative factors. Management assigned each factor a value to reflect improving, stable or declining conditions based on its 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.

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.

See the *Allowance for Loan Losses* section related to Balance Sheet Review as of December 31, 2017 and December 31, 2016 for more information.

Other Real Estate Owned. Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at fair value less cost to sell at the date of foreclosure, establishing a new cost basis. Any write-down, at or prior to the dates the real estate is considered foreclosed, is charged to the allowance for loan losses. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less cost to sell.

Goodwill. Goodwill represents the excess of the cost of an acquired entity over the fair value of the identifiable net assets acquired in accordance with the acquisition method of accounting. Goodwill is not amortized but is reviewed for potential impairment on an annual basis, or more often if events or circumstances indicate that there may be impairment.

Income Taxes. Deferred taxes are provided on the liability method whereby deferred tax assets ("DTA") are recognized for deductible temporary differences and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax basis. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment. The Company files a consolidated federal income tax return with the Bank.

If management makes a determination based on the available evidence that it is more likely than not that some portion or all of the deferred tax assets will not be realized in future periods a valuation allowance is calculated and recorded. These determinations are inherently subjective and dependent upon estimates and judgments concerning management's evaluation of both positive and negative evidence. The weight given to the potential effect of positive and negative evidence must be commensurate with the extent to which it can be objectively verified.

When determining the need for a valuation allowance, the Company assessed the possible sources of taxable income available under tax law to realize a tax benefit for deductible temporary differences and carryforwards, as defined by Accounting Standards Codification ("ASC") Topic 740-10-30-18. This guidance related to when a valuation allowance on the DTA should be maintained, generally provides that the valuation allowance should be reversed, when in the judgment of management, it is more likely than not that the DTA will be realized. Management has determined that the DTA will be realized and does not maintain a valuation allowance.

Stock Based Compensation. Compensation costs related to share-based payment transactions are recognized in the financial statements over the period that an employee provides service in exchange for the award. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model based on management's assumptions. The value of restricted stock awards is determined based on the estimated fair value of the shares at the date of the award.

Results of Operations

Income Statement Review

First Priority's results of operations are affected by five major elements: (1) net interest income, or the difference between interest income earned on loans and investments and interest expense accrued on deposits and borrowed funds; (2) the provision for loan losses, or the amount added to the allowance for loan losses to provide reserves for inherent losses on loans; (3) non-interest income, consisting of income from wealth management services, fees and other charges to our banking customers, and net gains or losses realized from the sale of assets; (4) non-interest expense, which consists primarily of salaries, employee benefits and other operating expenses; and (5) income taxes, including deferred taxes, when applicable. Each of these major elements is reviewed in more detail in the following discussion.

Results of Operations Comparative Summary

Shown in the table below are the reported results of operations as well as the increase (decrease) for the respective periods.

	For the year ended December 31, 2017	For the year ended December 31, 2016	Increase (decrease)	% Change
(Dollars in thousands, except per share data):				
Net interest income	$ 18,204	$ 16,716	$ 1,488	8.9%
Non-interest income	1,041	1,545	(504)	(32.6)%
Total Revenue	19,245	18,261	984	5.4%
Provision for loan losses	385	710	(325)	(45.8)%
Non-interest expenses	14,401	14,123	278	2.0%
Income before income tax expense	4,459	3,428	1,031	30.1%
Income tax expense	2,001	1,128	873	77.4%
Net Income	$ 2,458	$ 2,300	$ 158	6.9%
Preferred dividends, including net warrant amortization	306	407	(101)	(24.8)%
Income to common shareholders	$ 2,152	$ 1,893	$ 259	13.7%
Income per common share:				
Basic	$ 0.33	$ 0.29	$ 0.04	13.8%
Diluted	$ 0.32	$ 0.29	$ 0.03	10.3%

Summary

For the year ended December 31, 2017, First Priority's consolidated net income increased 6.9% to $2.46 million, or $0.33 per basic common share and $0.32 per fully diluted common share versus $2.30 million, or $0.29 per basic and fully diluted common share for the same period in 2016. For the year ended December 31, 2017, income before income taxes totaled $4.46 million, a 30.1% increase over $3.43 million recorded in 2016, while income to common shareholders, after preferred dividends, totaled $2.15 million, a 13.7% increase over $1.89 million reported in the prior year.

The earnings in 2017 were negatively impacted by a non-recurring non-cash reduction in the value of First Priority's net deferred tax asset ("DTA") which resulted in a charge of $571 thousand which is included in the provision for income tax expense. This income tax adjustment was a result of the Tax Cuts and Jobs Act, enacted on December 22, 2017, which lowered First Priority's future maximum corporate tax rate from 34 percent to 21 percent. Although this reduced rate will provide tax savings in future periods, this charge was required to write-down First Priority's DTA, which was previously valued based upon the projection of a 34 percent future tax rate.

Adjusted 2017 net income, when excluding the $571 thousand charge to reduce the value of the DTA, would have been $3.03 million or $0.42 per basic common share and $0.40 per fully diluted common share, representing a 31.7% increase in 2017 earnings compared to 2016's full-year net income of $2.30 million, or $0.29 per basic and fully diluted common share. There were no unusual tax charges recorded during 2016.

Management believes that calculating earnings per share excluding the impact of the adjustment of the deferred tax asset provides important supplemental information in evaluating First Priority's operating results because this non-recurring charge is not incurred as a result of ongoing operations. However, reporting earnings in this manner constitutes reporting financial information determined by methods other than in accordance with U.S. Generally Accepted Accounting Principles ("GAAP"). Income tax effects of non-GAAP adjustments are calculated using the applicable statutory tax rate for the jurisdictions in which the charges (benefits) are incurred, while taking into consideration any valuation allowances or non-deductible portions of the non-GAAP adjustments. This non-GAAP disclosure has limitations as an analytical tool, should not be viewed as a substitute for financial measures determined in accordance with GAAP, and should not be considered in isolation or as a substitute for analysis of First Priority's results and financial condition as reported under GAAP, nor is it necessarily comparable to non-GAAP performance measures that may be presented by other companies. Management believes that this non-GAAP supplemental information will be helpful in understanding First Priority's ongoing operating results. This supplemental presentation should not be construed as an inference that First Priority's future results will be unaffected by similar adjustments to be determined in accordance with GAAP.

The following table provides a reconciliation of earnings and earnings per share adjusted for the exclusion of this non-recurring adjustment:

	For the year ended December 31,	
(Unaudited, in thousands, except per share data)	**2017**	**2016**
Net income	$ 2,458	$ 2,300
Plus: adjustment of deferred tax asset	571	-
Net income excluding non-recurring expenses	$ 3,029	$ 2,300
Preferred dividends	306	407
Income to common shareholders excluding non-recurring expenses	$ 2,723	$ 1,893
Adjusted basic earnings per common share	$ 0.42	$ 0.29
Adjusted diluted earnings per common share	$ 0.40	$ 0.29
Weighted average common shares outstanding:		
Basic	6,559	6,514
Diluted	6,785	6,570

Net Interest Income

First Priority's primary source of revenue is net interest income. Net interest income is determined by the average balances of interest-earning assets and interest-bearing liabilities and the interest rates earned and paid on these balances. The amount of net interest income recorded by First Priority is affected by the rate, mix and amount of growth of interest-earning assets and interest-bearing liabilities, the amount of interest-earning assets as compared to the amount of interest-bearing liabilities, and by changes in interest rates earned and interest rates paid on these assets and liabilities.

The following table sets forth, for the years ended December 31, 2017 and 2016, information related to First Priority's average balances, yields on average assets, and costs of average liabilities. Average balances are derived from the daily balances throughout the periods indicated and yields are derived by dividing income or expense by the average balance of the corresponding assets or liabilities. Average loans are stated net of deferred costs. The net dollar amounts and percentage changes of interest income and expense are presented for comparative purposes.

Analysis of Changes in Net Interest Income

	For the Year Ended December 31,						Net Change in Interest Income / Expenses	
	2017			2016			$ Change	% Change
	Average Balance	Interest Income/ Expense	Yield/ Rate	Average Balance	Interest Income/ Expense	Yield/ Rate	2017 vs. 2016	2017 vs. 2016
	(Dollars in thousands)							
Interest-earning assets:								
Loans receivable	$ 494,051	$ 22,074	4.47%	$ 438,867	$ 19,570	4.46%	$ 2,504	12.8%
Taxable investment securities	43,330	1,199	2.77%	45,045	1,150	2.55%	49	4.3%
Nontaxable investment securities	14,403	579	4.02%	9,985	408	4.09%	171	41.9%
Total investment securities	57,733	1,778	3.08%	55,030	1,558	2.83%	220	14.1%
Deposits with banks and other (1)	8,346	201	2.41%	6,624	118	1.79%	83	70.3%
Total interest-earning assets	560,130	24,053	4.29%	500,521	21,246	4.24%	2,807	13.2%
Non-interest-earning assets (1)	16,690			18,644				
TOTAL ASSETS	$ 576,820			$ 519,165				
Interest-bearing liabilities:								
Demand, interest-bearing	$ 39,333	$ 156	0.40%	$ 48,758	$ 161	0.33%	$ (5)	(3.1)%
Money market and savings	120,782	922	0.76%	100,620	520	0.52%	402	77.3%
Time deposits	255,376	3,635	1.42%	220,436	2,866	1.30%	769	26.8%
FHLB advances and other borrowings	37,392	447	1.20%	36,600	295	0.81%	152	51.5%
Subordinated debt	9,218	689	7.48%	9,196	688	7.48%	1	0.1%
Total interest-bearing liabilities	462,101	5,849	1.27%	415,610	4,530	1.09%	1,319	29.1%
Non interest-bearing liabilities:								
Demand, non-interest bearing deposits	62,703			54,036				
Other liabilities	2,050			1,746				
Shareholders' equity	49,966			47,773				
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 576,820			$ 519,165				
Net interest income/rate spread		$ 18,204	3.02%		$ 16,716	3.15%	$ 1,488	8.9%
Net interest margin			3.25%			3.34%		

(1) Interest income includes dividends from restricted investments in bank stocks; average balance of these restricted stocks are included in non-interest-earning assets.

Net interest income can also be analyzed in terms of the impact of changing interest rates and changing volume as shown in the Changes in Net Interest Income table below which sets forth the effect which varying levels of average interest-earning assets, interest-bearing liabilities and the applicable yields and rates have had on changes in net interest income for the periods presented.

	Changes in Net Interest Income For the Year Ended December 31, 2017 vs. 2016 Increase (Decrease) Due to Change In (Dollars in thousands)		
	Volume	**Rate**	**Net Change**
Interest income:			
Loans receivable	$ 2,466	$ 38	$ 2,504
Taxable investment securities	(45)	94	49
Nontaxable investment securities	178	(7)	171
Total investment securities	133	87	220
Deposits with banks and other	35	48	83
Total interest earning assets	2,634	173	2,807
Interest expense:			
Demand, interest-bearing	(34)	29	(5)
Money market and savings	119	283	402
Time deposits	481	288	769
FHLB advances and other borrowings	9	143	152
Subordinated debt	2	(1)	1
Total interest bearing liabilities	577	742	1,319
Change in net interest income	$ 2,057	$ (569)	$ 1,488

For the year ended December 31, 2017, net interest income increased 8.9%, or $1.48 million, to $18.20 million compared to $16.72 million for the same period in 2016. Net interest margin declined 9 basis points from 3.34% for the year ended December 31, 2016 to 3.25% for the same period in 2017. Net interest spread, defined as the mathematical difference between the yield on average earning assets and the rate paid on average interest bearing liabilities, declined 13 basis points from 3.15% for the year ended December 31, 2016 to 3.02% for the same period in 2017. When comparing these periods, incremental growth of balances accounted for an increase of $2.06 million while the change in our relative rate structure resulted in a decline in net interest income of $569 thousand.

Average interest earning assets for the year ended December 31, 2017 increased $59.6 million, or 11.9%, including an increase in average loans of $55.2 million, or 12.6%, and an increase in average investment securities and other interest earning assets of $4.4 million, or 7.2%, when compared to the prior year. This increased volume of average earning assets provided an additional $2.63 million in interest income, consisting of $2.47 million provided from incremental loan balances along with a $168 thousand increase from investment securities, including deposits with banks. The average yield on earning assets increased 5 basis points in the current year compared to the prior year from 4.24% to 4.29%. The calculated change in interest income related to changes in the rate structure resulted in an increase between the periods of $173 thousand. This change is not only impacted by changes in comparable rates, but also due to increases or decreases in balances as it relates to our overall product mix structure. The rate on loans outstanding increased 1 basis point, resulting in an increase of interest income totaling $38 thousand, while the rate on investment balances increased 25 basis points on average, which resulted in an increase due to the rate change of $87 thousand, and the yield on other earning assets increased 62 basis points, resulting in additional interest income of $48 thousand.

Average interest bearing liabilities increased $46.5 million, or 11.2%, in 2017. During this time, overall deposit balances increased $45.7 million, as money market and savings deposits increased $20.2 million and time deposits grew $34.9 million, partially offset by a decline in interest bearing demand deposits of $9.4 million. At the same time, total borrowed funds increased $814 thousand. The overall net incremental growth of interest bearing liabilities resulted in an increase of interest expense of $577 thousand. The average rate on interest bearing liabilities increased 18 basis points from 1.09% for the year ended December 31, 2016 to 1.27% in the current year, which resulted in an increase in interest expense related to our rate structure of $742 thousand.

Provision for Loan Losses

The allowance for loan losses is established through provisions for loan losses charged against operations. Loans deemed to be uncollectible are charged against the allowance for loan losses, and subsequent recoveries, if any, are credited to the allowance as recoveries.

The allowance for loan losses is maintained at a level considered adequate to provide for losses that can be reasonably anticipated. Management's periodic evaluation of the adequacy of the allowance is based on known or potential risks in the portfolio, adverse situations that may affect a borrower's ability to repay, the estimated value of any underlying collateral, the 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 revisions as more information becomes available or economic conditions change.

At the end of each quarter or more often, if necessary, First Priority analyzes the collectability of its loans and accordingly adjusts the loan loss allowance to an appropriate level. The allowance for loan losses covers estimated credit losses on individually evaluated loans that are determined to be impaired, as well as estimated credit losses inherent in the remainder of the loan portfolio. For a description of the process for determining the adequacy of the allowance for loan losses, see the "Allowance for Loan Losses" section below.

The provision for loan losses was $385 thousand in 2017 compared to $710 thousand for 2016. The ongoing level of provision is impacted by the adequacy of the allowance as described above, including an analysis of impaired and non-performing loans, as well as by the level of incremental loan volume and net charge-offs of loans. During the third quarter of 2016, the Company recorded an initial loan loss provision of $500 thousand related to the acquisition of $65 million in loans from another local banking institution. Total loans outstanding increased $30.7 million during the year ended December 31, 2017, compared to an increase of $79.1 million for the year ended December 31, 2016, which included the acquisition of $64.6 million of performing commercial loans within the Bank's market area. Net charge-offs for the years ended December 31, 2017 and 2016, totaled $310 thousand and $175 thousand, respectively. The allowance for loan losses was $3.4 million and $3.3 million as of December 31, 2017 and 2016, respectively, which represented 0.66% and 0.68% of total loans outstanding as of December 31, 2017 and 2016, respectively.

Acquired loans from business combinations are initially recorded at acquisition date at their acquisition date fair values, and therefore, are excluded from the calculation of loan loss reserves as of the acquisition date. As acquired loans are paid off, refinanced or extended under First Priority's credit underwriting process, they are no longer considered acquired loans, but instead are prospectively considered originated loans and therefore, are included as part of the calculation of the allowance for loan losses. Beginning in 2016, due to the immaterial remaining balances of purchased non-credit impaired loans, all loans are included in quarterly adequacy of the allowance as described above, excluding three remaining purchased credit impaired loans, which are analyzed separately. These loans consist of two commercial loans and one commercial real estate loan with a combined net recorded investment of $55 thousand, net of combined non-amortizing specific reserves totaling $352 thousand.

Non-Interest Income

For the year ended December 31, 2017, non-interest income totaled $1.04 million compared to $1.55 million for the same period in 2016, a decrease of $504 thousand, or 32.6%. As detailed in the table below, non-interest income is comprised of wealth management fees, which are principally non-recurring commissions and fees related to the sale of insurance products and annuities, service charges on deposit accounts, income resulting from the investment in bank owned life insurance, gains from the sale of investment securities, and other fees which the Bank collects from its banking customers. As reflected in the table below, the most significant declines in non-interest income relate to lower gains realized from the sale of investment securities, which declined $379 thousand for the year ended December 31, 2017, compared to the prior year and a reduction of wealth management related fees which declined $140 thousand when comparing these same periods.

The decline of wealth management fees has resulted partially from new regulations being implemented by the Department of Labor ("DOL") beginning in 2017 which limits product offerings available for certain types and purposes of accounts and implements new fee structures, which are both considered by the DOL to be more aligned in the "best interest" of the client. These changes reduced commission income the Bank received during 2017. Additionally, the Bank had one less registered sales representative in 2017 to sell wealth management products, of which $57 thousand of commission income was attributed to this individual during 2016.

Components of non-interest income are shown in the table below:

	For the year ended December 31, 2017	2016	Net Change 2017 vs. 2016	% Change 2017 vs. 2016
	(Dollars in thousands)			
Non-Interest Income				
Wealth management fee income	$ 168	$ 308	$ (140)	(45.5)%
Service charges on deposits	132	136	(4)	(2.9)
Other branch fees	189	180	9	5.0
Loan related fees	47	41	6	14.6
Gains on sales of investment securities	416	795	(379)	(47.7)
Bank owned life insurance income	70	78	(8)	(10.3)
Other	19	7	12	171.4
Total Non-Interest Income	$ 1,041	$ 1,545	$ (504)	(32.6)%

Non-Interest Expenses

Non-interest expenses were $14.40 million in 2017 compared to $14.12 million for the same period in the prior year, an increase of $278 thousand, or 2.0%. The following table sets forth information related to the various components of non-interest expenses for each respective period.

	For the year ended December 31, 2017	2016	Net Change 2017 vs. 2016	% Change 2017 vs. 2016
	(Dollars in thousands)			
Non-Interest Expenses				
Salaries and employee benefits	$ 8,273	$ 8,046	$ 227	2.8 %
Occupancy and equipment	1,844	1,906	(62)	(3.3)
Data processing equipment and operations	927	884	43	4.9
Professional fees	690	709	(19)	(2.7)
Marketing, advertising and business development	336	230	106	46.1
FDIC insurance assessments	520	398	122	30.7
Pennsylvania bank shares tax expense	354	315	39	12.4
Other real estate owned costs	178	423	(245)	(57.9)
Other	1,279	1,212	67	5.5
Total Non-Interest Expenses	$ 14,401	$ 14,123	$ 278	2.0 %

Highlights of significant non-interest expenses items for the year ended, 2017 compared to the year ended, 2016

- Salaries and employee benefits increased $227 thousand, or 2.8%, for the year ended December 31, 2017 compared to the prior year, primarily related to an increase of 3.5%, or $215 thousand in base salary expenses, including incremental staffing and annual increases for existing staff. The additions to staff are primarily focused on expanding or increasing business development opportunities within our markets. Additionally, a higher level of bonus incentive compensation was offset by lower wealth management commissions and lower stock based compensation expenses.
- Occupancy and equipment costs decreased $62 thousand, or 3.3%, comparing the current year with the same period in 2016. The overall year to date decrease includes lower depreciation cost on equipment and lower ongoing operating costs, related to the closure of the Plumstead branch in 2016; partially offset by an increase related to opening a loan production office in Bala Cynwyd in January 2017.
- Data processing costs increased $43 thousand, or 4.9%, primarily due to an increased level of customer activity relative to our core banking system.
- Marketing, advertising and business development expenses increased $106 thousand, or 46.1%, in the current year compared to the prior year, primarily related to marketing campaigns to enhance brand awareness, product brochure enhancements and specific deposit product advertising.

- FDIC insurance assessments increased $122 thousand, or 30.7%, and the Pennsylvania bank shares tax expenses increased $39 thousand, or 12.4%, both of which are influenced by the increased asset size and equity levels of the Bank. The higher FDIC deposit insurance premiums were also affected by the implementation of a new FDIC insurance premium calculation in mid-2016.

- Net costs related to other real estate owned decreased $245 thousand, or 57.9%, in the current year compared to the same period in 2016. When comparing these periods, lower ongoing maintenance and operating costs and valuation write-downs were partially offset by a lower level of rental income, all of which are related to the ongoing liquidation of properties with no new properties added to the portfolio in the last twelve months.

- Other expenses increased $67 thousand, or 5.5%, for the year ended December 31, 2017 compared to the prior year.

Provision for Income Taxes

Income tax expense recorded in the year ended December 31, 2017 totaled $2.00 million compared to $1.13 million for the year ended December 31, 2016. As previously stated, 2017 income tax expense was impacted by a charge related to the valuation of First Priority's deferred tax asset totaling $571 thousand, resulting from the enactment of the Tax Cuts and Jobs Act in December 2017, which lowered First Priority's future maximum corporate tax rate from 34 percent to 21 percent. The deferred tax asset was previously valued based upon an expected future tax benefit using the 34% tax rate. The recovery of the one-time charge is expected to take approximately one year based on the reduced ongoing tax rate. For the full year of 2017, the effective tax rate was 44.9%, as reported, and was 32.1% exclusive of the charge described above, which compares to an effective tax rate of 32.9% for 2016.

First Priority's net deferred tax asset as of December 31, 2017 includes $231 thousand related to net operating losses ("NOL") acquired related to the acquisition of Prestige Community Bank and Affinity Bancorp which are subject to certain limitations and expire in 2028 and 2032, respectively, if not fully utilized. The acquired NOL carryforward balance of $1.1 million remains available to reduce future federal income taxes as of December 31, 2017

Financial Condition as of December 31, 2017 and December 31, 2016

Balance Sheet Review

	For the year ended December 31, 2017	For the year ended December 31, 2016	Net Change 2017 vs. 2016	% Change 2017 vs. 2016
	(Dollars in thousands)			
Assets				
Cash and cash equivalents	$ 8,257	$ 4,761	$ 3,496	73.4%
Investment securities	71,038	89,603	(18,565)	-20.7%
Loans receivable	518,927	488,243	30,684	6.3%
Total earning assets	598,222	582,607	15,615	2.7%
Allowance for loan losses	(3,405)	(3,330)	(75)	2.3%
Restricted investments in bank stocks	1,416	3,257	(1,841)	-56.5%
Premises and equipment, net	1,607	1,755	(148)	-8.4%
Bank owned life insurance	3,326	3,256	70	2.1%
Other real estate owned	550	1,486	(936)	-63.0%
Deferred income tax assets, net	923	2,697	(1,774)	-65.8%
Goodwill and other identifiable intangibles	2,894	2,960	(66)	-2.2%
Other assets	4,409	3,107	1,302	41.9%
Total assets	$ 609,942	$ 597,795	$ 12,147	2.0%
Liabilities				
Deposits	$ 523,150	$ 467,688	$ 55,462	11.9%
Borrowed funds	33,856	77,371	(43,515)	-56.2%
Other liabilities	2,440	4,690	(2,250)	-48.0%
Total liabilities	559,446	549,749	9,697	1.8%
Equity				
Total shareholders' equity	50,496	48,046	2,450	5.1%
Total liabilities and shareholders' equity	$ 609,942	$ 597,795	$ 12,147	2.0%

Total assets at December 31, 2017 were $609.9 million, representing an increase of $12.1 million, or 2.0%, when compared to total assets of $597.8 million at December 31, 2016. Total assets at December 31, 2017 consisted principally of earning assets totaling $598.2 million, consisting of loans receivable of $518.9 million, investment securities of $71.0 million and cash and cash equivalents of $8.3 million. At December 31, 2016, earning assets totaled $582.6 million, consisting of loans outstanding of $488.2 million, investment securities of $89.6 million and cash and cash equivalents of $4.8 million.

Deposits totaled $523.2 million at December 31, 2017 compared to $467.7 million at December 31, 2016, an increase of $55.5 million, or 11.9%. Of the total deposits at December 31, 2017, $240.9 million, or 46.0% of total deposits, are core deposits consisting of demand, money market and savings deposits, which increased $15.3 million, or 6.8% compared to core deposits of $225.6 million at December 31, 2016.

Advances from Federal Home Bank of Pittsburgh totaled $24.6 million at December 31, 2017 compared to $68.2 million at December 31, 2016, a decrease of $43.5 million, or 63.9%, while subordinated debt remained flat at $9.2 million when comparing these same periods.

Shareholders’ equity at December 31, 2017 was $50.5 million, representing an increase of $2.5 million from $48.0 million at December 31, 2016, primarily due to earnings net of preferred dividends recorded during the period.

Investments

First Priority’s total investment portfolio was $71.0 million at December 31, 2017, compared to $89.6 million at December 31, 2016, a decline of $18.6 million, or 20.7%. During 2017, excluding short-term discount notes, the Company had net investments purchased of $13.3 million, including $24.1 million of additional purchases, net of sales with a book value of $10.8 million. Additionally, as of December 31, 2017, the investment portfolio included $15 million of Federal Home Loan Bank of Pittsburgh (“FHLB”) discount notes, and as of December 31, 2016, included $40 million of short-term United States Treasury securities, both of which were purchased related to year-end tax planning strategies and subsequently matured in January of each respective next year. Other investment portfolio activity resulted in a decline of $6.9 million.

As of December 31, 2017 and 2016, investments totaling $52.4 million and $70.6 million, respectively, were classified as available for sale while $18.6 million and $19.0 million, respectively, were classified as held to maturity. Total investments accounted for 11.6% and 15.0% of total assets at each respective date.

Securities classified as available for sale are accounted for at fair value, with the difference between fair value and amortized cost reflected in other comprehensive income or loss. The Company had net unrealized losses on available for sale securities totaling $6 thousand at December 31, 2017 compared to $75 thousand at December 31, 2016. Available for sale securities are securities that management intends to hold for an indefinite period of time or securities that may be sold in response to changes in interest rates, prepayment expectations, capital management and liquidity needs.

The total investment portfolio at December 31, 2017 was comprised of federal agency securities (29%), federal agency mortgage backed securities and federal agency collateralized mortgage obligations (36%), obligations of states and political subdivisions (32%), and corporate and other debt securities (3%). All investment securities were either government guaranteed, issued by a government agency, or investment grade. First Priority had no investment securities deemed to have other than temporary impairment ("OTTI") at December 31, 2017 or 2016, respectively, and recorded no OTTI charges during either of the years ended December 31, 2017 or 2016.

The following table sets forth information about the contractual maturities and weighted average yields of investment securities at December 31, 2017. Actual maturities may differ from contractual maturities due to scheduled principal payments and unscheduled prepayments of mortgage backed securities and, where applicable, the ability of an issuer to call a security prior to the contractual maturity date.

Securities Available for Sale
As of December 31, 2017

	Within 1 year		After one but within five years		After five but within ten years		Over ten years		Total	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
	(Dollars in thousands)									
U.S. Government agency securities	$ 18,993	1.10%	$ 1,978	1.57%	$ -	—	$ -	—	$ 20,971	1.14%
Obligations of states and political subdivisions	-	—	-	—	-	—	4,386	4.05%	4,386	4.05%
Federal agency mortgage backed securities	-	—	561	1.82%	5,765	2.14%	18,963	2.31%	25,289	2.26%
Federal agency collateralized mortgage obligations	-	—	109	1.45%	-	—	-	—	109	1.45%
Other debt securities	-	—	-	—	1,583	5.50%	-	—	1,583	5.50%
Money market mutual fund	35	1.16%	-	—	-	—	-	—	35	1.16%
Total investments available for sale	$ 19,028	1.11%	$ 2,648	1.62%	$ 7,348	2.86%	$ 23,349	2.62%	$ 52,373	2.06%

Securities Held to Maturity
As of December 31, 2017

	Within 1 year		After one but within five years		After five but within ten years		Over ten years		Total	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
	(Dollars in thousands)									
Obligations of states and political subdivisions	$ -	—	$ 1,208	4.08%	$ 1,826	4.15%	$ 15,149	4.36%	$ 18,183	4.32%
Other debt securities	-	—	-	—	-	—	482	4.37%	482	4.37%
Total investments held to maturity	$ -	-	$ 1,208	4.08%	$ 1,826	4.15%	$ 15,631	4.36%	$ 18,665	4.33%

The amortized cost and fair value of First Priority's investments, classified as available for sale or held to maturity as of each of the three years ended December 31, 2017, 2016 and 2015 are shown in the following table:

	December 31, 2017		December 31, 2016		December 31, 2015	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(Dollars in thousands)					
Available For Sale:						
Obligations of U.S. government agencies and corporations	$ 20,991	$ 20,971	$ 45,984	$ 45,987	$ 62,967	$ 62,904
Obligations of states and political subdivisions	4,218	4,386	6,103	6,139	13,964	14,347
Federal agency mortgage-backed securities	25,524	25,289	13,863	13,720	17,042	17,038
Federal agency collateralized mortgage obligations	111	109	190	189	347	346
Other debt securities	1,500	1,583	1,500	1,530	-	-
Money market mutual fund	35	35	2,995	2,995	69	69
Total investments available for sale	$ 52,379	$ 52,373	$ 70,635	$ 70,560	$ 94,389	$ 94,704
Held To Maturity:						
Obligations of states and political subdivisions	$ 18,183	$ 19,132	$ 18,561	$ 19,089	$ 19,405	$ 19,955
Other debt securities	482	533	482	495	481	491
Total investments held to maturity	$ 18,665	$ 19,665	$ 19,043	$ 19,584	$ 19,886	$ 20,446

Restricted investments in bank stocks

Restricted investments in bank stocks represent the investment in the common stock of correspondent banks required in order to transact business with those banks. Investments in restricted stock are carried at cost.

At both December 31, 2017 and 2016, the Bank held $110 thousand in common stock of Atlantic Community Bancshares, Inc. (parent company of Atlantic Community Bankers Bank), Camp Hill, Pennsylvania. Additionally, First Priority had investments in the common stock of the FHLB Bank of Pittsburgh totaling $1.3 million and $3.1 million as of December 31, 2017 and 2016, respectively. This investment is required and provides partial collateral based on outstanding FHLB borrowings, which also declined $43.5 million, or 63.9%, when comparing these periods.

Loans

First Priority's loan portfolio is the primary component of its assets. At December 31, 2017, loans receivable totaled $518.9 million, representing an increase of $30.7 million, or 6.3%, from total loans outstanding of $488.2 million at December 31, 2016. During 2017 new organic loan production totaled approximately $75 million while the Company experienced approximately $55 million in principal payments, unscheduled loan payoffs or net declines in usage related to lines of credit outstanding. During the same period, the Company purchased $16 million of performing residential real estate loans which were underwritten using similar standards as the Bank uses for its originated mortgage portfolio. The net increase related to all purchased real estate loan portfolios was $10.5 million after $5.5 million in principal payments.

The following table sets forth the classification of First Priority's loan portfolio for each of the five years ended December 31, 2017:

	December 31, 2017		December 31, 2016		December 31, 2015		December 31, 2014		December 31, 2013	
	Amount	Percent of total	Amount	Percent of total	Amount	Percent of total	Amount	Percent of total	Amount	Percent of total
(In thousands, except percentage data):										
Commercial & Industrial	$ 85,395	16%	$ 89,625	18%	$ 74,470	18%	$ 75,412	20%	$ 76,659	23%
Commercial Mortgage	235,946	46%	223,315	46%	179,365	44%	168,969	45%	149,492	45%
Commercial Construction	30,866	6%	22,408	5%	13,466	3%	6,497	2%	4,373	1%
Total Commercial	352,207	68%	335,348	69%	267,301	65%	250,878	67%	230,524	69%
Residential Mortgage	133,727	26%	110,538	23%	101,185	25%	80,134	21%	56,979	17%
Home Equity Lines	19,295	4%	24,669	5%	24,762	6%	27,902	8%	29,263	9%
Other Consumer	13,780	2%	17,514	3%	15,915	4%	16,378	4%	19,317	6%
Total Consumer	33,075	6%	42,183	8%	40,677	10%	44,280	12%	48,580	14%
Total Loans	519,009	100%	488,069	100%	409,163	100%	375,292	100%	336,083	100%
Net deferred loan (fees) or costs	(82)	0%	174	0%	(10)	0%	(70)	-	(346)	-
Total	$ 518,927	100%	$ 488,243	100%	$ 409,153	100%	$ 375,222	100%	$ 335,737	100%

Commercial mortgage loans consist of loans originated for commercial purposes which are secured by nonfarm, nonresidential properties, multifamily residential properties, or 1-4 family residential properties. As of December 31, 2017, commercial mortgage loans totaled $235.9 million, consisting of $153.4 million of loans to finance commercial business properties, of which 64% are owner occupied, $14.7 million to finance, and are secured by, multifamily properties, $54.7 million secured by 1-4 family residential dwelling properties for business purposes, and $13.1 million for other purposes. In addition, as of December 31, 2017, loans to lessors of non-residential buildings totaled $87.7 million, which is included in commercial mortgage loans; of this amount, $35.9 million, or 41% of these loans are related to owner occupied buildings.

As of December 31, 2016, commercial mortgage loans totaled $223.3 million, consisting of $133.9 million of loans to finance commercial business properties, of which 63% are owner occupied, $16.3 million to finance, and are secured by, multifamily properties, $56.9 million secured by 1-4 family residential dwelling properties for business purposes, and $16.2 million for other purposes. In addition, as of December 31, 2016, loans to lessors of non-residential buildings totaled $80.9 million, which is included in commercial mortgage loans; of this amount, $36.9 million, or 46%, of these loans are related to owner occupied buildings.

The payment experience of certain non-owner occupied commercial mortgage loans may be dependent upon the successful operation of the real estate project. These risks can be significantly affected by supply and demand conditions in the market for office and retail space and for apartments and, as such, may be subject to a greater extent to adverse conditions in the economy. In dealing with these risk factors, First Priority generally limits itself to a real estate market or to borrowers with which First Priority has experience. First Priority generally concentrates on originating commercial real estate loans secured by properties located within its market area, and many of First Priority’s commercial real estate loans are secured by owner-occupied property with personal guarantees of the debt.

Regulatory guidelines for total construction, land development and other land loans are 100% of total risk-based capital and further guidance whereby total construction, land development and other land loans combined with real estate loans secured by multifamily or nonresidential properties and loans to finance commercial real estate or construction loans (not secured by real estate) are set at 300% of total risk-based capital. The Bank monitors these two ratios, which as of December 31, 2017, totaled 74% and 207% of total risk-based capital, respectively, both within the regulatory suggested guidance.

The information in the following tables is based on the contractual maturities of individual loans, including loans that may be subject to renewal at their contractual maturity. Renewal of such loans is subject to review and credit approval, as well as modification of terms upon their maturity. Actual repayments of loans may differ from the maturities reflected below because borrowers have the right to prepay obligations with or without prepayment penalties.

The following tables summarize the loan maturity distribution by type and related interest rate characteristics as of December 31, 2017 and 2016.

	At December 31, 2017			
	Maturities of Outstanding Loans			
	Within 1 Year	After 1 But Within 5 Years	After 5 Years	Total Loans
	(Dollars in thousands)			
Commercial and Industrial	$ 51,822	$ 28,296	$ 5,277	$ 85,395
Commercial Mortgage	47,478	128,352	60,116	235,946
Commercial Construction	11,618	18,037	1,211	30,866
Residential Mortgage Loans	6,055	14,934	112,738	133,727
Home Equity Lines of Credit	3,589	14,290	1,416	19,295
Other Consumer	10,061	2,541	1,178	13,780
Total Loans	$ 130,623	$ 206,450	$ 181,936	$ 519,009
Percentage composition of maturity	25%	40%	35%	100%
Loans with fixed predetermined interest rates	$ 56,644	$ 149,746	$ 62,995	$ 269,385
Loans with variable or floating interest rates (1)	73,979	56,704	118,941	249,624
Total Loans	$ 130,623	$ 206,450	$ 181,936	$ 519,009

(1) Includes loans that reprice immediately with market index rates (floating) and loans that will reprice at a specified future date during the life of the loan (adjustable).

	At December 31, 2016			
	Maturities of Outstanding Loans			
	Within 1 Year	After 1 But Within 5 Years	After 5 Years	Total Loans
	(Dollars in thousands)			
Commercial and Industrial	$ 47,899	$ 37,606	$ 4,120	$ 89,625
Commercial Mortgage	40,421	117,908	64,986	223,315
Commercial Construction	10,226	11,914	268	22,408
Residential Mortgage Loans	5,730	12,494	92,314	110,538
Home Equity Lines of Credit	2,975	17,085	4,609	24,669
Other Consumer	12,671	3,225	1,618	17,514
Total Loans	$ 119,922	$ 200,232	$ 167,915	$ 488,069
Percentage composition of maturity	25%	41%	34%	100%
Loans with fixed predetermined interest rates	$ 44,855	$ 143,931	$ 56,564	$ 245,350
Loans with variable or floating interest rates (1)	75,068	56,301	111,350	242,719
Total Loans	$ 119,923	$ 200,232	$ 167,914	$ 488,069

(1) Includes loans that reprice immediately with market index rates (floating) and loans that will reprice at a specified future date during the life of the loan (adjustable).

Credit Quality

The Bank's written lending policies require specified underwriting, loan documentation and credit analysis standards to be met prior to funding, with additional credit department approval for the majority of new loan balances. The Loan Committee is comprised of senior members of management who oversee the loan approval process to monitor that proper standards are maintained.

The following table summarizes non-performing assets and performing troubled debt restructurings at the dates indicated.

	December 31,				
	2017	2016	2015	2014	2013
	(Dollars in thousands)				
Loans past due 90 days or more and still accruing interest	$ 263	$ -	$ -	$ 70	$ -
Non-accrual loans	638	776	1,933	4,484	4,276
Total non-performing loans (1)	901	776	1,933	4,554	4,276
Other real estate owned	550	1,486	1,633	1,257	914
Repossessed assets (2)	-	-	-	42	75
Total non-performing assets (3)	1,451	2,262	3,566	5,853	5,265
Performing troubled debt restructurings (4)	930	637	2,638	2,132	974
Total non-performing assets and performing troubled debt restructurings	$ 2,381	$ 2,899	$ 6,204	$ 7,985	$ 6,239
Non-performing loans as a percentage of total loans	0.17%	0.16%	0.47%	1.21%	1.27%
Non-performing assets as a percentage of total assets	0.24%	0.38%	0.65%	1.19%	1.18%
Non-performing assets and performing troubled debt restructurings as a percentage of total assets	0.39%	0.49%	1.14%	1.62%	1.40%
Ratio of allowance to non-performing loans at end of period	378%	429%	145%	51%	53%
Ratio of allowance to non-performing assets at end of period	235%	147%	78%	40%	43%
Allowance for loan losses as a percentage of total loans	0.66%	0.68%	0.68%	0.62%	0.68%

(1) Non-performing loans are comprised of (i) loans that have a non-accrual status; (ii) accruing loans that are 90 days or more past due and (iii) non-performing troubled debt restructured loans.

(2) Repossessed assets include personal property, consisting of manufactured housing, which has been acquired for debts previously contracted.

(3) Non-performing assets are comprised of non-performing loans, other real estate owned (assets acquired in foreclosure) and repossessed assets.

(4) Performing troubled debt restructurings are accruing loans that have been restructured in troubled debt restructurings and are in compliance with their modified terms.

Total non-performing loans were $901 thousand at December 31, 2017, and $776 thousand at December 31, 2016. There was one new commercial real estate loan totaling $194 thousand added to non-accrual during the period. Additionally, during 2017 payments received on non-accrual loans totaled $30 thousand, three loans were returned to accrual status totaling $61 thousand and charge-offs totaled $241 thousand on previously identified non-accrual loans. Additionally, there was a commercial loan totaling $263 thousand which was past due more than 90 days and still accruing interest as of December 31, 2017; this loan was paid off in its entirety in January 2018 with no incremental losses incurred. Total non-performing loans as a percentage of total loans at December 31, 2017 and December 31, 2016 was 0.17% and 0.16%, respectively.

Other real estate owned declined to $550 thousand at December 31, 2017 compared to $1.5 million at December 31, 2016. As of December 31, 2017 and 2016 there were no repossessed assets. During 2017, five properties with recorded values totaling $892 thousand were liquidated, which resulted in a net combined gain from sales of $74 thousand, while current year valuation adjustments on two properties totaled $44 thousand. Non-performing assets totaled $1.5 million, or 0.24% of total assets, as of December 31, 2017, compared to $2.3 million, or 0.38% of total assets, as of December 31, 2016.

While not considered non-performing, First Priority's performing troubled debt restructurings ("TDR") are closely monitored as they consist of loans that have been modified where the borrower is experiencing financial difficulty. TDR's may be deemed to have a higher risk of loss than loans which have not been restructured. At December 31, 2017 and 2016, First Priority's performing TDR's totaled $930 thousand and $637 thousand, respectively. The increase between the two dates relates to an incremental troubled debt restructuring, which resulted from a participated loan relationship, where the Bank held a relatively small portion of the entire relationship, totaling $300 thousand, after a partial charge-off of $30 thousand.

The Bank's management continues to monitor and explore potential options and remedial actions to recover the Bank's investment in non-performing loans. According to policy, the Bank is required to maintain a specific reserve for impaired loans. See the "Allowance for Loan Losses" section below for further information.

The Bank's total delinquency amount is comprised of loans past due 30 to 89 days and still accruing plus the balance of nonperforming loans. As of December 31, 2017 and 2016, loans past due 30 to 89 days and still accruing totaled $2.95 million and $415 thousand, respectively, which when added to the non-performing loans for each period, resulted in a total delinquency ratio of 0.74% and 0.24%, respectively, of total loans outstanding. Included in past due loans as of December 31, 2017 are two loan relationships totaling $2.5 million; both of which were paid current in the first week of January, 2018.

Allowance for loan losses

The allowance for loan losses represents an amount that First Priority believes will be adequate to absorb estimated credit losses on loans that may become impaired. While First Priority applies the methodology discussed below in connection with the establishment of the allowance for loan losses, the allowance is subject to critical judgments on the part of management. Risks within the loan portfolio are analyzed on a continuous basis by the management, periodically analyzed by an external independent loan review function, and are also reviewed by the audit committee. A risk system, consisting of multiple grading categories, is utilized as an analytical tool to assess risk and appropriate allowances. In addition to the risk system, management further evaluates the risk characteristics of the loan portfolio under current and anticipated economic conditions and considers such factors as the financial condition of the borrower, past and expected loss experience, and other factors which management believes deserve recognition in establishing an appropriate allowance. These estimates are reviewed at least quarterly, and, as adjustments become necessary, they are realized in the periods in which they become known.

First Priority uses a quantitative and qualitative method to allocate its allowance to the various loan categories. An unallocated component, which is maintained to cover uncertainties that could affect management's estimate of probable losses, reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio. Additions to the allowance are made by provisions charged to expense, and the allowance is reduced by net charge-offs, which are loans judged to be uncollectible, less any recoveries on loans previously charged off. Although management attempts to maintain the allowance at an adequate level, future additions to the allowance may be required due to the growth of the loan portfolio, changes in asset quality, changes in market conditions and other factors. Additionally, various bank regulatory agencies periodically review the allowance for loan losses. These agencies may require additional provisions based upon their judgment about information available to them at the time of their examination. Although management uses what it believes to be the best information available, the level of the allowance for loan losses remains an estimate which is subject to significant judgment and short term change.

The following table sets forth a summary of the changes in the allowance for loan losses for the periods indicated:

	For the year ended December 31,				
	2017	2016	2015	2014	2013
	(Dollars in thousands)				
Balance at the beginning of period	$ 3,330	$ 2,795	$ 2,313	$ 2,273	$ 2,460
Charge-offs:					
Commercial and Industrial	281	75	46	137	339
Commercial Mortgage	30	72	149	169	188
Residential Mortgage Loans	-	-	15	194	14
Home equity lines of credit	-	-	12	603	332
Other consumer loans	24	75	38	89	21
Total loans charged off	335	222	260	1,192	894
Recoveries:					
Commercial and Industrial	4	21	13	58	35
Commercial Construction	-	2	-	10	-
Residential Mortgage Loans	-	-	-	-	7
Home equity lines of credit	2	9	103	17	5
Other consumer loans	19	15	16	15	15
Total recoveries	25	47	132	100	62
Net loans charged off	310	175	128	1,092	832
Provision charged to operations	385	710	610	1,132	645
Balance at end of period	$ 3,405	$ 3,330	$ 2,795	$ 2,313	$ 2,273
Average loans (1)	$ 494,051	$ 438,867	$ 387,814	$ 355,543	$ 318,240
Ratio of net charge-offs during period to average loans outstanding during period (annualized) (1)	0.06%	0.04%	0.03%	0.31%	0.26%
Allowance for loan losses as a percentage of total loans	0.66%	0.68%	0.68%	0.62%	0.68%

(1) Includes non-accrual loans

The following table sets forth the allocation of the allowance for loan losses by loan category. The specific allocations in any particular category may be reallocated in the future to reflect the then current conditions. Accordingly, management considers the entire allowance to be available to absorb losses in any category.

	December 31,									
	2017		2016		2015		2014		2013	
	Amount	Percent of total loans (1)	Amount	Percent of total loans (1)	Amount	Percent of total loans (1)	Amount	Percent of total loans (1)	Amount	Percent of total loans (1)
(In thousands except percentage data)										
Commercial and Industrial	$ 666	16%	$ 647	18%	$ 631	18%	$ 788	20%	$ 445	23%
Commercial Mortgage	1,078	46%	1,051	46%	831	44%	468	45%	452	45%
Commercial Construction	147	6%	113	5%	56	3%	26	2%	12	1%
Residential Mortgage Loans	624	26%	452	23%	259	25%	159	21%	149	17%
Home Equity Lines of Credit	103	4%	188	5%	167	6%	270	8%	177	8%
Other Consumer Loans	74	2%	97	3%	84	4%	87	4%	67	6%
Total Allocated	2,692	100%	2,548	100%	2,028	100%	1,798	100%	1,302	100%
Unallocated	713		782		767		515		971	
TOTAL	$ 3,405		$ 3,330		$ 2,795		$ 2,313		$ 2,273	

(1) Represents loans outstanding in each category, as of the date shown, as a percentage of total loans outstanding.

A specific allocation of the allowance for loan losses is established for loans that are classified as impaired or are performing troubled debt restructurings when the discounted cash flows or related collateral value of each loan is lower than the carrying value of that loan. A specific allocation of $182 thousand has been provided on impaired loans of $1.6 million at December 31, 2017 compared to a specific allocation of $47 thousand related to $1.4 million of originated impaired loans at December 31, 2016.

The general allocation component of the allowance for loan losses relates to reserves established for pools of homogenous loans which includes both a qualitative and quantitative analysis. The qualitative analysis utilizes a risk matrix that incorporates qualitative and environmental factors such as: loan volume, management, loan review process, internal policies and procedures, economic environment, credit concentrations, credit quality trends, and regulatory and other external factors. These factors are each risk rated using five levels from weak to strong which could create a total qualitative adjustment factor of up to 65 basis points of gross loans, depending on individual ratings applied by management based on the assessment of the portfolio. The quantitative analysis uses a historical four year rolling average loan loss experience factor which management believes is a sufficient period to properly represent swings resulting from changing economic cycles, and therefore, reflects an appropriate period of loss history for calculating the general reserve in the current environment. The cumulative results from the qualitative and quantitative analysis of the loan portfolio resulted in a general allocation portion of the allowance for loan losses totaling $2.5 million as of both December 31, 2017 and 2016, respectively.

An unallocated component is maintained to cover uncertainties that could affect management's estimate of probable loss. 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. The unallocated component remained relatively flat when comparing the year ended December 31, 2017 to December 31, 2016.

These allocations could change based on general economic or environmental factors or due to a specific credit situation which could develop within the loan portfolio. However, based on all relevant information currently available as of December 31, 2017, management believes that the allowance for loan losses of $3.4 million is adequate as of that date and the allocations described above are appropriate.

Loan Concentrations

The Company's loans consist of credits to borrowers spread over a broad range of industrial classifications. The largest concentrations of loans are to lessors of nonresidential buildings and lessors of residential buildings and dwellings. As of December 31, 2017, these loans totaled $87.7 million and $60.4 million, respectively, or 16.9% and 11.6%, respectively, of the total loans outstanding. As of December 31, 2016, these same classifications of loans totaled $80.9 million and $67.7 million, respectively, or 16.6% and 13.9%, respectively, of the total loans outstanding. These credits were subject to normal underwriting standards and did not present more than the normal amount of risk assumed by the Company's other lending activities. Management believes this concentration does not pose abnormal risk when compared to the risk it assumes in other types of lending. The Company has no other concentration of loans which exceeds 10% of total loans.

Deposits

Deposits represent the primary source of funding for earning assets. Deposits totaled $523.2 million at December 31, 2017 compared to $467.7 million at December 31, 2016, representing an increase of $55.5 million, or 11.9%. During 2017, increases of $31.7 million, or 27.9%, in money market deposit and savings deposits and $10.8 million, or 19.7%, in non-interest bearing demand, were partially offset by a decrease of $27.2 million of interest bearing checking accounts, which represents a combined $15.3 million increase, or 6.8% in non-time deposits. Total time deposits increased $40.2 million, or 16.6%, when comparing these same periods as an increase in retail time deposits of $58.7 million was partially offset by a decrease of $18.5 million in brokered time deposits. The change in the mix of time deposits was the result of the execution of funding plans to reduce reliance on brokered CDs acquired as temporary funding of a 2016 loan purchase with retail CDs. This was accomplished through active marketing and advertising efforts throughout 2017.

First Priority attracts deposits by offering competitive products and interest rates on a broad spectrum of deposit products to customers in its local marketplace, generally through its retail branch system, and also through its internet banking platform. The Bank supplements deposits raised locally with the issuance of brokered deposits when cost effective relative to local market pricing. At December 31, 2017 and 2016, brokered deposits totaled $120.2 million and $138.8 million, respectively, which are included in time deposits. The guidelines governing the Bank's participation in the brokered CD market are included in the Bank's Asset Liability Management Policy, which is reviewed, revised and approved annually by the asset liability management committee and the board of directors. The FDIC places restrictions on a depository institution's use of brokered deposits based on the bank's capital classification. A well-capitalized institution may accept brokered deposits without FDIC restrictions. An adequately capitalized institution must obtain a waiver from the FDIC in order to accept brokered deposits, while an undercapitalized institution is prohibited by the FDIC from accepting brokered deposits. The Bank is classified as well-capitalized under prompt corrective action provisions (see "Regulatory Matters" of the Notes to Consolidated Financial Statements) and, therefore, may accept brokered deposits without FDIC restrictions.

The following table sets forth the average balance of deposits and the average rates paid on deposits for the periods presented.

	For the year ended December 31,					
	2017		2016		2015	
	Average Balance	Rate	Average Balance	Rate	Average Balance	Rate
	(Dollars in thousands)					
Demand, non-interest bearing	$ 62,703		$ 54,036		$ 47,899	
Demand, interest-bearing	39,333	0.40%	48,758	0.33%	32,938	0.23%
Money market and savings deposits	120,782	0.76%	100,620	0.52%	95,216	0.33%
Time deposits	255,376	1.42%	220,436	1.30%	206,147	1.26%
Total interest-bearing deposits	415,491	1.13%	369,814	0.96%	334,301	0.89%
Total deposits	$ 478,194		$ 423,850		$ 382,200	

The maturity distribution of time deposits of $100,000 or more as of December 31, 2017, is as follows:

	December 31, 2017
	(Dollars in thousands)
Three Months or Less	$ 6,648
Over Three Through Six Months	28,945
Over Six Through Twelve Months	15,386
Over Twelve Months	33,379
TOTAL	$ 84,358

Short-Term Borrowed Funds

At December 31, 2017, First Priority had short-term borrowings totaling $15.6 million, compared to $56.2 million at December 31, 2016, a decrease of $40.6 million, or 72.2% between the periods. Short-term borrowings consist of advances from the FHLB with an original maturity of one year or less as of issuance date and provide a short-term funding source related to all other balance sheet changes and overall resulting funding requirements. Advances from the FHLB at December 31, 2017 are collateralized by an investment in the common stock of the FHLB, by a specific pledge of the Bank's investment assets and by a blanket lien on qualifying mortgages within the Bank's loan portfolio.

The following table outlines First Priority's various sources of short-term borrowed funds at or for each of the years ended December 31, 2017 and 2016. The maximum balance represents the highest indebtedness for each category of short-term borrowed funds at any month-end during each of the periods shown.

	2017	2016
	(Dollars in thousands)	
Federal funds purchased:		
Balance at year end	$ -	$ -
Weighted average rate at year end	-	-
Maximum month-end balance	$ 19	$ -
Average daily balance during the year	$ 3	$ 2
Weighted average rate during the year	1.52%	0.76%
FHLB short-term borrowings:		
Balance at year end	$ 15,625	$ 56,164
Weighted average rate at year end	1.54%	0.74%
Maximum month-end balance	$ 70,400	$ 60,688
Average daily balance during the year	$ 26,446	$ 22,508
Weighted average rate during the year	1.15%	0.61%

Long-Term Debt

Long-term debt totaled $9.0 million as of December 31, 2017 and $12.0 million as of December 31, 2016, a decline of $3.0 million related to maturities of $7.0 million with a blended rate of 0.97% offset by additional issuances of $4.0 million with a blended rate of 1.75%. These borrowings consisted of advances from the FHLB with an original maturity in excess of one year and carry a weighted average interest rate of 1.58% and 1.17%, as of December 31, 2017 and December 31, 2016, respectively, and an average remaining life of 1.7 years and 1.2 years, respectively. Advances from the FHLB are collateralized by an investment in the common stock of the FHLB, by a specific pledge of the Bank's investment assets and by a blanket lien on qualifying mortgages within the Bank's loan portfolio. Balances of FHLB long-term debt averaged $10.9 million and $14.1 million during the years ended December 31, 2017 and 2016, respectively, with an average rate of 1.30% and 1.12% for each of these respective periods. The maximum month-end balance of these borrowings was $12.0 million for the year ended December 31, 2017 and $15.0 million for the same period in 2016.

Subordinated Debt

On November 13, 2015, the Bank entered into Subordinated Note Purchase Agreements with five accredited investors under which the Bank issued subordinated notes (the "Notes") totaling $9.5 million, resulting in net proceeds of approximately $9.2 million after issuance costs. The Notes have a maturity date of November 30, 2025, and bear interest at a fixed rate of 7.00% per annum. The Notes are non-callable for an initial period of five years and include provisions for redemption pricing between 101.5% and 100.5% of the liquidation value, if called after five years but prior to the maturity date.

Capital Resources

Shareholders' equity at December 31, 2017 was $50.5 million, representing an increase of $2.5 million from $48.0 million at December 31, 2016. This increase was comprised of current year net income of $2.5 million, stock based compensation costs of $262 thousand and a positive impact from market volatility related to the investment securities portfolio resulting in a net change in net unrealized gains (losses) totaling $36 thousand, which were partially offset by preferred dividends paid of $306 thousand.

In January 2016, First Priority utilized $6 million of the proceeds received from the issuance of Tier 2 qualifying subordinated debt to redeem 6,000 shares of the Company's outstanding preferred stock. This redemption consisted of all outstanding shares of Series A and Series B, and 1,192 shares of the Series C preferred stock, which were redeemed on a pro rata basis, which subsequently leaves 3,404 shares of Series C outstanding.

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

The Bank exceeds the minimum capital requirements established by regulatory agencies. Under the capital adequacy guidelines, capital is classified into two tiers. These guidelines require an institution to maintain a certain level of Tier 1 and Tier 2 capital to risk-weighted assets. Tier 1 capital consists of common shareholders' equity and qualifying preferred stock, excluding the unrealized gain or loss on securities available for sale, minus certain intangible assets plus trust preferred securities up to 25% of Tier 1 capital, with the excess being treated as Tier 2 capital. Tier 2 capital also consists of the allowance for loan losses, subject to certain limitations, and qualifying subordinated debt. In determining the amount of risk-weighted assets, all assets, including certain off balance sheet assets, are multiplied by a risk-weight factor of 0% to 100% based on the risks believed inherent in the type of asset.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios of total and Tier 1 capital (as defined in the regulations) to risk-weighted assets and of Tier 1 capital to average assets, known as the Tier 1 leverage ratio. The following table sets forth the capital ratios for both First Priority and the Bank at December 31, 2017 and 2016. First Priority currently meets the definition of a "small bank holding company" under the FRB's regulations, and thus is not subject to any capital requirements; however, the Company meets the holding company regulatory requirements for "well-capitalized" for each stated period. The Bank was considered "well-capitalized" and met or exceeded its applicable regulatory requirements for both periods.

	First Priority Financial Corp.		First Priority Bank			
	As of December 31, 2017	As of December 31, 2016	For Capital Adequacy Purposes	To Be Considered "Well-Capitalized"	As of December 31, 2017	As of December 31, 2016
Total risk-based capital	12.19%	12.11%	8.00%	10.00%	12.15%	12.07%
Tier 1 risk-based capital	9.62%	9.40%	6.00%	8.00%	9.58%	9.35%
Tier 1 common equity capital	8.93%	8.80%	4.50%	6.50%	9.58%	9.35%
Tier 1 leverage capital	8.10%	7.92%	4.00%	5.00%	8.08%	7.87%

The capital ratios above reflect the new capital requirements under "Basel III". As of December 31, 2017, the Bank and the Company were in compliance with these requirements. See Note 17 - Regulatory Matters for additional discussion regarding regulatory capital requirements.

Return on Average Equity and Assets

The following table shows the return on average assets (net income divided by total average assets), return on equity (net income divided by average equity), and the equity to assets ratio (average equity divided by total average assets) for each of the five years ended December 31, 2017.

	At or for the years ended December 31,				
	2017	2016	2015	2014	2013
Return on average assets	0.43%	0.44%	0.44%	1.56%	0.05%
Return on average equity	4.92%	4.81%	4.11%	15.16%	0.47%
Average equity to average assets ratio	8.66%	9.20%	10.64%	10.28%	10.50%

Effect of Inflation and Changing Prices

The effect of relative purchasing power over time due to inflation has not been taken into effect in First Priority's consolidated financial statements. Rather, the statements have been prepared on a historical cost basis in accordance with accounting principles generally accepted in the United States of America.

Unlike most industrial companies, the assets and liabilities of financial institutions, such as First Priority and the Bank, are primarily monetary in nature. Therefore, the effect of changes in interest rates will have a more significant impact on its performance than will the effect of changing prices and inflation in general. In addition, interest rates may generally increase as the rate of inflation increases, although not necessarily in the same magnitude. First Priority seeks to manage the relationships between interest-sensitive assets and liabilities in order to protect against wide interest rate fluctuations, including those resulting from inflation.

Off-Balance Sheet Arrangements

Through the operations of the Bank, First Priority has made contractual commitments to extend credit, in the ordinary course of its business activities, to meet the financing needs of customers. Such commitments involve, to varying degrees, elements of credit risk and interest rate risk in excess of the amount recognized on the balance sheets. These commitments are legally binding agreements to lend money at predetermined interest rates for a specified period of time and generally have fixed expiration dates or other termination clauses. The same credit and collateral policies are used in making these commitments as for on-balance sheet instruments.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. Each customer's creditworthiness is evaluated on a case-by-case basis and collateral is obtained, if necessary, based on the credit evaluation of the borrower. The amount of collateral obtained, if deemed necessary by the Bank upon extension of credit, is based on management's credit evaluation. Collateral held varies, but may include personal or commercial real estate, accounts receivable, inventory and equipment.

At December 31, 2017 and 2016, outstanding commitments to extend credit consisting of total unfunded commitments under lines of credit were $115.2 million and $98.2 million, respectively. In addition, as of each of these dates, the Company maintained $2.3 million and $958 thousand of performance standby letters of credit outstanding, respectively, and $1.7 million of financial standby letters of credit outstanding, as of each respective date, on behalf of its customers.

As of December 31, 2017 the Company did not have any deposit letters of credit outstanding; however as of December 31, 2016, the Company had deposit letters of credit totaling $16.0 million, issued by the Federal Home Loan Bank of Pittsburgh ("FHLB"), as required to provide collateral on certain municipal deposits maintained at the Bank. These deposit letters of credit are secured by a blanket lien on selected mortgage loans within First Priority Bank's portfolio.

First Priority is not involved in any other off-balance sheet contractual relationships, unconsolidated related entities that have off-balance sheet arrangements or transactions that could result in liquidity needs or other commitments that could significantly impact earnings. First Priority believes that it has adequate sources of liquidity to fund commitments that may be drawn upon by borrowers.

Liquidity

The objective of liquidity management is to assure that sufficient sources of funds are available, as needed and at a reasonable cost, to meet the ongoing and unexpected operational cash needs and commitments of First Priority and to take advantage of income producing opportunities as they arise. Sufficient liquidity must be available to meet the cash requirements of depositors wanting to withdraw funds and of borrowers wanting their credit needs met. Additionally, liquidity is needed to insure that First Priority has the ability to act at those times when profitable new lending and investment opportunities arise. While the desired level of liquidity may vary depending upon a variety of factors, it is a primary goal of First Priority to maintain adequate liquidity in all economic environments through active balance sheet management.

Liquidity management is the ongoing process of monitoring and managing First Priority's sources and uses of funds. The primary sources of funds are deposits, scheduled amortization of loans outstanding, maturities and cash flow generated from the investment portfolio and funds provided by operations. Scheduled loan payments and investment maturities are relatively predictable sources of funds; however, deposit flows and loan prepayments are far less predictable and are influenced by the level of interest rates, economic conditions, local competition and customer preferences. Liquidity is also provided by unused lines of credit with correspondent banks and First Priority's borrowing capacity at the FHLB. First Priority measures and monitors its liquidity position on an ongoing basis in order to better understand, predict and respond to balance sheet trends, unused borrowing capacity and liquidity needs. The liquidity position is managed on a daily basis as part of the daily settlement function and on an ongoing basis through the asset liability management function.

The key elements of First Priority's liquidity planning process involve a primary focus on the development of a stable, core funding base; utilization of wholesale funding sources to supplement core funding; maintenance of an appropriate level of asset liquidity; management of the maturity structure of funding sources and of funding concentrations; and maintenance of borrowing facilities.

Wholesale funding sources utilized by the Bank include brokered certificates of deposits, secured advances from the FHLB, federal funds purchased and other secured borrowing facilities. At December 31, 2017, wholesale funding sources totaled $144.8 million and were comprised of $120.2 million of brokered certificates of deposit and $24.6 million of FHLB advances. At December 31, 2016, wholesale funding sources totaled $207.0 million and were comprised of $138.8 million of brokered certificates of deposit and $68.2 million FHLB advances. Wholesale funding is generally used in managing the daily liquidity needs and when it is the most cost effective funding source available to First Priority. Management continually evaluates all available funding sources for cost and availability.

An integral part of the Bank's balance sheet management strategy is to establish and maintain borrowing facilities with correspondent banks for access to funding. Off balance sheet borrowing capacity provides the immediate availability of funds to meet short-term financing needs without requiring the bank to maintain excess liquidity in its investment portfolio, which may have a negative impact on earnings. In today's environment of historically low interest rates, it also provides effective longer term funding, in terms of the cost and structure. Long term borrowings from the FHLB cannot be called prior to maturity, which provides protection against a rise in interest rates when compared to retail deposits, which can be redeemed early by the depositor at lower than market rate penalties.

As of December 31, 2017 and 2016, the Bank had a borrowing facility with a correspondent bank totaling $10 million, available for short-term limited purpose usage, of which $2 million is available unsecured. The remaining $8 million is a secured line of credit.

At December 31, 2017 and 2016, the Bank had a total borrowing capacity with the FHLB of $221 million and $206 million, respectively, with advances and letters of credit outstanding of $24.6 million and $84.2 million, respectively. Short- term liquid assets at December 31, 2017 and 2016 totaled $17.7 million and $42.0 million, respectively, and were comprised of $2.7 million and $2.0 million, respectively, of interest bearing deposits held at correspondent banks and $15 million and $40.0 million, respectively, of investment securities due within 30 days.

Interest Rate Sensitivity

It is the responsibility of the board of directors and senior management to understand and control the interest rate risk exposures assumed by First Priority. The board has delegated authority to the asset liability management committee (“ALCO”) for the development of ALCO policies and for the management of the asset liability management function. The ALCO committee is comprised of senior management representing all primary functions of First Priority and meets monthly. ALCO has the responsibility for maintaining a level of interest rate risk exposures within board of director approved limits.

The primary objective of asset liability management is to optimize net interest income over time while maintaining a balance sheet mix that is prudent with respect to liquidity, capital adequacy and interest rate risk. The absolute level and volatility of interest rates can have a significant impact on the profitability of First Priority. Interest rate risk management is the process of identifying and controlling the potential adverse impact of interest rates movements on First Priority’s net interest income and on the fair value of its assets and liabilities.

One tool used to monitor interest rate risk is the measurement of its interest sensitivity “gap,” which is the positive or negative dollar difference between interest-earning assets and interest-bearing liabilities that are subject to interest rate repricing within a given period of time. Interest rate sensitivity can be managed by changing the mix, pricing and repricing characteristics of First Priority’s assets and liabilities, through management of its investment portfolio, loan and deposit product offerings, and through wholesale funding. Managing the amount of assets and liabilities repricing in the same time interval helps to hedge interest rate risk and minimize the impact on net interest income of rising or falling interest rates. First Priority generally would benefit from increasing market rates of interest when it has an asset-sensitive gap position and generally would benefit from decreasing market rates of interest when First Priority is liability-sensitive.

At December 31, 2017, First Priority was marginally liability sensitive at the one-year gap position, as it has more liabilities subject to repricing in the subsequent twelve month period than assets. It must be noted, however, that the gap analysis is not a precise indicator of First Priority’s exposure to changing interest rates. The analysis presents only a static view of the timing of maturities and repricing opportunities, without taking into consideration that changes in interest rates do not affect all assets and liabilities equally. Furthermore, the results are influenced by management assumptions concerning the repricing characteristics of deposit products with no contractual maturities, the timing of the repricing of variable rate loans with interest rates currently fixed at interest rate floors, and prepayment speeds of loans and investments subject to prepayment prior to maturity. Additionally, net interest income performance may be impacted by other significant factors in a given interest rate environment, including changes in the volume and mix of interest earning assets and interest-bearing liabilities.

The Company's interest rate sensitivity at December 31, 2017, as measured by the repricing characteristics of interest sensitive assets and interest sensitive liabilities, is presented in the following table. As noted above, the table presents data at a single point in time and includes significant management assumptions.

Interest Rate Sensitivity Report
As of December 31, 2017
(Dollars in thousands)

	1-90 days	91-365 days	1-5 years	5 years and over	Total
Interest-Sensitive Assets					
Interest-bearing deposits in banks	$ 2,666	$ -	$ -	$ -	$ 2,666
Loans receivable	152,452	77,094	241,599	47,782	518,927
Investment securities available for sale	16,264	7,507	19,224	9,378	52,373
Investment securities held to maturity	319	-	5,824	12,522	18,665
Total Interest Earning Assets	$ 171,701	$ 84,601	$ 266,647	$ 69,682	$ 592,631
Cumulative Total	$ 171,701	$ 256,302	$ 522,949	$ 592,631	
Interest-Sensitive Liabilities					
Interest-bearing demand	$ 2,244	$ 6,731	$ 13,463	$ 7,480	$ 29,918
Money Market and Savings accounts	21,803	65,410	36,339	21,803	145,355
Time deposits	60,610	94,616	127,017	-	282,243
Borrowed funds	15,625	3,000	6,000	9,231	33,856
Total	$ 100,282	$ 169,757	$ 182,819	$ 38,514	$ 491,372
Cumulative Total	$ 100,282	$ 270,039	$ 452,858	$ 491,372	
Gap	$ 71,419	$ (85,156)	$ 83,828	$ 31,168	
Cumulative gap	$ 71,419	$ (13,737)	$ 70,091	$ 101,259	
Interest-sensitive assets/interest-sensitive liabilities (cumulative)	1.7	0.9	1.2	1.2	
Cumulative Gap/total earning assets	12.1%	-2.3%	11.8%	17.1%	

Contractual Obligations

The Bank utilizes a variety of deposit products and short-term borrowings to supplement its supply of lendable funds, to assist in meeting deposit withdrawal requirements, and to fund growth of interest-earning assets in excess of traditional deposit growth. Brokered certificates of deposit, borrowings from the FHLB, borrowings under correspondent bank lines of credit and repurchase agreements serve as the primary sources of such funds.

Obligations under non-cancelable operating lease agreements are payable over several years with the longest obligation expiring in 2029. Management does not believe that any existing non-cancelable operating lease agreements are likely to materially impact First Priority's financial condition or results of operations in an adverse way.

The following table provides payments due by period for contractual obligations as of December 31, 2017.

	Payments Due by Period					
	Within 1 Year	Over 1 through 2 Years	Over 2 through 3 Years	Over 3 through 5 Years	Over 5 Years	Total
	(Dollars in thousands)					
Certificates of deposit	$ 155,229	$ 76,431	$ 24,421	$ 26,162	$ -	$ 282,243
Operating lease obligations	1,246	1,266	1,172	1,849	2,832	8,365
Subordinated debt	-	-	-	-	9,500	9,500
Long-term debt	3,000	2,000	4,000	-	-	9,000
Short-term borrowings	15,625	-	-	-	-	15,625
Accrued interest payable	844	-	-	-	-	844
Total	$ 175,944	$ 79,697	$ 29,593	$ 28,011	$ 12,332	$ 325,577

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Not Applicable.

Item 8. Financial Statements and Supplementary Data.

Index to Consolidated Financial Statements

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders
First Priority Financial Corp.
Malvern, Pennsylvania

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of First Priority Financial Corp. (the "Company") as of December 31, 2017 and 2016, the related consolidated statements of operations, comprehensive income, shareholders' equity, and cash flows for the years then ended and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2017 and 2016, and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's consolidated financial statements 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. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits 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. We believe that our audits provide a reasonable basis for our opinion.

/s/ BDO USA, LLP

We have served as the Company's auditor since 2013.

Philadelphia, Pennsylvania
March 23, 2018

First Priority Financial Corp.
Consolidated Balance Sheets
(In thousands, except share and per share data)

	December 31, 2017	December 31, 2016
Assets		
Cash and due from banks	$ 5,591	$ 2,790
Interest-bearing deposits in banks	2,666	1,971
Total cash and cash equivalents	8,257	4,761
Securities available for sale, at fair value (amortized cost: $52,379 and $70,635, respectively)	52,373	70,560
Securities held to maturity, at amortized cost (fair value: $19,665 and $19,584, respectively)	18,665	19,043
Loans receivable	518,927	488,243
Less: allowance for loan losses	3,405	3,330
Net loans	515,522	484,913
Restricted investments in bank stocks	1,416	3,257
Premises and equipment, net	1,607	1,755
Bank owned life insurance	3,326	3,256
Accrued interest receivable	2,007	1,817
Other real estate owned	550	1,486
Deferred taxes	923	2,697
Goodwill	2,725	2,725
Intangible assets with finite lives, net	169	235
Other assets	2,402	1,290
Total Assets	$ 609,942	$ 597,795
Liabilities and Shareholders' Equity		
Liabilities:		
Deposits:		
Non-interest bearing	65,634	54,817
Interest-bearing	457,516	412,871
Total deposits	523,150	467,688
Federal Home Loan Bank of Pittsburgh advances	24,625	68,164
Subordinated debt	9,231	9,207
Accrued interest payable	844	510
Other liabilities	1,596	4,180
Total Liabilities	559,446	549,749
Shareholders' Equity:		
Preferred stock, Series C, 9%, $100 par value; authorized 10,000,000 shares: liquidation value: $1,000 per share, 3,404 shares issued and outstanding; liquidation value: $3,404 as of each date presented.	3,404	3,404
Common stock, $1 par value; authorized 20,000,000 shares; issued and outstanding: 2017: 6,577,969; 2016: 6,529,719	6,578	6,530
Surplus	40,843	40,629
Accumulated deficit	(323)	(2,475)
Accumulated other comprehensive loss	(6)	(42)
Total Shareholders' Equity	50,496	48,046
Total Liabilities and Shareholders' Equity	$ 609,942	$ 597,795

See notes to consolidated financial statements.

First Priority Financial Corp.
Consolidated Statements of Operations
(In thousands, except per share data)

	For the year ended December 31,	
	2017	2016
Interest and Dividend Income		
Loans receivable, including fees	$ 22,074	$ 19,570
Securities—taxable	1,199	1,150
Securities—exempt from federal taxes	579	408
Interest bearing deposits and other	201	118
Total Interest and Dividend Income	24,053	21,246
Interest Expense		
Deposits	4,713	3,547
Short-term borrowings	305	137
Long-term debt	142	158
Subordinated debt	689	688
Total Interest Expense	5,849	4,530
Net Interest Income	18,204	16,716
Provision for Loan Losses	385	710
Net Interest Income after Provision for Loan Losses	17,819	16,006
Non-Interest Income		
Wealth management fee income	168	308
Net gains on sales of investment securities	416	795
Bank owned life insurance income	70	78
Other	387	364
Total Non-Interest Income	1,041	1,545
Non-Interest Expenses		
Salaries and employee benefits	8,273	8,046
Occupancy and equipment	1,844	1,906
Data processing equipment and operations	927	884
Professional fees	690	709
Marketing, advertising, and business development	336	230
FDIC insurance assessments	520	398
Pennsylvania bank shares tax expense	354	315
Other real estate owned	178	423
Other	1,279	1,212
Total Non-Interest Expenses	14,401	14,123
Income before Income Tax Expense	4,459	3,428
Income Tax Expense	2,001	1,128
Net Income	$ 2,458	$ 2,300
Preferred dividends	306	407
Income to Common Shareholders	$ 2,152	$ 1,893
Income per common share:		
Basic	$ 0.33	$ 0.29
Diluted	$ 0.32	$ 0.29
Weighted average common shares outstanding:		
Basic	6,559	6,514
Diluted	6,785	6,570

See notes to consolidated financial statements.

First Priority Financial Corp.
Consolidated Statements of Comprehensive Income
(In thousands)

	For the year ended December 31,	
	2017	2016
Net Income	$ 2,458	$ 2,300
Other comprehensive income (loss):		
Securities available for sale:		
Change in unrealized gain on securities available for sale	485	405
Reclassification adjustment for realized gains included in net income	(416)	(795)
Tax effect	(24)	133
Net gains (losses) arising during the period	45	(257)
Net unrealized holding losses on securities transferred between available for sale and held to maturity:		
Amortization of net unrealized holding losses to income during the period	(15)	(31)
Tax effect	6	10
Net unrealized holding losses on securities transferred during the period	(9)	(21)
Total other comprehensive income (loss)	36	(278)
Total comprehensive income	$ 2,494	$ 2,022

See notes to consolidated financial statements.

First Priority Financial Corp.
Consolidated Statements of Shareholders' Equity
For the Years Ended December 31, 2017 and 2016
(Dollars in thousands)

	Preferred Stock	Common Stock	Surplus	Accumulated Deficit	Accumulated Other Comprehensive Income (loss)	Total
Balance – December 31, 2015	$ 9,404	$ 6,492	$ 40,327	$ (4,368)	$ 236	$ 52,091
Preferred stock dividends	-	-	-	(407)	-	(407)
Redemption of preferred stock	(6,000)	-	-	-	-	(6,000)
Issuance of 36,250 shares of restricted common stock, net of 725 forfeited shares	-	36	(36)	-	-	-
Exercise of 2,000 shares of common stock options	-	2	10	-	-	12
Net income	-	-	-	2,300	-	2,300
Other comprehensive loss	-	-	-	-	(278)	(278)
Stock based compensation expense	-	-	328	-	-	328
Balance—December 31, 2016	$ 3,404	$ 6,530	$ 40,629	$ (2,475)	$ (42)	$ 48,046
Preferred stock dividends	-	-	-	(306)	-	(306)
Issuance of 52,700 shares of restricted common stock, net of 4,450 forfeited shares	-	48	(48)	-	-	-
Net income	-	-	-	2,458	-	2,458
Other comprehensive income	-	-	-	-	36	36
Stock based compensation expense	-	-	262	-	-	262
Balance—December 31, 2017	$ 3,404	$ 6,578	$ 40,843	$ (323)	$ (6)	$ 50,496

See notes to consolidated financial statements.

First Priority Financial Corp.
Consolidated Statements of Cash Flows
(Dollars in thousands)

	For the year ended December 31, 2017	2016
Cash Flows from Operating Activities		
Net income	$ 2,458	$ 2,300
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	385	710
Write down of other real estate owned	44	139
Depreciation and amortization of premises and equipment	262	309
Net amortization	346	261
Stock based compensation expense	262	328
Net amortization of investment securities premiums and discounts	146	151
Net gains on sales of investment securities	(416)	(795)
Net (gain) loss on sale of other real estate owned	(74)	18
Net loss on disposal of premises and equipment	1	25
Bank owned life insurance policy income	(70)	(78)
Deferred income tax expense	1,755	988
Increase in accrued interest receivable	(190)	(194)
Increase in other assets	(272)	(20)
Increase in accrued interest payable	334	60
Increase in other liabilities	115	2,813
Net Cash Provided by Operating Activities	5,086	7,015
Cash Flows from Investing Activities		
Net originations in loans	(15,114)	(2,531)
Purchase of loans	(16,151)	(77,326)
Purchases of securities available for sale	(59,770)	(49,645)
Redemption of restricted bank stock	1,841	111
Proceeds from maturities or calls of securities available for sale	61,490	60,537
Proceeds from maturities or calls of securities held to maturity	290	740
Proceeds from the sale of securities available for sale	13,340	13,563
Proceeds from the sale of other real estate owned	966	332
Purchases of premises and equipment	(116)	(56)
Net Cash Used in Investing Activities	(13,224)	(54,275)
Cash Flows from Financing Activities		
Net increase in deposits	55,479	59,104
Net decrease in short-term borrowings	(40,539)	(3,561)
Repayments of long-term borrowings	(3,000)	(3,000)
Payments regarding subordinated debt issuance costs	-	(16)
Redemption of preferred stock	-	(6,000)
Proceeds from the exercise of common stock options	-	12
Cash dividends paid on preferred stock	(306)	(427)
Net Cash Provided by Financing Activities	11,634	46,112
Net Increase (Decrease) in Cash and Cash Equivalents	3,496	(1,148)
Cash and Cash Equivalents—Beginning	4,761	5,909
Cash and Cash Equivalents—Ending	$ 8,257	$ 4,761
Supplementary Disclosures of Cash Flows Information		
Noncash activity:		
Transfer of available for sale securities to held to maturity securities	$ -	$ 2,698
Transfer of loans receivable to other real estate owned	$ -	$ 342
Cash paid for interest on deposits and borrowings	$ 5,534	$ 4,573
Cash paid for income taxes	$ 182	$ 139

Note 1—Summary of Significant Accounting Policies

Organization and Nature of Operations

First Priority Financial Corp.

First Priority Financial Corp. (“First Priority”, the “Company”) is a bank holding company incorporated under the laws of the Commonwealth of Pennsylvania on February 13, 2007. On May 11, 2007, as a result of a reorganization and merger, First Priority Bank (the “Bank”) became a wholly-owned subsidiary of First Priority. First Priority, primarily through the Bank, serves residents and businesses in the Delaware Valley with branches in Berks, Bucks, Chester and Montgomery counties in Pennsylvania. The Bank, headquartered in Malvern, PA, has seven retail branch office locations and one loan production office and is a locally managed community bank providing commercial banking products, primarily loans and deposits. First Priority provides banking services through the Bank and does not engage in any activities other than banking and related activities.

First Priority Bank

The Bank is a state-chartered commercial banking institution which was incorporated under the laws of the Commonwealth of Pennsylvania on May 25, 2005. The Bank’s deposits are insured by the FDIC up to the maximum amount permitted for all banks.

The Bank engages in a full service commercial and consumer banking business with strong private banking and individual wealth management services. The Bank offers a variety of consumer, private banking and commercial loans, mortgage products and commercial real estate financing. The Company’s operations are significantly affected by prevailing economic conditions, competition, and the monetary, fiscal, and regulatory policies of governmental agencies. Lending activities are influenced by a number of factors, including the general credit needs of individuals and small and medium-sized businesses in the Company’s market area, competition, the current regulatory environment, the level of interest rates, and the availability of funds. Deposit flows and costs of funds are influenced by prevailing market rates of interest, competition, account maturities, and the level of personal income and savings in the market area.

The Bank also offers certain financial planning and investment management services. These investment services are provided by First Priority Financial Services, a Division of First Priority Bank, through third party providers. In addition, the Bank has entered into solicitation agreements with several investment advisors to provide portfolio management services to customers of the Bank.

The Bank currently seeks deposits and commercial and private banking relationships through its banking offices. The Bank provides deposit products that include checking, money market and savings accounts, and certificates of deposit as well as other deposit services, including cash management, electronic banking and mobile products as well as online account opening capabilities. The Bank obtains funding in the local community by providing excellent service and competitive rates to its customers and utilizes various advertising to attract current and potential deposit customers. The Bank also uses brokered certificates of deposit as a cost effective funding alternative.

Basis of Presentation

The accompanying consolidated financial statements consist of the Company and the Company’s wholly owned consolidated subsidiary, the Bank. All significant intercompany accounts and transactions have been eliminated in consolidation.

These statements are prepared in accordance with accounting principles generally accepted in the United States (“GAAP”).

Subsequent Events

Management has evaluated events and transactions occurring subsequent to December 31, 2017 for items that should potentially be recognized or disclosed in these Consolidated Financial Statements. The evaluation was conducted through the date these financial statements were issued.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the valuation of acquired loans, the determination of the allowance for loan losses, stock-based compensation, impairment of goodwill, impairment of investments, the valuation of deferred tax assets and the valuation of other real estate owned.

Significant Group Concentrations of Credit Risk

Most of the Company's activities are with customers located within the western and northwestern suburbs surrounding Philadelphia. Note 4 of the Notes to Consolidated Financial Statements discusses the types of securities in which the Company currently invests. Note 5 discusses the types of lending in which the Company engages. Although the Company intends to have a diversified loan portfolio, its debtors' ability to honor their contracts will be influenced by the region's economy.

The Company's investment portfolio consists principally of obligations of the United States and its agencies and obligations of states and political subdivisions. In the opinion of management, there is no concentration of credit risk in its investment portfolio. The Company places deposits in correspondent accounts and, on occasion, sells Federal funds to qualified financial institutions. Management believes credit risk associated with correspondent accounts and with Federal funds sold is not significant. Therefore, management believes that these particular practices do not subject the Company to unusual credit risk.

Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents include cash on hand, amounts due from banks, Federal funds sold and short-term money market securities. Generally, Federal funds are purchased or sold for one day periods. Short-term investments are generally purchased with a maturity date of less than three months.

The Company is required to maintain cash reserves that are considered restrictions on cash and cash equivalents which consist of required reserves with the Federal Reserve Bank, related to our deposit liabilities. At December 31, 2017 and 2016, these reserve balances were $1.7 million and $1.9 million, respectively.

Securities

Management determines the appropriate classification of debt securities at the time of purchase and re-evaluates such designation as of each balance sheet date. Securities classified as available for sale are those securities that the Company intends to hold for an indefinite period of time, but not necessarily to maturity. Available for sale securities are carried at fair value.

Unrealized gains and losses on available for sale investment securities are reported as increases or decreases in other comprehensive income as a component of shareholders' equity. Realized gains or losses, determined on the basis of the cost of the specific securities sold, are included in earnings. Premiums and discounts are recognized in interest income using the interest method over the term of each security. Any decision to sell a security classified as available for sale would be based on various factors, including significant movements, or anticipated movements in interest rates, changes in the maturity mix of the Company's assets and liabilities, liquidity needs, regulatory capital considerations and other similar factors.

Securities classified as held to maturity are those debt securities the Company has both the intent and ability to hold to maturity regardless of changes in market conditions, liquidity needs or changes in general economic conditions. These securities are carried at cost adjusted for the amortization of premium and accretion of discount, using the interest method over the terms of the securities. Transfer of securities into held to maturity from available for sale are made at fair value at the date of transfer. The unrealized gain/loss at date of transfer is retained in other comprehensive income, and in the current value of the held to maturity securities. Such amounts are amortized over the remaining life of the security.

In estimating other-than-temporary impairment losses, management considers (1) the length of time and the extent to which the fair value has been less than cost; (2) the financial condition and near-term prospects of the issuer; and (3) the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. When a determination is made that an other-than-temporary impairment exists but the Company does not intend to sell the debt security and it is more likely than not that it will not be required to sell the debt security prior to its anticipated recovery, the other-than-temporary impairment is separated into (a) the amount of the total other-than-temporary impairment related to a decrease in cash flows expected to be collected from the debt security (the credit loss) and (b) the amount of the total other-than-temporary impairment related to all other factors. The amount of the total other-than-temporary impairment related to the credit loss is recognized in earnings. The amount of the total other-than-temporary impairment related to all other factors is recognized in other comprehensive income.

Restricted Investments in Bank Stocks

Restricted investments in bank stocks, which represents the required investment in the common stock of correspondent banks, are carried at cost and consist of stock of the Federal Home Loan Bank of Pittsburgh ("FHLB") and Atlantic Community Bancshares, Inc. Federal law requires a member institution of the FHLB to hold FHLB stock according to a predetermined formula. Management's determination of whether these investments are impaired is based on their assessment of the ultimate recoverability of their cost rather than by recognizing temporary declines in value.

Loans Receivable

Loans receivable 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) by the interest method based on the contractual terms of the related loans, or if the commitment expires unexercised, recognized in income upon expiration.

The loans receivable portfolio is segmented into commercial, residential mortgage loans and consumer loans. Commercial loans consist of the following classes: commercial and industrial, commercial construction and commercial mortgage loans. Consumer loans consist of home equity lines of credit and all other consumer loans.

The accrual of interest is discontinued when the contractual payment of principal or interest has become 90 days past due or management has serious doubts about 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 placed on nonaccrual status, unpaid interest credited to income in the current year is reversed and unpaid interest accrued in prior years is charged against the allowance for loan losses. Interest received on nonaccrual loans is generally 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, and the ultimate collectability of the total contractual principal and interest is no longer in doubt. The past due status of all classes of loans receivable is determined based on contractual due dates for loan payments.

Acquired Loans

Loans acquired as part of a full bank acquisition are initially recorded at their acquisition date fair values. The carryover of allowance for loan losses is prohibited as any credit losses in the loans are included in the determination of the fair value of the loans at the acquisition date. Fair values for acquired loans are based on a discounted cash flow methodology that involves assumptions and judgments as to credit risk, prepayment risk, liquidity risk, default rates, loss severity, payment speeds, collateral values and discount rate.

Acquired loans that have evidence of deterioration in credit quality since origination and for which it is probable, at acquisition, that the Company will be unable to collect all contractually required payments are accounted for as impaired loans under ASC 310-30. The excess of cash flows expected at acquisition over the estimated fair value is referred to as the accretable discount and is recognized into interest income over the remaining life of the loans using the interest method. The difference between contractually required payments at acquisition and the cash flows expected to be collected at acquisition is referred to as the non-accretable discount. The non-accretable discount represents estimated future credit losses expected to be incurred over the life of the loan. Subsequent decreases to the expected cash flows require the Company to evaluate the need for an allowance for loan losses on these loans. Subsequent improvements in expected cash flows result in the reversal of a corresponding amount of the non-accretable discount which the Company then reclassifies as an accretable discount that is recognized into interest income over the remaining life of the loans using the interest method. As of December 31, 2017, there were three remaining acquired purchased credit impaired loans with a net recorded balance of $55 thousand, after a non-accretable credit discount of $352 thousand compared to a net recorded balance of $215 thousand, after a non-accretable credit discount of $362 thousand as of December 31, 2016.

Acquired loans that met the criteria for non-accrual of interest prior to acquisition may be considered performing upon acquisition, or in the future, regardless of whether the customer is contractually delinquent, if the Company can reasonably estimate the timing and amount of the expected cash flows on such loans and if the Company expects to fully collect the new carrying value of the loans. As such, the Company may no longer consider the loan to be non-accrual or non-performing and may accrue interest on these loans, including the impact of any accretable discount. For acquired loans that are not deemed impaired at acquisition, credit discounts representing the principal losses expected over the life of the loan are a component of the initial fair value and amortized over the life of the asset using the interest method. Subsequent to the acquisition date, the methods utilized to estimate the required allowance for loan losses for these loans is similar to originated loans, however, the Company records a provision for loan losses only when the required allowance exceeds any remaining pooled discounts for loans evaluated collectively for impairment.

The Company also purchased portfolios of performing residential mortgage loans in 2014 through 2017, all of which were underwritten using similar underwriting standards as it uses for its organic portfolio. In August 2016, the Company purchased performing commercial loans from within the Bank's market area. Net acquisition premiums, or discounts, from the purchased loans will be recognized into interest income over the remaining life of the loans using the interest method. There are currently no non-performing loans within these portfolios.

Allowance for Loan Losses

The allowance for credit losses consists of the allowance for loan losses and the reserve for unfunded lending commitments. 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 reserve for unfunded lending commitments, totaling $35 thousand as of both December 31, 2017 and 2016, represents management's estimate of potential losses inherent in its unfunded loan commitments and is recorded in other liabilities on the consolidated balance sheets. 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 can be reasonably anticipated. 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 portfolio, adverse situations that may affect the borrower's ability to repay, the estimated value of any underlying collateral, composition of the loan portfolio, current economic conditions and other relevant factors. This evaluation is inherently subjective as it requires material estimates that may be susceptible to significant revision as more information becomes available.

The allowance consists of specific, general and unallocated components. The specific component relates to loans that are classified as impaired. For loans that are classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. 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. Management team with experience, depth, and knowledge in banking and in many areas of lending. Each contributes to the sound credit culture and control within the Company.
5. Volume and severity of past due, classified and nonaccrual loans as well as other loan modifications.
6. The Company engages a third party to perform an independent review of the loan portfolio as a measure for quality and consistency in credit evaluation and credit decisions.
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.

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.

A majority of the Company's loans are to business owners of many types. The Company makes commercial loans for real estate development and other business purposes required by our customers.

The Company's credit policies determine advance rates against the different forms of collateral that can be pledged against commercial loans. Typically, the majority of loans will be limited to a percentage of their underlying collateral values such as real estate values, equipment, eligible accounts receivable and inventory. Individual loan advance rates may be higher or lower depending upon the financial strength of the borrower and/or term of the loan.

The assets financed through commercial and industrial loans are used within the business for its ongoing operation. Repayment of these kinds of loans generally comes from the cash flow of the business or the ongoing conversions of assets.

Commercial real estate loans include long-term loans financing commercial properties. Repayment of this kind of loan is dependent upon either the ongoing cash flow of the borrowing entity or the resale of or lease of the subject property. Commercial real estate loans typically require a loan to value ratio of not greater than 80% and vary in terms.

Construction loans consists of acquisition, construction and development loans serving a diverse customer base in its primary market areas. The composition of this portfolio can change based on local economic conditions such as supply and demand, interest rates and real estate values. The Company typically lends to builders and developers with established relationships, successful operating histories and sound financial resources.

Construction loans include both commercial and residential related loans. The commercial portion consists of loans for the purpose of acquiring, developing and constructing a commercial-use structure and for the acquisition, development and/or construction of residential properties, such as single-family homes or smaller multi-family buildings, by residential developers and builders. This may also include the acquisition and development of land on a selective basis. The residential portion consists of loans for the acquisition of and/or construction on land where a residential dwelling is to be built and occupied by the home-owner.

Residential mortgages and home equity loans are secured by the borrower's residential real estate in either a first or second lien position. Residential mortgages and home equity loans have varying loan rates depending on the loan terms. Residential mortgages have amortizations up to 30 years and home equity loans have amortizations up to 15 years. Residential mortgages and home equity loans typically require a loan to value ratio of not greater than 80%.

Other consumer loans include installment loans, car loans, and overdraft lines of credit. The majority of these loans are secured.

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. Factors considered by management in determining impairment include payment status, collateral value and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as 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. An allowance for loan losses is established 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 may be 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 and industrial 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.

The allowance calculation methodology includes further segregation of loan classes into risk rating categories. The borrower's overall financial condition, repayment sources, guarantors and value of collateral, if appropriate, are evaluated annually for commercial 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 criticized 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 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, 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. Based on management's comprehensive analysis of the loan portfolio, management believes the current level of the allowance for loan losses is adequate.

Troubled Debt Restructurings

Loans whose terms are modified are classified as troubled debt restructurings ("TDR") if the Company grants such borrowers concessions and it is deemed that those borrowers are experiencing financial difficulty. Concessions granted under a TDR may be modified by means of extending the maturity date of the loan, reducing the interest rate on the loan to a rate which is below market, a combination of rate adjustments and maturity extensions, or by other means including covenant modifications, forbearances or other concessions. Generally, interest is not accrued on loans that were non-accrual prior to the TDR until they have performed in accordance with the modified terms for a period of at least six months; however, non-accrual TDR's may be restored to accrual status if principal and interest payments, under the modified terms, are current for six consecutive months after modification. Loans classified as TDR's are designated as impaired. TDR's which are performing based on modified terms and conditions, which reflect the current market, may be reclassified from TDR status. Management evaluates the allowance for loan losses with respect to TDR's under the same policy and guidelines as all other performing loans are evaluated with respect to the allowance for loan losses.

Transfers of Financial Assets

Transfers of financial assets, including loan and loan participation sales, are accounted for as sales, when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the 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.

Other Real Estate Owned

Assets acquired through, or in lieu of, loan foreclosure are held for sale and generally are initially recorded at fair value less cost to sell at the date of foreclosure, establishing a new cost basis. Any write-down, at or prior to the dates the real estate is considered foreclosed, is charged to the allowance for loan losses. Subsequent to foreclosure, valuations are periodically performed by management and the assets are generally carried at the lower of carrying amount or fair value less cost to sell. Revenue and expenses from operations and changes in the valuation allowance (write-downs) are included in other non-interest expenses. Any gain or loss upon the sale of real estate owned is reflected in operations as incurred.

Premises and Equipment

Premises and equipment are stated at cost less accumulated depreciation. Premises and equipment in an acquisition or merger are recorded on acquisition date at fair value. Depreciation is computed on the straight-line method over the estimated useful lives of the related assets, ranging from 1 to 20 years beginning when the assets are placed in service. Buildings are depreciated from 14 to 20 years. Leasehold improvements are amortized over the term of the lease or estimated useful lives, whichever is shorter, ranging from 1 to 20 years. Furniture, fixtures and equipment are depreciated from 2 to 10 years, automobiles are depreciated over 5 years and computer equipment and data processing software are depreciated from 1 to 10 years. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and any gain or loss is reflected in income for the period. The cost of maintenance and repairs is charged to expense as incurred.

Bank Owned Life Insurance

The Bank invests in bank owned life insurance (“BOLI”) policies that provide earnings to help cover the cost of employee benefit plans. The Bank is the owner of the life insurance policies it purchased directly on the lives of certain officers of the Bank. These policies were issued as split dollar life insurance policies which provide for a portion of the death benefit to be paid to the beneficiaries of the officer while employed by the Bank or through change in control provisions. The policies are carried on the Company’s consolidated balance sheet at their cash surrender value and are subject to regulatory capital requirements. The determination of the cash surrender value includes a full evaluation of the contractual terms of each policy. Additionally, the Company periodically reviews the creditworthiness of the insurance company that has underwritten the policies. Earnings accruing to the Company are derived from the general account investments of the insurance companies. Increases in the net cash surrender value of BOLI policies and insurance proceeds received are not taxable and are recorded in non-interest income in the consolidated statement of income.

Employee Benefit Plans

The Company’s 401(k) plan allows eligible participants to set aside a certain percentage of their salaries before taxes. The Company may elect to match employee contributions up to a specified percentage of their respective salaries in an amount determined by the Board of Directors. The Company’s total matching contributions related to these plans resulted in expenses of $155 thousand and $149 thousand for the years ended December 31, 2017 and 2016, respectively.

Goodwill and Other Intangible Assets

Goodwill represents the excess of the cost of an acquired entity over the fair value of the identifiable net assets acquired in accordance with the acquisition method of accounting. Goodwill is not amortized but is reviewed for potential impairment at the reporting unit level on an annual basis, or more often if events or circumstances indicate that there may be impairment. ASC Topic 350-20 requires an at least annual review of the fair value of a reporting unit that has goodwill in order to determine if it is more likely than not (that is, a likelihood of more than 50%) that the fair value of a reporting unit is less than its carrying amount, including goodwill. The Company elects to perform this review on July 1st of each year.

A qualitative factor test can be performed to determine whether it is necessary to perform a quantitative goodwill impairment test. If this qualitative test determines it is not likely (less than 50% probability) the fair value of the reporting unit is less than book value, then the Company is not required to perform a quantitative test and goodwill can be considered not impaired. The Company reviewed the requirements of the qualitative assessments listed in ASC 350-20-35-3C, and resultantly identified nine qualitative assessments that are relevant to the general banking industry and specifically to First Priority. These qualitative assessments were intended to isolate change factors which would contribute to the increased risk of impairment of goodwill. The qualitative factors were then used to compare base year levels with current levels to identify potential change factors which could contribute to the increased risk of impairment of goodwill. Based on the results of this analysis, it is more likely than not that the fair value of reporting unit as of the date of this analysis is higher than its book value and, therefore, goodwill is considered not impaired and no further testing is required pursuant to ASC Topic 350-20.

Any impairment loss related to goodwill and other intangible assets is reflected as other non-interest expense in the statement of operations in the period in which the impairment is determined. No assurance can be given that future impairment tests will not result in a charge to earnings.

Core deposit and other intangible assets acquired in acquisitions are identified, recognized and amortized based upon the estimated economic benefits received using a 10 year sum of the years amortization method.

Segment Information

First Priority has one reportable segment, Community Banking. All of the Company’s activities are interrelated, and each activity is dependent and assessed based on how each of the activities of the Company supports the others. Lending activities are dependent upon the ability of the Company to fund itself with deposits and borrowings while managing the interest rate and credit risk. Accordingly, all significant operating decisions are based upon analysis of the Company as one segment or unit.

Advertising Costs

The Company follows the policy of charging the costs of advertising to expense as incurred.

Income Taxes

Deferred taxes are provided on the liability method whereby deferred tax assets are recognized for deductible temporary differences and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax basis. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment. The Company files a consolidated federal income tax return with the Bank.

The Company evaluates the carrying amount of its deferred tax assets on a quarterly basis or more frequently, if necessary, in accordance with the guidance provided in Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 740 (ASC 740), in particular, applying the criteria set forth therein to determine whether it is more likely than not (i.e. a likelihood of more than 50%) that some portion, or all, of the deferred tax asset will not be realized within its life cycle, based on the weight of available evidence. If management makes a determination based on the available evidence that it is more likely than not that some portion or all of the deferred tax assets will not be realized in future periods a valuation allowance is calculated and recorded. These determinations are inherently subjective and dependent upon estimates and judgments concerning management's evaluation of both positive and negative evidence. Judgment is required when considering the relative impact of such evidence. The weight given to the potential effect of positive and negative evidence must be commensurate with the extent to which it can be objectively verified.

When determining the potential for a valuation allowance, the Company assessed the possible sources of taxable income available under tax law to realize a tax benefit for deductible temporary differences and carryforwards as defined in paragraph 740-10-30-18. The Company also considers tax planning strategies which could accelerate taxable income and allow the Company to take advantage of future deductible differences. The strategy must be prudent and feasible; however, the Company does not need to have specific plans to implement the strategy, but could be an opportunity that the Company could implement in order to take advantage of net operating loss carryforwards.

The Company has adopted guidance on accounting for uncertainty in income taxes as presented in FASB ASC 740-10. A tax position is recognized as a benefit at the largest amount that is more-likely-than not to be sustained in a tax examination based solely on its merits. An uncertain tax position will not be recognized if it has a less than 50% likelihood of being sustained. Under the threshold guidelines, the Company believes no significant uncertain tax positions exist, either individually or in the aggregate, that would result in recognition of a liability for unrecognized tax benefits as of December 31, 2017 and December 31, 2016.

Earnings Per Common Share

Basic earnings per common share exclude dilution and are computed by dividing income available to common shareholders by the weighted average common shares and participating securities (restricted stock) outstanding during the period. Diluted earnings per common share take into account the potential dilution that could occur if securities or other contracts to issue common stock were exercised and converted into common stock. Proceeds assumed to have been received on such exercise or conversion, are assumed to be used to purchase shares of the Company's common stock at the average market price during the period, as required by the "treasury stock method" of accounting. The effects of securities or other contracts to issue common stock are excluded from the computation of diluted earnings per share in periods in which the effect would be antidilutive.

Stock Options and Restricted Stock Grants

Compensation costs related to share-based payment transactions are recognized in the financial statements over the period that an employee provides service in exchange for the award. For the years ended December 31, 2017 and 2016, compensation expense related to outstanding stock options and restricted stock grants totaled $262 thousand and $328 thousand, respectively, which is included in salaries and employee benefits in the accompanying consolidated statements of operations. There was no tax benefit recognized related to this stock-based compensation.

Comprehensive Income (Loss)

Accounting principles generally accepted in the United States of America require that recognized revenue, expenses, gains and losses be included in net income. Although certain changes in assets and liabilities are reported as a separate component of the shareholders' equity section of the balance sheet, such items, along with net income, are components of total comprehensive income.

Total reclassifications from accumulated other comprehensive income (loss) for the periods presented are as follows:

Details about Accumulated Other Comprehensive Income (Loss) Components	Amounts Reclassified from Accumulated Other Comprehensive Income (Loss)		Affected Line Item in the Statement where Net Income is Presented
	December 31,		
	2017	2016	
	(Dollars in thousands)		
Sale of investment securities available for sale	$ (416)	$ (795)	Gains on sale of investment securities
Amortization of unrealized holding gains (losses) on securities transferred from available for sale to held to maturity	(14)	(31)	Interest and dividend income on taxable securities
Tax effect	146	281	Income tax expense
Total reclassification	$ (284)	$ (545)	

Accumulated other comprehensive income (loss) at December 31, 2017 and 2016 consisted of the following:

	December 31,	
	2017	2016
	(Dollars in thousands)	
Net unrealized gain (loss) on available for sale securities	$ (4)	$ (50)
Net unrealized holding gains on securities transferred from available for sale to held to maturity	(2)	8
Total	$ (6)	$ (42)

Off-Balance Sheet Financial Instruments

In the ordinary course of business, the Company has entered into off-balance sheet financial instruments consisting of commitments to extend credit. Such financial instruments are recorded in the consolidated balance sheet when they are funded.

Note 2—Recently Issued Accounting Standards

Accounting Standards Update ("ASU") 2014-09, "Revenue from Contracts with Customers (Topic 606)." ASU 2014-09 implements a common revenue standard that clarifies the principles for recognizing revenue. The core principle of ASU 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve that core principle, an entity should apply the following steps: (i) identify the contract(s) with a 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. First Priority's revenue is comprised of net interest income on financial assets and liabilities, which is explicitly excluded from the scope of ASU 2014-09, and non-interest income. This accounting guidance can be implemented using either a full retrospective method or a modified retrospective approach and will be effective for interim and annual reporting periods beginning after December 15, 2017 (effective January 1, 2018 for First Priority). Early adoption is permitted; however, First Priority will adopt this new accounting guidance in 2018, as required, and will adopt the new guidance using the modified retrospective approach. The modified retrospective approach uses a cumulative-effect adjustment to retained earnings to reflect uncompleted contracts in the initial application of the guidance. The Company has assessed its revenue streams and its contracts with customers that could potentially be affected by the new guidance; including wealth management fees, fees on deposits, gains and losses on the sale of other real estate owned and debit card interchange fees; but did not identify material changes to the timing or amount of revenue recognition. The adoption of this accounting guidance does not have a material impact on the Company's financial condition or results of operations. The Company will also be subject to expanded disclosure requirements upon adoption for which the Company is still in the process of evaluating.

In January 2016, the FASB issued Accounting Standards Update 2016-01, "Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities" ("ASU 2016-01"). ASU 2016-01 changes current U.S. GAAP for public entities by requiring the following, among others: (1) equity securities, except those accounted for under the equity method of accounting, to be measured at fair value with changes in fair value recognized in net income; (2) the use of the exit price when measuring fair value of financial instruments for disclosure purposes; (3) 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; and (4) separate presentation of financial assets and financial liabilities by measurement category and form of financial asset on the balance sheet or notes to the financial statements. ASU 2016-01 is effective for annual periods beginning after December 15, 2017, including interim periods. Early application is permitted. The Company does not hold any equity investments (excluding restricted investments in bank stocks) that do not have a readily determinable market value. The Company has determined the implementation of this standard will not have a material impact to the financial statements and disclosures.

In February 2016, the FASB issued Accounting Standards Update ("ASU") No. 2016-02, *Leases.* From the lessee's perspective, the new standard establishes a right-of-use (ROU) model that requires a lessee to record a ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement for a lessee. From the lessor's perspective, the new standard requires a lessor to classify leases as either sales-type, finance or operating. A lease will be treated as a sale if it transfers all of the risks and rewards, as well as control of the underlying asset, to the lessee. If risks and rewards are conveyed without the transfer of control, the lease is treated as a financing. If the lessor doesn't convey risks and rewards or control, an operating lease results. The new standard is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. A modified retrospective transition approach is required for lessors for sales-type, direct financing, and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. The Company has nine leases related to its current office locations, all of which are classified as operating leases, which upon implementation of the new standard in January 2019, will result in both a right-of-use asset and a corresponding lease liability recorded in its consolidated balance sheets currently estimated at approximately $6.4 million. The Company does not expect the implementation of this standard to have a material impact on its consolidated statement of operations.

In March 2016, the FASB issued ASU 2016-09, “Improvements to Employee Share-Based Payment Accounting.” This ASU simplifies several aspects of the accounting for employee share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statements of cash flows. For public business entities, this ASU is effective for financial statements issued for fiscal years beginning after December 15, 2016, and interim periods therein. Accordingly, effective January of 2017, the Company adopted the pronouncement. During the year ended December 31, 2017, the Company had $10 thousand of tax benefits for stock option exercises and restricted stock vesting. In accordance with ASU 2016-09, forfeitures are recognized as they occur instead of applying an estimated forfeiture rate to each grant. For purposes of the determination of stock-based compensation expense for the year ended December 31, 2017, we recognized actual forfeitures of 4,450 shares of restricted stock awards that were granted to officers and other employees.

In September 2016, the FASB issued ASU 2016-13, “Financial Instruments – Credit Losses (Topic 326).” The main objective of this Update is to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity at each reporting date. The amendments in this Update replace the incurred loss impairment methodology in current GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. For public business entities, this ASU is effective for financial statements issued for fiscal years beginning after December 15, 2019, and interim periods therein. Early adoption is permitted. The Company is reviewing our system and data collection to determine necessary changes to our current practice.

In August 2016, the FASB issued ASU 2016-15, “Classification of Certain Cash Receipts and Cash Payments.” This ASU clarifies how certain cash receipts and cash payments are presented in the statement of cash flows. This update addresses eight specific cash flow issues with the objective of reducing the existing diversity in practice. For public business entities this ASU is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017. Early adoption is permitted. The Company is evaluating the impact of this ASU on its consolidated financial statements and disclosures. Historically the cash flows, addressed by this standard, have been infrequent and immaterial.

In January 2017, the FASB issued ASU 2017-04, “Intangibles — Goodwill and Other (Topic 350).” This update intends to simplify the subsequent measurement of goodwill by eliminating Step 2 from the goodwill impairment test. The amendments in this Update modify the concept of impairment from the condition that exists when the carrying amount of goodwill exceeds its implied fair value to the condition that exists when the carrying amount of a reporting unit exceeds its fair value.

For public business entities this ASU is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019, and interim periods therein. Early adoption is permitted. The Company does not expect the implementation of this standard to have a material impact on its consolidated statement of operations.

In March 2017, the FASB issued ASU 2017-08, Premium Amortization on Purchased Callable Debt Securities, which amends the amortization period for certain purchased callable debt securities held at a premium, shortening such period to the earliest call date. The ASU is effective for public business entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. For all other entities, the ASU is effective for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020. Earlier application is permitted for all entities, including adoption in an interim period. If an entity early adopts the ASU in an interim period, any adjustments must be reflected as of the beginning of the fiscal year that includes that interim period. The Company does not expect the implementation of this standard to have a material impact on its consolidated statement of operations.

In February 2018, the FASB issued ASU No. 2018-02, Income Statement Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income; ("ASU 2018-02"). ASU 2018-02 states an entity may elect to reclassify the income tax effects of the Tax Cuts and Jobs Act on items within accumulated other comprehensive income to retained earnings. The amendments in this update are effective for all entities for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption is permitted, and the Company adopted this accounting guidance effective December 31, 2017. The amount of this reclassification was immaterial.

Note 3—Earnings Per Common Share

Diluted earnings per common share take into account the potential dilution that could occur if securities or other contracts to issue common stock are exercised and converted into common stock. Proceeds assumed to have been received on such exercise or conversion, are assumed to be used to purchase shares of the Company's common stock at the average market price during the period, as required by the "treasury stock method" of accounting for common stock equivalents. For purposes of calculating the basic and diluted earnings per share, the Company's reported net income is adjusted for dividends on preferred stock to determine the net income to common shareholders. Securities that could potentially dilute basic earnings per common share in future periods that were not included in the computation of diluted earnings per common share because to do so would have been anti-dilutive amounted to 54,029 shares as of December 31, 2017, and 148,174 shares as of December 31, 2016.

The calculations of basic and diluted earnings per common share are presented below for the years ended December 31, 2017 and 2016:

	For the year ended December 31,	
	2017	**2016**
(In thousands, except per share information)		
Net income	$ 2,458	$ 2,300
Less: preferred stock dividends	(306)	(407)
Income to common shareholders	$ 2,152	$ 1,893
Average basic common shares outstanding	6,559	6,514
Effect of dilutive stock options	226	56
Average number of common shares used to calculate diluted earnings per common share	6,785	6,570
Basic earnings per common share	$ 0.33	$ 0.29
Diluted earnings per common share	$ 0.32	$ 0.29

The amount of preferred stock dividends related to each series of preferred stock are presented below for the years ended December 31, 2017 and 2016:

	For the year ended December 31,	
	2017	2016
	(Dollars in thousands)	
Preferred dividends:		
Preferred Series A	$ -	$ 77
Preferred Series B	-	4
Preferred Series C	306	326
Total preferred dividends	$ 306	$ 407

Note 4—Securities

Management determines the appropriate classification of debt securities at the time of purchase and re-evaluates such designation as of each balance sheet date. Securities classified as available for sale are those securities that the Company intends to hold for an indefinite period of time, but not necessarily to maturity. Available for sale securities are carried at fair value.

Securities classified as held to maturity are those debt securities the Company has both the intent and ability to hold to maturity regardless of changes in market conditions, liquidity needs or changes in general economic conditions. These securities are carried at cost adjusted for the amortization of premium and accretion of discount, computed by a method which approximates the interest method over the terms of the securities.

The Company previously transferred investment securities from available for sale to held to maturity securities. Related to these transfers, there were net unrealized holding losses of $3 thousand, before the impact of taxes, as of December 31, 2017, compared to net unrealized holding gains of $12 thousand, before the impact of taxes, as of December 31, 2016, which are being amortized over the remaining life of the related securities as an adjustment of yield in a manner consistent with the accretion of discount on the same transferred debt securities. This will have no impact on the Company's net income because the amortization of the unrealized holding loss reported in equity will offset the effect on the interest income of the accretion of the discount on these securities.

The amortized cost, unrealized gains and losses, and the fair value of the Company's investment securities available for sale and held to maturity are as follows for the periods presented:

	December 31, 2017			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(Dollars in thousands)			
Available For Sale:				
Obligations of U.S. government agencies and corporations	$ 20,991	$ -	$ (20)	$ 20,971
Obligations of states and political subdivisions	4,218	168	-	4,386
Federal agency mortgage-backed securities	25,524	16	(251)	25,289
Federal agency collateralized mortgage obligations	111	-	(2)	109
Other debt securities	1,500	83	-	1,583
Money market mutual fund	35	-	-	35
Total investment securities available for sale	$ 52,379	$ 267	$ (273)	$ 52,373
Held To Maturity:				
Obligations of states and political subdivisions	$ 18,183	$ 953	$ (4)	$ 19,132
Other debt securities	482	51	-	533
Total held to maturity	$ 18,665	$ 1,004	$ (4)	$ 19,665

	December 31, 2016			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(Dollars in thousands)			
Available For Sale:				
Obligations of U.S. government agencies and corporations	$ 45,984	$ 8	$ (5)	$ 45,987
Obligations of states and political subdivisions	6,103	46	(10)	6,139
Federal agency mortgage-backed securities	13,863	33	(176)	13,720
Federal agency collateralized mortgage obligations	190	-	(1)	189
Other debt securities	1,500	30	-	1,530
Money market mutual fund	2,995	-	-	2,995
Total investment securities available for sale	$ 70,635	$ 117	$ (192)	$ 70,560
Held To Maturity:				
Obligations of states and political subdivisions	$ 18,561	$ 561	$ (33)	$ 19,089
Other debt securities	482	13	-	495
Total held to maturity	$ 19,043	$ 574	$ (33)	$ 19,584

Included in unrealized losses are market losses on securities that have been in a continuous unrealized loss position for twelve months or more and those securities that have been in a continuous unrealized loss position for less than twelve months. The table below details the aggregate unrealized losses and aggregate fair value of the underlying securities whose fair values are below their amortized cost at December 31, 2017 and 2016.

	As of December 31, 2017								
	Less than 12 Months			12 Months or longer			Total		
	Fair Value	Unrealized Losses	Count	Fair Value	Unrealized Losses	Count	Fair Value	Unrealized Losses	Count
	(Dollars in thousands)								
Available for Sale:									
Obligations of U.S. government agencies and corporations	$ 3,975	$ (17)	3	$ 1,996	$ (3)	2	$ 5,971	$ (20)	5
Federal agency mortgage-backed securities	20,099	(162)	12	3,416	(89)	4	23,515	(251)	16
Federal agency collateralized mortgage obligations	-	-	-	109	(2)	1	109	(2)	1
Total Available for Sale........	$ 24,074	$ (179)	15	$ 5,521	$ (94)	7	$ 29,595	$ (273)	22
Held to Maturity:									
Obligations of states and political subdivisions	$ 195	$ (1)	1	$ 315	$ (3)	1	$ 510	$ (4)	2
Total Held to Maturity..........	$ 195	$ (1)	1	$ 315	$ (3)	1	$ 510	$ (4)	2

	As of December 31, 2016								
	Less than 12 Months			12 Months or longer			Total		
	Fair Value	Unrealized Losses	Count	Fair Value	Unrealized Losses	Count	Fair Value	Unrealized Losses	Count
	(Dollars in thousands)								
Available for Sale:									
Obligations of U.S. government agencies and corporations	$ 3,984	$ (5)	4	$ -	$ -	-	$ 3,984	$ (5)	4
Obligations of states and political subdivisions	-	-	-	872	(10)	1	872	(10)	1
Federal agency mortgage-backed securities	10,667	(175)	11	39	(1)	1	10,706	(176)	12
Federal agency collateralized mortgage obligations	159	(1)	1	-	-	-	159	(1)	1
Total Available for Sale........	$ 14,810	$ (181)	16	$ 911	$ (11)	2	$ 15,721	$ (192)	18
Held to Maturity:									
Obligations of states and political subdivisions	$ 2,289	$ (33)	7	$ -	$ -	-	$ 2,289	$ (33)	7
Total Held to Maturity..........	$ 2,289	$ (33)	7	$ -	$ -	-	$ 2,289	$ (33)	7

As of December 31, 2017, management believes that the estimated fair value of the securities disclosed above is primarily dependent upon the movement in market interest rates, particularly given the minimal inherent credit risk associated with the issuers of these securities and that the unrealized losses in these portfolios are not the result of deteriorating credit within any investment category.

Securities issued by states and political subdivisions are all rated investment grade. Each holding is reviewed quarterly for impairment by management and our third party investment advisor. All mortgage backed securities and collateralized mortgage obligations are issued by U.S. government sponsored agencies; there are no holdings of private label mortgage backed securities or securities backed by loans classified as “Alt-A” or “Subprime”.

Although the fair value will fluctuate as market interest rates move, management believes that these fair values will recover as the underlying portfolios mature. The Company evaluates a variety of factors in concluding whether securities are other-than-temporarily impaired. These factors include, but are not limited to, the type and purpose of the bond, the underlying rating of the bond issuer, and the presence of credit enhancements (i.e. state guarantees, municipal bond insurance, collateral requirements, etc.). The Company does not intend to sell any of these securities and it is not likely to be required to sell any of these securities before recovery. Management does not believe any unrealized loss on individual securities, as of December 31, 2017 and 2016, represents other than temporary impairment.

For the years ended December 31, 2017 and 2016 gross gains of $416 thousand and $795 thousand, respectively, were realized from the sale of available for sale securities.

Securities totaling $69.0 million and $42.0 million were pledged at December 31, 2017 and 2016, respectively, to secure public fund deposits. In addition, securities pledged to secure borrowings by the Bank totaled $20 thousand and $40 thousand as of December 31, 2017 and December 31, 2016, respectively.

The amortized cost and fair value of securities as of December 31, 2017 by contractual maturity are shown below. Certain of these investment securities have call features which allow the issuer to call the security prior to its maturity date at the issuer's discretion.

	December 31, 2017			
	Available for Sale Securities		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(Dollars in thousands)			
Due within one year	$ 18,997	$ 18,993	$ -	$ -
Due after one year through five years	1,994	1,978	1,208	1,225
Due after five years through ten years	1,500	1,583	1,826	1,890
Due after ten years	4,218	4,386	15,631	16,550
	26,709	26,940	18,665	19,665
Federal agency collateralized mortgage obligations	111	109	-	-
Federal agency mortgage-backed securities	25,524	25,289	-	-
Money market mutual fund	35	35	-	-
Total	$ 52,379	$ 52,373	$ 18,665	$ 19,665

Note 5—Loans Receivable and Related Allowance for Loan Losses

Loans receivable consist of the following at December 31, 2017 and 2016.

	December 31,	
	2017	2016
	(Dollars in thousands)	
Commercial:		
Commercial and industrial	$ 85,395	$ 89,625
Commercial mortgage	235,946	223,315
Commercial construction	30,866	22,408
Total commercial	352,207	335,348
Residential mortgage loans	133,727	110,538
Consumer:		
Home equity lines of credit	19,295	24,669
Other consumer loans	13,780	17,514
Total consumer	33,075	42,183
Total loans	519,009	488,069
Allowance for loan losses	(3,405)	(3,330)
Net deferred loan cost (fees)	(82)	174
Total loans receivable, net	$ 515,522	$ 484,913

In June 2017, the Company purchased $7.0 million in performing residential real estate loans, at a slight acquisition discount totaling $35 thousand and in December 2017, purchased $9.0 million of performing residential real estate loans, including acquisition premiums of $117 thousand. Previously, in August, 2016, the Company increased its loans outstanding through the acquisition of $64.6 million, including acquisition premiums of $197 thousand, of various types of performing commercial loans within the Bank's market area. In June 2016, the Company purchased $12.7 million, including acquisition premiums of $280 thousand, of performing residential real estate loans. All portfolios of purchased loans were underwritten using similar standards as the Bank uses for its organic portfolio.

The following tables summarize the activity in the allowance for loan losses by loan class for the years ended December 31, 2017 and 2016:

	For the year ended December 31, 2017 Allowance for Loan Losses (Dollars in thousands)				
	Beginning Balance	Charge-offs	Recoveries	Provision for loan losses	Ending Balance
Commercial and industrial	$ 647	$ (281)	$ 4	$ 296	$ 666
Commercial mortgage	1,051	(30)	-	57	1,078
Commercial construction	113	-	-	34	147
Residential mortgage loans	452	-	-	172	624
Home equity lines of credit	188	-	2	(87)	103
Other consumer loans	97	(24)	19	(18)	74
Unallocated	782	-	-	(69)	713
Total	$ 3,330	$ (335)	$ 25	$ 385	$ 3,405

	For the year ended December 31, 2016 Allowance for Loan Losses (Dollars in thousands)				
	Beginning Balance	Charge-offs	Recoveries	Provision for loan losses	Ending Balance
Commercial and industrial	$ 631	$ (75)	$ 21	$ 70	$ 647
Commercial mortgage	831	(72)	2	290	1,051
Commercial construction	56	-	-	57	113
Residential mortgage loans	259	-	-	193	452
Home equity lines of credit	167	-	9	12	188
Other consumer loans	84	(75)	15	73	97
Unallocated	767	-	-	15	782
Total	$ 2,795	$ (222)	$ 47	$ 710	$ 3,330

The following tables present the balance in the allowance for loan losses at December 31, 2017 and 2016 disaggregated on the basis of the Company's impairment method by class of loans receivable along with the balance of loans receivable by class disaggregated on the basis of the Company's impairment methodology:

	December 31, 2017					
	Allowance for Loan Losses			Loans Receivables		
	(Dollars in thousands)					
	Ending Balance	Ending Balance Individually Evaluated for Impairment	Ending Balance Collectively Evaluated for Impairment	Ending Balance	Ending Balance Individually Evaluated for Impairment	Ending Balance Collectively Evaluated for Impairment
Commercial and industrial	$ 666	$ 42	$ 624	$ 85,395	$ 582	$ 84,813
Commercial mortgage	1,078	-	1,078	235,946	346	235,600
Commercial construction	147	-	147	30,866	-	30,866
Residential mortgage loans	624	140	484	133,727	637	133,090
Home equity lines of credit	103	-	103	19,295	-	19,295
Other consumer loans	74	-	74	13,780	3	13,777
Unallocated	713	-	713	-	-	-
Total	$ 3,405	$ 182	$ 3,223	$ 519,009	$ 1,568	$ 517,441

	December 31, 2016					
	Allowance for Loan Losses			Loans Receivables		
	(Dollars in thousands)					
	Ending Balance	Ending Balance Individually Evaluated for Impairment	Ending Balance Collectively Evaluated for Impairment	Ending Balance	Ending Balance Individually Evaluated for Impairment	Ending Balance Collectively Evaluated for Impairment
Commercial and industrial	$ 647	$ -	$ 647	$ 89,625	$ 705	$ 88,920
Commercial mortgage	1,051	-	1,051	223,315	6	223,309
Commercial construction	113	-	113	22,408	-	22,408
Residential mortgage loans	452	47	405	110,538	637	109,901
Home equity lines of credit	188	-	188	24,669	14	24,655
Other consumer loans	97	-	97	17,514	51	17,463
Unallocated	782	-	782	-	-	-
Total	$ 3,330	$ 47	$ 3,283	$ 488,069	$ 1,413	$ 486,656

The following tables summarize information in regard to impaired loans by loan portfolio class as of December 31, 2017 and 2016 as well as for the years then ended, respectively:

	December 31, 2017			December 31, 2016		
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance	Related Allowance
	(Dollars in thousands)					
With no related allowance recorded:						
Commercial and industrial	$ 251	$ 906	$ -	$ 705	$ 1,268	$ -
Commercial mortgage	346	418	-	6	57	-
Commercial construction	-	-	-	-	-	-
Residential mortgage loans	-	-	-	-	-	-
Home equity lines of credit	-	-	-	14	16	-
Other consumer loans	3	3	-	51	80	-
With an allowance recorded:						
Commercial and industrial	$ 331	$ 331	$ 42	$ -	$ -	$ -
Commercial mortgage	-	-	-	-	-	-
Commercial construction	-	-	-	-	-	-
Residential mortgage loans	637	637	140	637	637	47
Home equity lines of credit	-	-	-	-	-	-
Other consumer loans	-	-	-	-	-	-
Total:						
Commercial and industrial	$ 582	$ 1,237	$ 42	$ 705	$ 1,268	$ -
Commercial mortgage	346	418	-	6	57	-
Commercial construction	-	-	-	-	-	-
Residential mortgage loans	637	637	140	637	637	47
Home equity lines of credit	-	-	-	14	16	-
Other consumer loans	3	3	-	51	80	-
Total	$ 1,568	$ 2,295	$ 182	$ 1,413	$ 2,058	$ 47

	For the year ended December 31,							
	2017				2016			
	Average Recorded Investment		Interest Income Recognized		Average Recorded Investment		Interest Income Recognized	
	(Dollars in thousands)							
With no related allowance recorded:								
Commercial and industrial	$	495	$	4	$	1,042	$	9
Commercial mortgage		88		4		1,200		54
Commercial construction		-		-		-		-
Residential mortgage loans		-		-		28		1
Home equity lines of credit		-		-		94		4
Other consumer loans		3		-		170		7
With an allowance recorded:								
Commercial and industrial	$	196	$	-	$	503	$	19
Commercial mortgage		42		-		331		16
Commercial construction		-		-		-		-
Residential mortgage loans		637		23		638		24
Home equity lines of credit		-		-		-		-
Other consumer loans		-		-		-		-
Total:								
Commercial and industrial	$	691	$	4	$	1,545	$	28
Commercial mortgage		130		4		1,531		70
Commercial construction		-		-		-		-
Residential mortgage loans		637		23		666		25
Home equity lines of credit		-		-		94		4
Other consumer loans		3		-		170		7
Total	$	1,461	$	31	$	4,006	$	134

The following table presents non-accrual loans by classes of the loan portfolio as of December 31, 2017 and 2016:

	December 31,			
	2017		2016	
	(Dollars in thousands)			
Commercial and industrial	$	435	$	705
Commercial mortgage		200		6
Home equity lines of credit		-		14
Other consumer loans		3		51
Total loans	$	638	$	776

The Company's policy for interest income recognition on non-accrual loans is to recognize income under the cash basis when the loans are both current and the collateral on the loan is sufficient to cover the outstanding obligation to the Company. The Company will not recognize income if these factors do not exist. Interest that would have been accrued on non-accruing loans under the original terms but was not recognized as interest income totaled $72 thousand and $93 thousand for the years ended December 31, 2017 and 2016, respectively.

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, 2017 and 2016:

	December 31, 2017				
	Pass	Special Mention	Substandard	Doubtful	Total
	(Dollars in thousands)				
Commercial:					
Commercial and industrial	$ 84,811	$ -	$ 584	$ -	$ 85,395
Commercial mortgage	235,114	-	832	-	235,946
Commercial construction	30,866	-	-	-	30,866
Residential mortgage loans	133,727	-	-	-	133,727
Consumer:					
Home equity lines of credit	19,295	-	-	-	19,295
Other consumer loans	13,780	-	-	-	13,780
Total	$ 517,593	$ -	$ 1,416	$ -	$ 519,009

	December 31, 2016				
	Pass	Special Mention	Substandard	Doubtful	Total
	(Dollars in thousands)				
Commercial:					
Commercial and industrial	$ 88,503	$ -	$ 1,122	$ -	$ 89,625
Commercial mortgage	221,544	-	1,771	-	223,315
Commercial construction	22,408	-	-	-	22,408
Residential mortgage loans	110,538	-	-	-	110,538
Consumer:					
Home equity lines of credit	24,655	-	14	-	24,669
Other consumer loans	17,463	-	51	-	17,514
Total	$ 485,111	$ -	$ 2,958	$ -	$ 488,069

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, 2017 and 2016:

	December 31, 2017					
	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans Receivables
	(Dollars in thousands)					
Commercial:						
Commercial and industrial	$ 36	$ 284	$ 698	$ 1,018	$ 84,377	$ 85,395
Commercial mortgage	2,206	-	200	2,406	233,540	235,946
Commercial construction	-	-	-	-	30,866	30,866
Residential mortgage loans	329	-	-	329	133,398	133,727
Consumer:						
Home equity lines of credit	-	-	-	-	19,295	19,295
Other consumer loans	33	65	3	101	13,679	13,780
Total	$ 2,604	$ 349	$ 901	$ 3,854	$ 515,155	$ 519,009

	December 31, 2016											
	30-59 Days Past Due		60-89 Days Past Due		Greater Than 90 Days		Total Past Due		Current		Total Loans Receivables	
	(Dollars in thousands)											
Commercial:												
Commercial and industrial	$	293	$	60	$	632	$	985	$	88,640	$	89,625
Commercial mortgage		-		-		6		6		223,309		223,315
Commercial construction		-		-		-		-		22,408		22,408
Residential mortgage loans		-		104		-		104		110,434		110,538
Consumer:												
Home equity lines of credit		-		-		-		-		24,669		24,669
Other consumer loans		17		-		4		21		17,493		17,514
Total	$	310	$	164	$	642	$	1,116	$	486,953	$	488,069

As of December 31, 2017 there was one loan totaling $263 thousand that is past due 90 days and still accruing interest. This single loan relationship was paid off in its entirety in January 2018, with no losses incurred. As of December 31, 2016, there were no loans 90 days past due and still accruing interest.

Troubled Debt Restructurings

The Company may grant a concession or modification for economic or legal reasons related to a borrower's declining financial condition that it would not otherwise consider, resulting in a modified loan which is then identified as a troubled debt restructuring ("TDR"). The Company may modify loans through rate reductions, extensions of maturity, interest only payments, or payment modifications to better match the timing of cash flows due under the modified terms with the cash flows from the borrowers' operations. Loan modifications are intended to minimize the economic loss and to avoid foreclosure or repossession of the collateral. TDRs are considered impaired loans for purposes of calculating the Company's allowance for loan losses.

The Company identifies loans for potential restructure primarily through direct communication with the borrower and evaluation of the borrower's financial statements, revenue projections, tax returns, and credit reports. Even if the borrower is not presently in default, management will consider the likelihood that cash flow shortages, adverse economic conditions, and negative trends may result in a payment default in the near future.

The following table reflects information regarding TDR's entered into by the Company for the period ended December 31, 2017.

	For the year ended December 31, 2017				
	Number of Contracts	Pre-Modification Outstanding Recorded Investments		Post-Modification Outstanding Recorded Investments	
	(Dollars in thousands)				
Troubled debt restructurings:					
Commercial and industrial	2	$	221	$	206
Commercial mortgage	1		164		149
Total	3	$	385	$	355

For the year ended December 31, 2017, there were two loans, involving one borrower, modified into trouble debt restructurings related to a participation in a combined loan relationship whereby the Bank and all other banks involved entered into an agreement to accept a payment modification which resulted in a loss recorded by the Bank of $30 thousand and one loan for $55 thousand, modified into an interest only payment which did not result in any losses incurred. For the year ended December 31, 2016 there were no new TDR's entered into.

The following tables summarize the balance of outstanding TDR's at December 31, 2017 and December 31, 2016:

	Number of Loans		Performing TDR's		Non-Performing TDR's		Total TDRs
			(Dollars in thousands)				
December 31, 2017							
Commercial and Industrial	2	$	147	$	55	$	202
Commercial mortgage loans	1		146		-		146
Residential mortgage loans	1		637		-		637
Total	**4**	**$**	**930**	**$**	**55**	**$**	**985**

	Number of Loans		Performing TDR's		Non-Performing TDR's		Total TDRs
			(Dollars in thousands)				
December 31, 2016							
Residential mortgage loans	1	$	637	$	-	$	637
Home equity lines of credit	1		-		14		14
Other consumer loans	1		-		20		20
Total	**3**	**$**	**637**	**$**	**34**	**$**	**671**

As of December 31, 2017, there was one commercial loan TDR totaling $55 thousand which was in default and is classified as non-accrual. As of December 31, 2017 and 2016 there were no other TDR's which were subsequently in default and there were no commitments to lend additional funds to debtors whose terms have been modified in TDR's.

The carrying amount of foreclosed residential mortgage properties held was $466 thousand as of December 31, 2017. There were no consumer mortgage loans collateralized by residential real estate property that were in the process of foreclosure as of December 31, 2017.

Note 6—Transactions with Executive Officers, Directors and Principal Shareholders

The Company has had, and may be expected to have in the future, banking transactions in the ordinary course of business with its executive officers, directors, principal shareholders, their immediate families and affiliated companies (commonly referred to as related parties), on the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with others and do not involve more than the normal risk of collectability. Activity of these loans is as follows:

	December 31,			
		2017		**2016**
	(Dollars in thousands)			
Balance, beginning of year	$	5,466	$	5,722
New loans		2,549		2,174
Loans of Retired Officers		(773)		-
Repayments		(1,686)		(2,430)
Balance at end of year	$	5,556	$	5,466

Deposits of related parties totaled $9.5 million and $7.7 million at December 31, 2017 and 2016, respectively.

Note 7—Premises and Equipment

The components of premises and equipment at December 31, 2017 and 2016 are as follows:

	December 31, 2017	December 31, 2016
	(Dollars in thousands)	
Buildings	$ 1,143	$ 1,143
Leasehold improvements	1,424	1,422
Furniture, fixtures and equipment	799	818
Automobiles	20	24
Computer equipment and data processing software	765	736
	4,151	4,143
Accumulated depreciation	(2,544)	(2,388)
	$ 1,607	$ 1,755

Depreciation expense for the years ended December 31, 2017 and 2016 was $262 thousand and $309 thousand, respectively.

Note 8—Deposits

The components of deposits at December 31, 2017 and 2016 are as follows:

	As of December 31, 2017	As of December 31, 2016
	(Dollars in thousands)	
Demand, non-interest bearing	$ 65,634	$ 54,817
Demand, interest-bearing	29,918	57,168
Money market and savings accounts	145,355	113,655
Time, $100 and over	84,358	45,311
Time, other	197,885	196,737
	$ 523,150	$ 467,688

Included in time, other at December 31, 2017 and 2016 are brokered deposits of $120.2 million, and $138.8 million, respectively.

As of December 31, 2017 and 2016 aggregate time deposits which exceed the $250 thousand FDIC insurance limit were $32.1 million and $8.0 million, respectively.

At December 31, 2017, the scheduled maturities of time deposits are as follows:

	December 31, 2017
	(Dollars in thousands)
2018	$ 155,229
2019	76,431
2020	24,421
2021	17,942
2022	8,220
Thereafter	-
	$ 282,243

The aggregate amount of demand deposit overdrafts that were reclassified as loans was $54 thousand at December 31, 2017, compared to $134 thousand at December 31, 2016.

Note 9—Borrowings

As of December 31, 2017 and 2016, the Company had an unused borrowing facility with a correspondent bank totaling $10 million, of which $2 million is available unsecured. The remaining $8 million is a secured line of credit with security provided, when utilized, by a pledge of the Company’s investment assets.

The Bank has been a member of FHLB since March 2008. Advances are collateralized by restricted investments in FHLB bank stock totaling $1.3 million and $3.1 million at December 31, 2017 and 2016, respectively, by a specific pledge of the Bank's investment assets and by a blanket lien on the Bank's loan portfolio. At December 31, 2017 and 2016, respectively, the Bank had borrowing capacity with the FHLB, of $221 million and $206 million, respectively, with advances outstanding as of those dates of $24.6 million and $68.2 million, respectively. Investment securities with a carrying value of $20 thousand and $40 thousand were specifically pledged as collateral to secure FHLB borrowings as of December 31, 2017 and 2016, respectively.

Short-Term Borrowings

At December 31, 2017 and 2016, First Priority had short-term borrowings totaling $15.6 million and $56.2 million, respectively, consisting of advances from the FHLB with an original maturity of less than a year. Advances from the FHLB at December 31, 2017 are collateralized by our investment in the common stock of the FHLB and by a blanket lien on selected mortgage loans within the Bank's portfolio.

The following table outlines First Priority's various sources of short-term borrowed funds at or for the years ended December 31, 2017 and 2016. The maximum balance represents the highest indebtedness for each category of short-term borrowed funds at any month-end during each of the years shown.

	December 31,	
	2017	2016
	(Dollars in thousands)	
Federal funds purchased:		
Balance at year end	$ -	$ -
Weighted average rate at year end	-	-
Maximum month-end balance	$ 19	$ -
Average daily balance during the year	$ 3	$ 2
Weighted average rate during the year	1.52%	0.76%
FHLB short-term borrowings:		
Balance at year end	$ 15,625	$ 56,164
Weighted average rate at year end	1.54%	0.74%
Maximum month-end balance	$ 70,400	$ 60,688
Average daily balance during the year	$ 26,446	$ 22,508
Weighted average rate during the year	1.15%	0.61%

Long-Term Debt

Long-term debt, consisting of FHLB advances with an original maturity of one year or greater, totaled $9.0 million and $12.0 million as of December 31, 2017 and 2016, respectively. Average balances outstanding totaled $10.9 million and $14.1 million, respectively, with an average cost of 1.30% and 1.12%, respectively, for the years ended December 31, 2017 and 2016. Advances are made pursuant to several different credit programs offered from time to time by the FHLB.

At December 31, 2017, scheduled maturities of long-term borrowings with the FHLB are as follows:

	Balance	Weighted Average Rate
	(Dollars in thousands)	
2018	$ 3,000	1.31%
2019	2,000	1.64%
2020	4,000	1.75%
	$ 9,000	1.58%

Note 10—Subordinated Debt

On November 13, 2015, First Priority Bank entered into Subordinated Note Purchase Agreements with five accredited investors under which the Bank issued subordinated notes (the "Notes") totaling $9.5 million, resulting in net proceeds of approximately $9.2 million after issuance costs of $318 thousand. The Notes have a maturity date of November 30, 2025, and will bear interest at a fixed rate of 7.00% per annum. The Notes are non-callable for an initial period of five years and include provisions for redemption pricing between 101.5% and 100.5% of the total of $9.5 million, plus accrued but unpaid interest thereon up to but excluding the redemption date, if called after five years but prior to the maturity date.

Note 11—Lease Commitments

Pursuant to the terms of non-cancellable lease agreements in effect at December 31, 2017, pertaining to premises, future minimum lease payments by year and in the aggregate, under these lease agreements, are as follows:

(Dollars in thousands)	Minimum Lease Payments
2018	$ 1,246
2019	1,266
2020	1,172
2021	971
2022	878
Thereafter	2,832
	$ 8,365

The minimum lease payments shown above include payments for the entire current term. Option periods for which the Company has an option to extend the lease beyond current periods have not been included as part of the minimum lease payments.

Lease expense for all leases for the years ended December 31, 2017 and 2016 was $1.09 million and $1.13 million, respectively.

During 2016, the Bank closed its Plumstead branch office location upon reaching the end of the initial lease term.

Note 12—Severance and Employment Agreements

On December 19, 2013, the board of directors of the Company approved severance agreements between the Company and participating senior officers. Under the First Priority Bank Severance Plan (the "Severance Plan"), which is a broad-based severance plan applicable to certain employees of the Company and the Bank. Each participating senior officer will receive a severance benefit equal to continued base salary, as defined, for a period ranging between six and eighteen months in the event that the officer's employment is terminated within one year following a "change in control" as a result of a work force reduction or job elimination.

In addition, each senior officer also received a grant of stock options under the Company's existing Stock Compensation Program. These issued options, totaling 355,000, which vest only upon a change in control of the Company, will remain outstanding for a period of ten years, expiring as of December 19, 2023, at an exercise price of $5.25.

On December 19, 2013, as part of the Company's long-term incentive compensation program, each senior officer also received a grant of restricted stock under the Company's Stock Compensation Program, totaling 89,500 shares in aggregate, which vested three years from the grant date.

The Company has an employment agreement with its president, who does not participate in the previously mentioned Severance Plan. The employment agreement provides for a three year term that is automatically renewed on each anniversary date of the agreement for an additional year unless either party gives notice to the other of non-renewal at least 60 days prior to such anniversary date. The agreement provides for a base salary and benefits commensurate with other First Priority executive officers, including health insurance, vacation, use of a company vehicle, supplemental life insurance and disability coverage, among other things. The agreement can be terminated for "cause" as defined in the agreement. If First Priority were to terminate its president's employment without cause, or if the president were to terminate his employment for "good reason", as defined, including but not limited to, change in control of First Priority, he will be entitled to receive post termination benefits as follows: an amount equal to three (3) times the sum of (i) the highest salary paid to him in the year of termination or prior two calendar years and (ii) the highest bonus paid to him in one of the three calendar years prior to termination and (iii) an adjustment for benefits.

Note 13—Shareholders' Equity

The Company amended its articles of incorporation, effective May 4, 2016, to increase the number of authorized shares of its common stock, $1.00 par value, from 10,000,000 shares to 20,000,000 shares. The amendment was approved by shareholders at the 2016 annual meeting of shareholders held on May 3, 2016.

As of December 31, 2017 and 2016 the Company had 3,404 shares of 9% fixed rate, Cumulative Perpetual Preferred Stock outstanding totaling $3.4 million.

On January 22, 2016, First Priority redeemed $6.0 million of its outstanding Preferred Stock for a total redemption price of $1,016.75 per share which included accrued dividends. This redemption included all shares of outstanding Series A (4,579 shares; par value $1,000) and Series B (229 shares; par value $1,000); and approximately 25.9% of Series C (1,192 shares of 4,596 shares outstanding; par value $1,000). The shares of Series C were selected for redemption on a pro rata basis. After the completion of these redemptions, 3,404 shares of Series C Preferred Stock are outstanding as of December 31, 2017.

The Preferred Stock has no maturity date and ranks senior to common stock with respect to dividends and upon liquidation, dissolution, or winding up. The Company may redeem the Preferred Stock, in whole or in part, at its liquidation preference plus accrued and unpaid dividends.

Note 14—Stock Compensation Program

In 2005, the Company adopted the 2005 Stock Compensation Program, which was amended at the Company's annual meeting on April 23, 2009 as the 2009 Stock Compensation Program (the "Program") and further amended effective March 18, 2010. The Program allows equity benefits to be awarded in the form of Incentive Stock Options, Compensatory Stock Options or Restricted Stock. The Program authorizes the Board of Directors to grant options up to an aggregate maximum of 1,207,957 shares to officers, other employees and directors of the Company, including 382,957 shares which were authorized for grant under this plan as a result of the merger with Affinity. Only employees of the Company will be eligible to receive Incentive Stock Options and such grants are subject to the limitations under Section 422 of the Internal Revenue Code.

All stock options granted under the Program fully vest in four years from the date of grant (or potentially earlier upon a change of control), excluding options issued in regards to the Company's Severance Plan which vest only upon change in control, and options terminate ten years from the date of the grant. The exercise price of the options granted is the fair value of a share of common stock at the time of the grant.

A summary of the Stock Option Plan is presented below:

	For the Years Ended December 31,			
	2017		2016	
	Options to Purchase Common Shares	Weighted Average Exercise Price	Options to Purchase Common Shares (1)	Weighted Average Exercise Price
Outstanding at beginning of year	955,060	$6.35	970,193	$6.41
Granted during year	7,500	7.92	37,500	5.93
Forfeited/cancelled during the year	(40,000)	6.19	(32,500)	5.91
Exercised	-	-	(2,000)	5.73
Expired	(114,690)	10.08	(18,133)	9.65
Outstanding at end of year	807,870	$5.84	955,060	$6.35
Exercisable at end of year	239,870	$6.62	354,560	$7.74

(1) Included in options outstanding and exercisable at December 31, 2016 are 100,000 organizer options, with an exercise price of $10.00 per share which expired on October 18, 2017.

The weighted average remaining contractual lives of all outstanding stock options and exercisable at December 31, 2017 and 2016 were 5.46 years and 3.05 years, respectively, and 5.84 years and 2.98 years, respectively. The aggregate intrinsic value of all outstanding stock options based on the closing stock price was $2.5 million as of December 31, 2017, including $586 thousand related to currently exercisable options, and $705 thousand as of December 31, 2016, including $150 thousand related to exercisable options.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions:

	2017	2016
Dividend yield	0.0%	0.0%
Expected life	7 years	7 years
Expected volatility	23%	26%
Risk-free interest rate	2.04%	1.63%
Weighted average fair value	$2.34	$1.83

For option grants to individual employees, the Company assumes no forfeitures. For option grants made to a group of employees, a 10% forfeiture rate is typically assumed at the date of the grant, and compared to actual forfeitures on an annual basis.

The dividend yield assumption is based on the Company's history and expectation of dividend payouts. Due to the Company's lack of sufficient historical exercise data and the limited period of time for which shares have been issued, the "simplified" method is used to determine the expected life of options, calculated as the average of the sum of the vesting term and original contractual term for all periods presented. The expected volatility percentage is based on the average expected volatility of similar public financial institutions in the Company's market area. The risk-free interest rates for periods within the contractual life of the awards are based on the U.S. Treasury yield curve in effect at the time of grant.

As of December 31, 2017, there was $146 thousand of unrecognized compensation cost related to non-vested stock options granted after January 1, 2007, excluding those stock options issued in conjunction with the severance plan (see Note 12). That cost is expected to be recognized over a weighted average period of 1.72 years. There was no tax benefit recognized related to this stock-based compensation. There are 355,000 stock options issued in connection with the termination of the previously executed change in control agreements and the adoption of the severance plan with $576 thousand of unrecognized compensation cost which will only be recognized if a change in control occurs, based on the options which remain outstanding and are probable to vest at that time. During 2015, included in the options granted, there were 99,000 performance options issued to various employees. Certain performance criteria must be achieved over the performance period in order for the option granted to vest. Performance is analyzed on a quarterly basis to determine if the specific required performance is more likely than not to be achieved. Based on this evaluation, 82,500 performance options were cancelled to date, leaving 16,500 outstanding as of December 31, 2017. These non-vested options may be further adjusted in the future if the performance measures are not met.

Restricted stock grants fully vest after a minimum of three years from the date of grant (or potentially earlier upon a change of control or retirement after the age of 66), subject to the recipient remaining an employee of the Company. Directors are also granted restricted stock as part of their compensation for their services on the Board of Directors, or related Committees, as approved by the Compensation Committee of the Board. Upon issuance of the shares, resale of the shares is restricted during the vesting period, during which the shares may not be sold, pledged, or otherwise disposed of. Prior to the vesting date and in the event the recipient terminates association with Company for any reasons other than death, disability or change of control, the recipient forfeits all rights to the shares that would otherwise be issued under the grant. Compensation expense related to restricted stock awards granted under the Plan is determined at the date of the award based on the estimated fair value of the shares and is amortized over the vesting period. As of December 31, 2017, there was $520 thousand of unrecognized compensation cost related to restricted stock, which will be amortized through July 31, 2021.

A summary of restricted stock award activity is presented below for the years presented:

	For the Years Ended December 31,	
	2017	2016
Outstanding unvested shares at beginning of year	89,450	165,474
Shares granted during year	52,700	36,250
Shares forfeited/cancelled during year	(4,450)	(725)
Vested Shares during this period	(13,550)	(111,549)
Outstanding unvested shares at end of year	124,150	89,450

Note 15—Federal Income Taxes

Deferred tax assets ("DTA") are reduced by a valuation allowance if, based on the weight of evidence available, it is more likely than not that some portion or all of a deferred tax asset will not be realized. When determining the need for a valuation allowance, the Company assessed the possible sources of taxable income available under tax law to realize a tax benefit for deductible temporary differences and carryforwards, as defined by Accounting Standards Codification ("ASC") Topic 740-10-30-18. This guidance related to when a valuation allowance on the DTA should be maintained, generally provides that the valuation allowance should be reversed, when in the judgment of management, it is more likely than not that the DTA will be realized. First Priority has determined that it is more likely than not that the net deferred tax asset will be realized, and therefore, in its judgment, a valuation allowance related to net deferred tax assets is not required.

When evaluating the Company's deferred tax asset and related valuation allowance, management considered the four sources of taxable income identified in ASC Topic 740-10-30-18 including:

- Future reversals of existing taxable temporary differences.
- Taxable income in prior carryback year(s) if carryback is permitted under the tax law.
- Tax-planning strategies (see paragraph 740-10-30-19) that would, if necessary, be implemented
- Future taxable income exclusive of reversing temporary differences and carryforwards

Additionally, the Company also considers tax planning strategies which could accelerate taxable income and allow the Company to take advantage of future deductible differences. A qualified tax-planning strategy is an action that (a) is prudent and feasible; (b) a company ordinarily might not take, but would take to prevent an operating loss or tax credit carryforward from expiring unused; and (c) would result in the realization of deferred tax assets.

The components of the net deferred tax asset at December 31, 2017 and 2016 are as follows:

	December 31,	
	2017	**2016**
	(Dollars in thousands)	
Deferred tax assets:		
Allowance for loan losses	$ 583	$ 701
Organization and start-up costs	35	75
Net operating loss carryforwards	-	833
Net operating loss carryforwards--acquired	231	670
Contribution carryforward	-	9
Non-qualified stock option expense	208	283
Other real estate owned deferred costs	18	215
Unrealized loss on investment securities	3	21
Alternative minimum tax carryforward	-	199
Property and equipment	35	35
Unfunded loan commitment reserve	7	12
Total Deferred Tax Assets	1,120	3,053
Deferred tax liabilities:		
Acquisition accounting	66	135
Cash basis conversions	120	206
Discount accretion on investment securities	11	15
Total Deferred Tax Liabilities	197	356
Net Deferred Tax Asset	$ 923	$ 2,697

First Priority's net deferred tax asset as of December 31, 2017 includes $231 thousand related to net operating losses ("NOL") acquired related to the acquisition of Prestige Community Bank and Affinity Bancorp which are subject to certain limitations and expire in 2028 and 2032, respectively, if not fully utilized. The acquired NOL carryforward balance of $1.1 million remains available to reduce future federal income taxes as of December 31, 2017.

The following table presents the income tax expense for the years ended December 31, 2017 and 2016.

	For the year ended December 31,			
	2017		2016	
	(Dollars in thousands)			
Current tax expense:				
Federal	$	227	$	94
State		19		46
Deferred Income tax expense:				
Federal		1,755		988
Income tax expense	$	2,001	$	1,128

Reconciliation of the statutory federal income tax expense computed at 34% to the income tax expense included in the consolidated statements of income is as follows:

	For the year ended December 31,			
	2017		2016	
	(Dollars in thousands)			
Federal income tax expense at statutory rate of 34%:	$	1,516	$	1,165
Increase (decrease) in taxes resulting from:				
Tax exempt interest income, net		(159)		(109)
Tax exempt income on bank owned life insurance		(24)		(26)
Applicable state income taxes		13		30
Stock compensation adjustment for expired options		(3)		30
Tax Cut and Jobs Act adjustment to deferred tax asset		571		-
Other		87		38
Federal income tax expense	$	2,001	$	1,128

The year ended December 31, 2017 included a non-recurring non-cash reduction in the value of First Priority's net deferred tax asset which resulted in a charge of $571 thousand and is included in the provision for income tax expense. This income tax adjustment was a result of the Tax Cuts and Jobs Act, enacted on December 22, 2017, which lowered First Priority's future maximum corporate tax rate from 34 percent to 21 percent. Although this reduced rate will provide tax savings in future periods, this charge was required to write-down First Priority's DTA which was previously valued based upon the projection of a 34 percent future tax benefit.

The Company's policy for recording interest and penalties associated with audits is to record such items as a component of income beforeincome taxes. Penalties are recorded in other expenses, net, and interest paid or received is recorded in interest expense or interestincome, respectively, in the consolidated statement of income. As of December 31, 2017 and 2016, there was no interest or penaltiesaccrued for the Company. With limited exception, tax years prior to 2014 are closed to examination by Federal and State taxingauthorities.

Note 16—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 to meet the financing needs of its customers. These financial instruments include commitments to extend credit. Such commitments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated balance sheet.

The Company's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit is represented by the contractual amount of those instruments. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments.

At December 31, 2017 and 2016, outstanding commitments to extend credit consisting of total unfunded commitments under lines of credit were $115.2 million and $98.2 million, respectively. In addition, as of each of these dates, there were $2.3 million and $958 thousand of performance standby letters of credit outstanding, respectively, and $1.7 million of financial standby letters of credit as of each respective date, issued on behalf of the Bank's customers.

As of December 31, 2017 the Company did not have any deposit letters of credit outstanding; however as of December 31, 2016, the Company had deposit letters of credit totaling $16.0 million, issued by the Federal Home Loan Bank of Pittsburgh ("FHLB"), as required to provide collateral on certain municipal deposits maintained at the Bank. These deposit letters of credit were secured by a blanket lien on selected mortgage loans within First Priority Bank's portfolio.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements.

Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. The Bank evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Bank upon extension of credit, is based on management's credit evaluation. Collateral held varies but may include residential or commercial real estate, accounts receivable, inventory and equipment.

Note 17—Regulatory Matters

The Bank's capital amounts (dollars in thousands) and ratios at December 31, 2017 and 2016 are presented below:

	Actual		Minimum Capital Requirement		To be Well Capitalized under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2017						
Total capital (to risk-weighted assets)	**$ 59,886**	**12.15 %**	**$ 39,434**	**>8.0%**	**$ >49,292**	**>10.0%**
Tier 1 capital (to risk-weighted assets)	**47,215**	**9.58**	**>29,575**	**>6.0**	**>39,434**	**>8.0**
Tier 1 common equity capital (to risk-weighted assets)	**47,215**	**9.58**	**>22,182**	**>4.5**	**>32,040**	**>6.5**
Tier 1 capital (to total assets)	**47,215**	**8.08**	**>23,384**	**>4.0**	**>29,230**	**>5.0**
December 31, 2016						
Total capital (to risk-weighted assets)	**$ 55,900**	**12.07 %**	**$ >37,064**	**>8.0%**	**$ >46,330**	**>10.0%**
Tier 1 capital (to risk-weighted assets)	**43,328**	**9.35**	**>27,798**	**>6.0**	**>37,064**	**>8.0**
Tier 1 common equity capital (to risk-weighted assets)	**43,328**	**9.35**	**>20,848**	**>4.5**	**>30,114**	**>6.5**
Tier 1 capital (to total assets)	**43,328**	**7.87**	**>22,023**	**>4.0**	**>27,528**	**>5.0**

The federal banking agencies approved rules that implemented the Dodd-Frank requirements and certain other regulatory capital reforms which were designed to enhance such requirements and implement the revised standards of the Basel Committee on Banking Supervision, commonly referred to as Basel III.

Under these rules, in order to avoid limitations on capital distributions (including dividend payments and certain discretionary bonus payments to executive officers), a banking organization must hold a capital conservation buffer comprised of common equity tier 1 capital above its minimum risk-based capital requirements in an amount greater than 2.5% of total risk-weighted assets. The capital contribution buffer requirements is being phased in over a three-year period beginning January 1, 2016 and was 0.625% in 2016, 1.25% during 2017 and is 1.875% in 2018. The capital buffer requirement, on a fully phased-in basis as of January 1, 2019, effectively raises the minimum required common equity Tier 1 capital ratio to 7.0% (5.125% in 2016 and 5.75% in 2017), the Tier 1 capital ratio to 8.5% (6.625% in 2016 and 7.25% in 2017), and the total capital ratio to 10.5% (8.625% in 2016 and 9.25% in 2017).

First Priority's ability to pay cash dividends is dependent on receiving cash in the form of dividends from the Bank. However, certain restrictions exist regarding the ability of the Bank to transfer funds to First Priority in the form of cash dividends. All dividends are currently subject to prior approval of the Pennsylvania Department of Banking and Securities and the FDIC and are payable only from the undivided profits of the Bank, with the exception of an exemption enacted by the Pennsylvania Department of Banking and Securities which allows the Bank to pay dividends related to preferred stock originally issued under the U.S. Department of the Treasury's Troubled Asset Relief Program—Capital Purchase Program. Additionally, First Priority has met the requirement of obtaining prior approval from the Federal Reserve Bank on any payment of dividends including dividends on the aforementioned preferred stock, when net income for the past four quarters is not sufficient to fund the dividend payments over that same period or when such payment would negatively impact capital adequacy of the Company.

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

Management uses its best judgment in estimating the fair value of the Bank's financial instruments; however, there are inherent weaknesses in any estimation technique. Therefore, for substantially all financial instruments, the fair value estimates herein are not necessarily indicative of the amounts the Company could have realized in a sales transaction on the dates indicated. The estimated fair value amounts have been measured as of December 31, 2017 and 2016 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 year-end.

The Company uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. In accordance with FASB ASC Topic 820 – *Fair Value Measurements*, the fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is best determined based upon quoted market prices. However, in some instances, there are no quoted market prices for the Company's various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument.

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

FASB ASC Topic 820 establishes a fair value hierarchy that prioritizes the inputs to valuation methods used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under FASB ASC Topic 820 are as follows:

Level 1: Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.

Level 2: Quoted prices in markets that are not active, or inputs that are observable either directly or indirectly, for substantially the full term of the asset or liability.

Level 3: Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (i.e., supported with little or no market activity).

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

During the years ended December 31, 2017 and 2016 there were no changes in methodologies for determining fair value measurements and there were no transfers between fair value hierarchy levels.

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, 2017 and 2016 are as follows:

Description	Fair Value	(Level 1) Quoted Prices in Active Markets for Identical Assets	(Level 2) Significant Other Observable Inputs	(Level 3) Significant Unobservable Inputs
		(Dollars in thousands)		
As of December 31, 2017:				
Investment securities available for sale:				
Obligations of U.S. government agencies and corporations	$ 20,971	$ -	$ 20,971	$ -
Obligations of states and political subdivisions	4,386	-	4,386	-
Federal agency mortgage-backed securities	25,289	-	25,289	-
Federal agency collateralized mortgage obligations	109	-	109	-
Other debt securities	1,583	-	1,583	-
Money market mutual fund	35	35	-	-
Total assets measured at fair value on a recurring basis	$ 52,373	$ 35	$ 52,338	$ -

Description	Fair Value	(Level 1) Quoted Prices in Active Markets for Identical Assets	(Level 2) Significant Other Observable Inputs	(Level 3) Significant Unobservable Inputs
		(Dollars in thousands)		
As of December 31, 2016:				
Investment securities available for sale:				
Obligations of U.S. government agencies and corporations	$ 45,987	$ -	$ 45,987	$ -
Obligations of states and political subdivisions	6,139	-	6,139	-
Federal agency mortgage-backed securities	13,720	-	13,720	-
Federal agency collateralized mortgage obligations	189	-	189	-
Other debt securities	1,530	-	1,530	-
Money market mutual fund	2,995	2,995	-	-
Total assets measured at fair value on a recurring basis	$ 70,560	$ 2,995	$ 67,565	$ -

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, 2017 and 2016 are as follows:

Description	Fair Value	(Level 1) Quoted Prices in Active Markets for Identical Assets	(Level 2) Significant Other Observable Inputs	(Level 3) Significant Unobservable Inputs
		(Dollars in thousands)		
As of December 31, 2017:				
Impaired loans	$ 1,119	$ -	$ -	$ 1,119
Other real estate owned	69	-	-	69
Total assets measured at fair value on a nonrecurring basis	$ 1,188	$ -	$ -	$ 1,188
As of December 31, 2016:				
Impaired loans	$ 1,257	$ -	$ -	$ 1,257
Other real estate owned	679	-	-	679
Total assets measured at fair value on a nonrecurring basis	$ 1,936	$ -	$ -	$ 1,936

Management generally uses a discounted appraisal technique in valuing impaired assets, resulting in the discounting of the collateral values underlying each impaired asset. A discounted tax assessment rate has been applied for smaller assets to determine the discounted collateral value. All impaired loans are classified as Level 3 in the fair value hierarchy. Collateral may be real estate and / or business assets. Impaired loans are reviewed and evaluated on at least a quarterly basis for additional impairment.

Quantitative information about Level 3 fair value measurements at December 31, 2017 is included in the table below:

	Fair Value		Valuation Techniques	Unobservable Inputs (2)	Estimated Ratings (Weighted Average) (3)	
	(Dollars in thousands)					
Impaired loans	$	1,119	Appraisal of real estate collateral (1)	Appraisal adjustments	0%-75%	(12.19%)
				Liquidation expenses	0%-10%	(8.47%)
Other real estate owned	$	69	Appraisal of collateral(1)	Appraisal adjustments	0%	(0.00%)
				Liquidation expenses	8%	(8.00%)

Quantitative information about Level 3 fair value measurements at December 31, 2016 is included in the table below:

	Fair Value		Valuation Techniques	Unobservable Inputs (2)	Estimated Ratings (Weighted Average) (3)	
	(Dollars in thousands)					
Impaired loans	$	1,257	Appraisal of real estate collateral (1)	Appraisal adjustments	0%-25%	(4.87%)
			Valuation of business assets used as collateral(4)	Valuation adjustments	0%-80%	(75.32%)
				Liquidation expenses	0%-10%	(8.01%)
Other real estate owned	$	679	Appraisal of collateral(1)	Appraisal adjustments	0%	(0.00%)
				Liquidation expenses	5%-7%	(6.94%)

(1) Fair Value is generally determined through independent appraisals of the underlying collateral, which include Level 3 inputs that are not identifiable.

(2) Appraisals may be adjusted by management for qualitative factors such as economic conditions and estimated liquidation expenses.

(3) The range and weighted average of qualitative factors such as economic conditions and estimated liquidation expenses are presented as a percent of the appraised value.

(4) Fair value is generally determined based on specific customer's business assets, such as accounts receivable, which have been used as collateral for loans.

Valuation of real estate collateral may be discounted based on the age of the existing appraisal. Discounts are typically not taken for recent appraisals. Valuations related to business assets used as collateral are typically discounted more heavily due to the inherent level of uncertainty in determining the fair value of these types of assets. Liquidation costs relating to these assets are charged to expense.

Other real estate owned measured at fair value on a nonrecurring basis consists of properties acquired as a result of accepting a deed in lieu of foreclosure, foreclosure or through other means related to collateral on Bank loans which resulted in a gain or loss recognized during the period. Costs relating to the development or improvement of assets are capitalized and costs relating to holding the property are charged to expense. At December 31, 2017 and 2016, the fair value of other real estate owned consists of balances of $69 thousand and $1.2 million, respectively, net of valuation allowances of $38 thousand, and $520 thousand, respectively. Fair value is generally determined based upon independent third-party appraisals of the property.

Real estate properties acquired through, or in lieu of, foreclosure are to be sold and are carried at fair value less estimated cost to sell. Fair value is based upon independent market prices or appraised value of the property. These assets are included in Level 3 fair value based upon the lowest level of input that is significant to the fair value measurement.

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.

The following methods and assumptions were used to estimate the fair values of the Company’s financial instruments at December 31, 2017 and 2016:

Cash and Cash Equivalents

The carrying amounts reported in the balance sheet for cash and short-term instruments 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 quoted 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.

Loans Receivable

The fair values of loans are estimated using discounted cash flow analyses, using market rates at the balance sheet date that reflect the credit and interest rate-risk inherent in the loans. Projected future cash flows are calculated based upon contractual maturity or call dates, projected repayments and prepayments of principal.

Impaired Loans

Impaired loans, which are included in loans receivable, are those that are accounted for under FASB ASC Topic 310, “Receivables”, in which the Company has measured impairment generally based on the fair value of the loan’s collateral. Fair value is generally determined based upon independent third party appraisals of the properties, or discounted cash flows based upon the expected proceeds. These assets are included as Level 3 fair values, based upon the lowest level of input that is significant to the fair value measurements. The fair value of the impaired loans consists of the loan balances, net of any valuation allowance. As of December 31, 2017 the fair value of impaired loans consisted of loan balances with an allowance recorded of $968 thousand, net of valuation allowances of $182 thousand; and loan balances with no related allowance recorded of $529 thousand, net of partial charge-offs of $196 thousand. As of December 31, 2016 the fair value of impaired loans consisted of loan balances with an allowance recorded of $637 thousand, net of valuation allowances of $46 thousand; and loan balances with no related allowance recorded of $862 thousand, net of partial charge-offs of $196 thousand.

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.

Accrued Interest Receivable and Payable

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

Deposit Liabilities

The fair values disclosed for demand deposits (interest and noninterest checking), money market and savings 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 to the maturities of the time deposits.

Short-Term Borrowings

The carrying amounts of short-term borrowings approximate their fair values.

Long-Term Debt

Fair values of FHLB advances are estimated using discounted cash flow analysis, based on quoted prices for new FHLB advances with similar credit risk characteristics, terms and remaining maturity. These prices obtained from this active market represent a market value that is deemed to represent the transfer price if the liability were assumed by a third party.

Subordinated Debt

The fair values of subordinated debt has been estimated using discounted cash flow calculation taking into account contractual maturities, call features, and market interest rates for instruments with similar financial and credit characteristics. These instruments are classified within Level 2 of the fair value hierarchy.

Off-Balance Sheet Financial Instruments

Fair values for the Company's off-balance sheet financial instruments (lending commitments and letters of credit) are based on fees currently charged in the market to enter into similar agreements, taking into account, the remaining terms of the agreements and the counterparties' credit standing.

At December 31, 2017 and 2016, the estimated fair values of the Company's financial instruments were as follows:

	December 31, 2017				
	Carrying Amount	Fair Value	Level 1	Level 2	Level 3
	(Dollars in thousands)				
Assets:					
Cash and cash equivalents	$ 8,257	$ 8,257	$ 8,257	$ -	$ -
Securities available for sale	52,373	52,373	35	52,338	-
Securities held to maturity	18,665	19,665	-	19,665	-
Loans receivable, net	515,522	519,721	-	-	519,721
Restricted stock	1,416	1,416	-	1,416	-
Accrued interest receivable	2,007	2,007	-	2,007	-
Liabilities:					
Deposits	523,150	521,922	-	521,922	-
Federal Home Loan Bank of Pittsburgh advances	24,625	24,546	-	24,546	-
Subordinated debt	9,231	9,539	-	9,539	-
Accrued interest payable	844	844	-	844	-
Off-balance sheet credit related instruments:					
Commitments to extend credit	-	-	-	-	-

	December 31, 2016				
	Carrying Amount	Fair Value	Level 1	Level 2	Level 3
	(Dollars in thousands)				
Assets:					
Cash and cash equivalents	$ 4,761	$ 4,761	$ 4,761	$ -	$ -
Securities available for sale	70,560	70,560	2,995	67,565	-
Securities held to maturity	19,043	19,584	-	19,584	-
Loans receivable, net	484,913	490,890	-	-	490,890
Restricted stock	3,257	3,257	-	3,257	-
Accrued interest receivable	1,817	1,817	-	1,817	-
Liabilities:					
Deposits	467,688	467,616	-	467,616	-
Federal Home Loan Bank of Pittsburgh advances	68,164	68,157	-	68,157	-
Subordinated debt	9,207	9,273	-	9,273	-
Accrued interest payable	510	510	-	510	-
Off-balance sheet credit related instruments:					

Note 19—Parent Company Only Financial Information

Condensed financial statements of First Priority Financial Corp. follow:

CONDENSED BALANCE SHEETS

	December 31, 2017	December 31, 2016
	(Dollars in thousands)	
Assets		
Cash and cash equivalents	$ 27	$ 243
Investment in subsidiary	50,118	47,454
Deferred taxes	238	349
Receivable due from bank subsidiary	119	-
Other assets	18	32
Total assets	$ 50,520	$ 48,078
Liabilities and shareholders' equity		
Other liabilities	$ 24	$ 32
Shareholders' equity	50,496	48,046
Total liabilities and shareholders' equity	$ 50,520	$ 48,078

CONDENSED INCOME STATEMENTS

	For the year ended December 31, 2017	For the year ended December 31, 2016
	(Dollars in thousands)	
Dividend income from subsidiary, net of dividends paid by Bank	$ 306	$ 407
Interest from subsidiary	1	2
Total income	307	409
Non-interest expenses	103	161
Income before taxes and equity in undistributed net income of subsidiary	204	248
Federal income tax expense (benefit)	112	(54)
Income before equity in undistributed net income of subsidiary	92	302
Equity in undistributed net income of subsidiary	2,366	1,998
Net income	$ 2,458	$ 2,300

STATEMENTS OF COMPREHENSIVE INCOME

	For the year ended December 31, 2017	2016
	(Dollars in thousands)	
Net income	$ 2,458	$ 2,300
Other comprehensive (loss) income:		
Securities available for sale:		
Change in unrealized gain on securities available for sale	484	405
Reclassification adjustment for realized gains included in net income	(416)	(795)
Tax effect	(23)	133
Net (losses) gains arising during the period	45	(257)
Net unrealized holding losses on securities transferred between available for sale and held to maturity:		
Amortization of net unrealized holding losses to income during the period………………………………..……..……………………………………	(14)	(31)
Tax effect	5	10
Net unrealized holding losses on securities transferred during the period	(9)	(21)
Total other comprehensive (loss) income	36	(278)
Total comprehensive income	$ 2,494	$ 2,022

CONDENSED STATEMENTS OF CASH FLOWS

	For the year ended December 31, 2017	2016
	(Dollars in thousands)	
Operating activities:		
Net income	$ 2,458	$ 2,300
Adjustments to reconcile net income to net cash provided by operating activities:		
Equity in undistributed net income of subsidiary, net of dividends from Bank	(2,628)	(2,326)
Stock based compensation distribution from Bank	262	328
Deferred income tax expense (benefit)	111	(54)
Net increase in other assets	(105)	(4)
Net (decrease) increase in other liabilities	(8)	3
Net cash provided by operating activities	90	247
Financing activities:		
Redemptions of preferred stock	-	(6,000)
Proceeds from the exercise of common stock options	-	12
Cash dividends paid on preferred stock	(306)	(427)
Net cash used in financing activities	(306)	(6,415)
Net decrease in cash	(216)	(6,168)
Cash and cash equivalents at beginning of the period	243	6,411
Cash and cash equivalents at end of period	$ 27	$ 243

Note 20—Subsequent Event

Merger with Mid Penn Bancorp, Inc.

As previously announced on January 16, 2018, First Priority entered into an Agreement and Plan of Merger (the “Merger Agreement”) with Mid Penn Bancorp, Inc. (“Mid Penn”) pursuant to which First Priority will merge with and into Mid Penn (the “Merger”), with Mid Penn being the surviving corporation in the Merger. On a pro forma basis, at December 31, 2017, the combined company would have approximately $2.2 billion in total assets, $1.6 billion in loans, $1.8 billion in deposits and $170 million in equity capital. Under the terms of the Merger Agreement, shareholders of First Priority will receive 0.3481 shares of Mid Penn common stock for each share of First Priority common stock they own. Subject to customary closing conditions including regulatory and shareholder approvals, it is expected that the Merger will be completed in the third quarter of 2018. The combination will establish a community bank with 37 retail locations serving 12 counties in Pennsylvania and will have a geographical presence in southeastern Pennsylvania in Berks, Bucks Chester and Montgomery counties, central Pennsylvania in Cumberland, Dauphin, Lancaster, Luzerne, Northumberland and Schuylkill counties and western Pennsylvania in Fayette and Westmoreland counties resulting from Mid Penn’s acquisition of Scottdale Bank & Trust on January 8, 2018.

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

None.

Item 9A. Controls and Procedures.

(a) Evaluation of Disclosure Controls and Procedures

Our disclosure controls and procedures, as that term is defined in Rule 13a-15(e) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), are designed with the objective of providing reasonable assurance that information required to be disclosed in our reports filed or submitted under the Exchange Act, such as this report, is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission (the "SEC"). In designing and evaluating our disclosure controls and procedures, our management recognizes that any disclosure controls and procedures, no matter how well designed and operated, can provide only reasonable, rather than absolute, assurance of achieving the desired control objectives.

An evaluation was performed by our management, with the participation of our chief executive officer ("CEO") and chief financial officer ("CFO"), of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this report. Based on this evaluation, our CEO and CFO have concluded that, as of the end of such period, our disclosure controls and procedures are effective to provide reasonable assurance that information required to be disclosed in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms and made known to our management, including our CEO and CFO, as appropriate, to allow timely decisions regarding required disclosures.

(b) Changes in Internal Controls.

There have been no changes in First Priority's internal control over financial reporting identified in connection with the evaluation described in the paragraph below that have materially affected, or are reasonably likely to materially affect, First Priority's internal control over financial reporting.

(c) Management's Report on Internal Control Over Financial Reporting.

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rule 13a-15(f) under the Exchange Act. Under the supervision and with the participation of our management, including the principal executive officer and principal financial officer, we have conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013). Based on this evaluation under the framework in Internal Control-Integrated Framework, we have concluded that the internal control over financial reporting was effective as of December 31, 2017.

Because of its inherent limitations, internal control over the financial reporting may not prevent or detect misstatements. 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.

This Annual Report does not include an audit report of the Company's Independent Registered Public Accounting Firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's Independent Registered Public Accounting Firm pursuant to the Dodd-Frank Act.

Item 9B. Other Information.

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance.

The following table sets forth as to each of the directors, their age, principal occupation and business experience, the period during which they served as a director of First Priority, or an affiliate or predecessor, and other business relationships. There are no family relationships between any of the listed persons.

Name and Principal Occupation	Age	Director Since	Directorships in Public Cos. and Registered Investment Cos.
David E. Sparks Chairman and CEO of First Priority Financial Corp. and Chairman of First Priority Bank (1)	73	2007	None
Steven A. Ehrlich President of First Priority Financial Corp. and President and CEO of First Priority Bank (2)	56	2013	None
Joel L. Frank Attorney, Managing Partner and Chairman of Lamb McErlane PC (3)	56	2017	None
Burton A. MacLean, Jr. Managing Partner of Diversified Search (4)	76	2016	None
Jerome I. Marcus Private Investor and former Medical Director and CEO of Omega Medical Laboratories (5)	67	2013	None
Barry L. Myers An owner and director of GES, Inc., a national environmental consulting company. Former Chairman, CEO and President of B.L. Myers Bros., Inc., a water well drilling company until December 2001 (6)	70	2013	None
Alan P. Novak Attorney, Lamb McErlane PC; President, Novak Strategic Advisors; and Partner, Rooney Novak Group (7)	68	2007	None
Mel A. Shaftel Private Investor (8)	74	2007	None
Vincent P. Small, Jr. Private Investor and Business Consultant (9)	74	2007	None
Patrick M. Smith Certified Public Accountant & Partner of Rosenberg, Smith, Cooney and Migliore, P.C. (10)	62	2015	None
Christopher E. Spinieo Owner and President of Spinieo Incorporated (11)	47	2015	None
Michael G. Wade Owner, Knight Abstract, Inc. (12)	49	2015	None
William L. Wetty Private Investor and retired founder and President of A&L Handles, Inc. (13)	73	2007	None

(1) Mr. Sparks has served as a director of First Priority Finance Corp. ("FPFC") since its formation in 2007, and was the founder and a director of First Priority Bank (the "Bank") since its inception in 2005. Mr. Sparks has served as Chairman, President and CEO of FPFC from its inception in 2007. Mr. Sparks also has served as Chairman and CEO of the Bank from its inception in 2005. Effective with the merger of FPFC and Affinity Bancorp, Inc. ("ABI") on February 28, 2013, Mr. Sparks became Chairman and CEO of FPFC and Chairman of the Bank. Mr. Sparks was the Founder, Chairman and CEO of Millennium Bank from 1998 to 2004.

(2) Mr. Ehrlich served as Chairman, CEO and President of ABI and Affinity Bank of Pennsylvania ("AB") since their founding in 2009 and 2002, respectively. He currently serves on the Board of the Wilson School District in Berks County, Pennsylvania.

(3) Mr. Frank was appointed to serve as a director of FPFC and the Bank on July 27, 2017. Mr. Frank serves as Chair of the National Board of Directors for Alex's Lemonade Stand Foundation and is a board member of the Zoological Society of Philadelphia. He is Commissioner on the Pennsylvania State Athletic Commission and is the longtime Solicitor for the Republican Committee of Chester County and the Chester County Police Chiefs Association. Mr. Frank is General Counsel for the Republican Party of Pennsylvania.

(4) Mr. MacLean was appointed to serve as a director of FPFC and the Bank on July 28, 2016. Mr. MacLean has been with Diversified Search, a retained executive search firm, since 1992.

(5) Dr. Marcus served as a director of ABI and AB since February 1, 2012. He was the Medical Director and CEO of Omega Medical Laboratories until January 2005, when he sold the business. Dr. Marcus is on the board of directors of the Berks County Medical Society.

(6) Mr. B. Myers was a director of ABI since 2009 and a director of AB since its' founding in 2002. He served as Chairman, CEO and President of B.L. Myers Bros., Inc. until December 2001 when he sold the company.

(7) Mr. Novak has been a director of FPFC since its formation in 2007 and a director of the Bank since 2006. Mr. Novak is an attorney with the law firm of Lamb McErlane PC since November, 2015. Prior to that, Mr. Novak had been an attorney with the law firm of Conrad O'Brien from 1994. Mr. Novak has served as President of Novak Strategic Advisors since 2001. Mr. Novak is also a partner in Rooney Novak Group since 2015. Mr. Novak was Chairman of the Republican State Committee of Pennsylvania from 1996 to 2005.

(8) Mr. Shaftel served as a director of FPFC since its formation in 2007 and was a founding director of the Bank at its inception in 2005. Mr. Shaftel has been a private investor since 2004. He was Managing Director of Rosetta Group, an investment management and financial advisory firm, from 1998 through 2003 and a member of the board of directors of Millennium Bank from 1998 until 2004. Mr. Shaftel was a Vice Chairman of Lehman Brothers until his retirement in 1997.

(9) Mr. Small served as a director of FPFC since its formation in 2007 and was a founding director of the Bank at its inception in 2005. Mr. Small retired as a partner from PricewaterhouseCoopers in 1999. He served as a member of the board of directors of Millennium Bank from 2002 to 2004, and as a member of the board of directors of Harleysville National Corporation from 2004 to 2005.

(10) Mr. Smith has been a partner in the certified public accounting firm of Rosenberg, Smith, Cooney and Migliore, P.C. since 1991. Mr. Smith has been a director of the Bank since 2008 and previously served as a director of FPFC from March 17, 2009 until the merger of ABI in 2013. Mr. Smith was re-appointed by the board of directors of FPFC on January 29, 2015.

(11) Mr. Spinieo served as a director of FPFC and the Bank from February 29, 2008 until the merger with ABI on February 28, 2013. In 2015 Mr. Spinieo was re-elected to serve as a director of FPFC and the Bank. Mr. Spinieo is the owner and President of Spinieo Incorporated, specializing in both commercial and residential construction which he founded in 1990. Mr. Spinieo is also involved in multiple development projects throughout Bucks, Montgomery and Monroe Counties.

(12) Mr. Wade served as a director of FPFC from March 17, 2009 until the merger with ABI on February 28, 2013. In 2015, Mr. Wade was re-elected to serve as a director of FPFC. He has been a director of the Bank since February 29, 2008. Mr. Wade founded and has operated Knights Abstract, Inc., a title insurance company, since 1995.

(13) Mr. Wetty served as a director of FPFC since its formation in 2007, and was a founding director of the Bank at its inception in 2005. Mr. Wetty founded A&L Handles, Inc., Pottstown, Pennsylvania and served as the company's owner, President and Chief Executive Officer until its sale and his retirement in 2002.

Item 11. Executive Compensation.

The following table sets forth certain information with respect to our named executive officers for the last three fiscal years. The compensation committee establishes the salaries for these executive officers.

	Year	Salary ($)	Bonus (3) ($)	Stock Awards (4) ($)	Option Awards (4) ($)	Non-Equity Incentive Plan Compen-sation ($)	Non-qualified Deferred Compen-sation Earnings ($)	All Other Compen-sation (5) ($)	Total ($)
David E. Sparks,	2017	$ 297,885	$ 19,691	$ 28,773	$ 15,177	None	$ -	$ 52,336	$ 413,862
Chairman, and Chief	2016	275,000	-	39,425	15,177	None	-	50,795	380,397
Executive Officer(1)	2015	268,269	15,613	35,423	12,598	None	-	32,583	364,486
Steven A. Ehrlich,	2017	$ 233,923	$ 13,916	$ 5,988	$ -	None	$ -	$ 42,036	$ 295,863
President(1)(2)	2016	230,000	-	3,978	2,845	None	-	44,340	281,163
	2015	228,654	12,370	1,989	$ 8,168	None	-	45,793	296,974
Lawrence E. Donato,	2017	$ 200,769	$ 18,001	$ 6,818	$ 9,486	None	$ -	$ 13,481	$ 248,555
Executive Vice President	2016	197,500	10,000	23,754	9,486	None	-	14,257	254,997
and Chief Risk Officer(1)	2015	195,481	10,576	23,308	7,749	None	-	14,146	251,260
Mary Ann Messmer,	2017	$ 199,769	$ 17,911	$ 4,217	$ -	None	$ -	$ 17,093	$ 238,990
Executive Vice	2016	196,500	7,500	21,196	2,845	None	-	16,422	244,463
President(1)	2015	194,750	10,536	21,268	8,476	None	-	16,138	251,168
Mark J. Myers,	2017	$ 189,808	$ 17,018	$ 8,195	$ 5,691	None	$ -	$ 12,546	$ 233,258
Chief Financial	2016	180,000	15,000	24,498	5,691	None	-	12,023	237,212
Officer(1)	2015	178,250	9,643	21,924	4,850	None	-	11,961	226,628

(1) Mr. Sparks is also the Chairman of the Bank. Mr. Ehrlich is also President and Chief Executive Officer of the Bank. Mr. Donato, age 69, is also Executive Vice President and Chief Operating Officer of the Bank. Ms. Messmer, age 63, is also Executive Vice President of the Bank. Mr. M. Myers, age 56, is also Chief Financial Officer of the Bank.

(2) Mr. Ehrlich's compensation with the Company is paid under an employment agreement which became effective with the merger. See "Mr. Ehrlich's Employment Agreement" below.

(3) The amounts reported represent specific performance awards approved by the compensation committee under the companywide incentive plan.

(4) The amounts reported in this column reflect the expense, which is amortized through the vesting periods, for awards of restricted stock and stock options granted to the named executive.

(5) (a) Includes for Mr. Sparks, a car allowance or car lease payments of $8,149 for 2017, $9,849 for 2016 and $6,567 for 2015 for business use of his vehicle; for Mr. Donato, a car allowance for business use of his vehicle of $6,000 for each of the three years; for Ms. Messmer, a car allowance for business use of her vehicle of $7,800 for each of the three years; for Mr. M. Myers, a car allowance for business use of his vehicle of $6,000 for each of the three years. Mr. Ehrlich's Employment Agreement provides for a car allowance that amounted to $22,355, $23,683 and $25,514 for the years 2017, 2016 and 2015, respectively. (b) Includes the expense of a club membership used for business generation for Mr. Sparks in the amount of $5,198 for 2017, $1,250 for 2016 and 2015; for Mr. Ehrlich in the amount of $9,863 for 2017, $9,643 for 2016, and $9,313 for 2015; and Ms. Messmer $2,028 for 2017, $1,950 for 2016 and $1,500 for 2015. (c) The Bank's 401(k) matching contribution amounts for Messrs. Sparks, Ehrlich, Donato and M. Myers and Ms. Messmer in 2017 were $7,506, $7,558, $6,203, $5,874 and $6,227, respectively; and in 2016 were $7,298, $7,440, $6,105, $5,580 and $5,893, respectively; and in 2015 were $7,413, $7,400, $6,044, $5,527 and $6,076, respectively. (d) The Company reimburses Mr. Sparks a portion of the premium on a life insurance policy held by a life insurance trust of which his spouse is the trustee and beneficiary. The amount reimbursed in 2017 and 2016 was $30,000 and in 2015 $15,000. The Company paid the premium on a life insurance policy for Mr. Ehrlich of $1,840 for 2107, 2016 and 2015 of which his wife is the beneficiary.

Outstanding Equity Awards at Fiscal Year End – 2017

	Option Awards					Stock Awards			
Name	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options	Option Exercise Price	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested ($)	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested ($)
David E. Sparks	25,000 0 0	0 60,000(1) 40,000	0 0 0	$5.58 $5.25 $5.94	5/6/21 12/19/23 7/1/25	12,500(2)	$61,875	0 7,200(5)	0 $57,888
Steven A. Ehrlich (3)	6,378 7,114 8,096 8,341 8,341	0 0 0 0 0 7,500	0 0 0 0 0 0	$11.21 $10.19 $9.17 $9.17 $6.33 $5.94	3/1/18 2/27/19 3/1/20 3/1/21 3/1/22 7/1/25	2,600(2)	$12,870	0 1,500(5)	0 $12,060
Lawrence E. Donato	15,000 0	0 45,000(1) 20,000	0 0 5,000	$5.58 $5.25 $5.94	5/6/21 12/19/23 7/1/25	4,300(2) 100(4)	$21,285 $575	0 0	0 0
Mary Ann Messmer	15,000 0	0 45,000(1) 7,500	0 0 0	$5.58 $5.25 $5.94	5/6/21 12/19/23 7/1/25	2,600(2) 100(4)	$12,870 $575	0 0	0 0
Mark J. Myers	10,000 0	0 40,000(1) 12,500	0 0 2,500	$5.58 $5.25 $5.94	5/6/21 12/19/23 7/1/25	5,200(2) 100(4)	$25,740 $575	0 0	0 0

(1) Options granted on December 19, 2013 as part of the restructured change in control arrangements. See "Restructured Change in Control Arrangements" below. Market value per share of the restricted stock is $4.20 which is based on the tangible book value per share at September 30, 2013.

(2) Restricted stock grants to senior executives on July 1, 2015 which vest upon the earlier of: four years of continued employment; the mutually agreed upon retirement of the executive after the age of 66; or a change in control of the Company. Market value per share of $4.95 is based on the market price per share of the Company's common stock as of the close of business on July 1, 2015.

(3) Mr. Ehrlich's vested options were originally issued by ABI and became fully vested with the merger of ABI and the Company.

(4) Participation in a companywide restricted stock grant on February 11, 2016, which vest after three years of continuous employment. Market value per share of $5.75 is based on the market price per share of the Company's common stock as of the close of business on February 11, 2016.

(5) Distribution on May 1, 2017 as Incentive Compensation based on the Company's 2016 operating performance. Market value per share of $8.04 is based on the market price per share of the Company's common stock as of the close of business on May 1, 2017.

Option Exercises and Stock Vested

The named executive officers did not exercise any stock options during the year ended December 31, 2017.

Pension Benefits

The named executive officers participate in the Bank's 401(k) Plan that provides for a 50% match on the first 6% of the employees' contribution to the plan. In 2017, the Bank's match for Messrs. Sparks, Ehrlich, Donato and M. Myers and Ms. Messmer was$7,506, $7,558, $6,213, $5,874 and $6,227, respectively.

Restructured Change in Control Arrangements

During 2013, management and the board of directors took a series of steps to reduce the potential liability underlying the change-in-control agreements which had been in place since the Company's inception in 2005. These steps included a voluntary exchange of those contracts of all officers holding change-in-control contracts and stock options issued at previous dates for a new change-of-control severance plan and new stock options. The result of these steps significantly reduces the total amounts payable under such arrangements in the event of a change in control.

Accordingly, on December 19, 2013, the board of directors of the Company approved restructured change in control arrangements to replace the previously executed change in control agreements between the Company and its named executive officers: David E. Sparks, Lawrence E. Donato, Mary Ann Messmer and Mark J. Myers along with other participating senior management personnel.

In each case, the previously executed change in control agreement between the named executive officer and the Company, which generally provided for 24 months of severance payments in the event of involuntary termination of employment or resignation for specified events of "good reason" following a change in control, was terminated with the consent of the executive officer. In lieu of the change in control agreements, each of the named executive officers will instead participate in the Bank's Severance Plan (the "Severance Plan"). Under the Severance Plan, which is a broad-based severance plan applicable to certain employees of the Company and the Bank, each executive will receive a severance benefit equal to continued base salary, as defined, for a period of twelve months (18 months in the case of Mr. M. Myers) in the event that the executive's employment is terminated within one year following a "change in control" as a result of a work force reduction or job elimination.

In connection with the termination of the previously executed change in control agreements and the adoption of the new Severance Plan, the named executive officers received a grant of stock options under the Company's existing Stock Compensation Program. Such options, which vest only upon a change in control of the Company, are exercisable for a period of ten years at an exercise price of $5.25 in the following amounts: Mr. Sparks – 60,000 shares; Mr. Donato – 45,000 shares; Ms. Messmer – 45,000 shares; and Mr. M. Myers – 40,000 shares. Such options were granted to replace previously granted options, in equal amounts for Messrs. Sparks, Donato and Ms. Messmer and 15,000 for Mr. M. Myers, which the Company and each executive mutually agreed to terminate and which had exercise prices of either $10.00 or $10.25 per share.

Mr. Ehrlich's Employment Agreement

As a condition to consummation of the merger of First Priority and ABI, Mr. Ehrlich entered into an employment agreement with First Priority. The employment agreement provides that Mr. Ehrlich serves as the President of First Priority as well as the President and Chief Executive Officer of the Bank. The agreement has a term of three years that is automatically renewed on each anniversary date of the agreement for an additional year unless either party gives notice to the other of non-renewal at least 60 days prior to such anniversary date. The agreement provides Mr. Ehrlich with a base salary of $230,000, as adjusted effective April 1, 2013 by the ABI board of directors, and benefits commensurate with other First Priority executive officers, including health insurance, five weeks of vacation, use of a company vehicle, supplemental life insurance and disability coverage, among other things. Under the agreement, Mr. Ehrlich's employment can be terminated for "cause" as defined in the agreement.

If First Priority were to terminate Mr. Ehrlich's employment without cause, or if Mr. Ehrlich were to terminate his employment for "good reason", as defined, including but not limited to, a change in control of First Priority, he will be entitled to receive post termination benefits as follows: an amount equal to three (3) times the sum of (i) the highest salary paid to him in the year of termination or prior two calendar years; (ii) the highest bonus paid to him in one of the three calendar years prior to termination; and (iii) an adjustment for benefits.

Compensation of Directors

The following table sets forth a summary of the compensation that the Company paid to its non-employee directors in 2017.

Name	Fees Earned Or Paid In Cash ($)(1)	Stock Awards ($)	Option Awards (1)	All Other Compensation ($)	Total
Irvin Cohen	$ 5,000	$ 16,140	–	–	$ 21,140
Joel L. Frank	$ 5,000	$ 16,000	–	–	$ 21,000
Burton A. MacLean	$ 5,000	$ 16,140	–	–	$ 21,140
Jerome I Marcus	$ 5,000	$ 16,140	–	–	$ 21,140
Barry L. Myers	$ 5,000	$ 16,140	–	–	$ 21,140
Alan P. Novak	$ 5,000	$ 16,140	–	–	$ 21,140
Mel A. Shaftel	$ 5,000	$ 16,140	–	–	$ 21,140
Vincent P. Small Jr.	$ 5,000	$ 16,140	–	–	$ 21,140
Patrick M. Smith	$ 5,000	$ 16,140	–	–	$ 21,140
Christopher E. Spinieo	$ 5,000	$ 16,140	–	–	$ 21,140
Michael G. Wade	$ 5,000	$ 16,140	–	–	$ 21,140
William L. Wetty	$ 5,000	$ 16,140	–	–	$ 21,140

(1) For their service on the First Priority board of directors from the date of the 2017 annual shareholders' meeting to the 2018 annual shareholders' meeting, all non-employee directors of the Company were compensated with a retainer fee of $5,000 and 2,000 shares of restricted common stock of the Company, which vest after three years of service and were valued at $8.07 per share, the market value of the Company's common stock at close of business on July 1, 2017. Mr. Frank, who was elected to the Board on July 27, 2017, was compensated under the same terms as described above and his stock award was valued at $8.00 per share, the market value of the Company's common stock at the close of business on July 27, 2017. Mr. Cohen is a director emeritus of the Company and currently continues as a director of the Bank.

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

The following table sets forth information concerning the number of shares of common stock beneficially owned, as of March 12, 2018, by each present director, nominee for director, and each executive officer named in the Summary Compensation Table appearing below (the "named executive officers"). The mailing address of each person is c/o First Priority, 2 West Liberty Boulevard, Suite 104, Malvern, Pennsylvania 19355.

Name of Beneficial Owner	Shares Beneficially Owned (1)	Percent Beneficial Ownership (1)
Lawrence E. Donato	182,879 (3)(7)	2.75%
Steven A. Ehrlich	132,293 (3)(5)(7)	1.98%
Joel L. Frank	2,000	*
Burton A. MacLean, Jr.	6,000	*
Jerome I. Marcus	173,613	2.61%
Mary Ann Messmer	43,504 (3)(6)(7)	*
Barry L. Myers	32,476	*
Mark J. Myers	37,854 (7)	*
Alan P. Novak	26,673 (2)	*
Mel A. Shaftel	154,418 (2)(3)(6)(8)	2.32%
Vincent P. Small, Jr.	91,251 (2)(3)(6)(8)	1.37%
Patrick M. Smith	21,789 (3)(4)(6)(8)	*
David E. Sparks	313,423 (3)(7)	4.72%
Christopher E. Spinieo	40,205 (3)(4)(6)(8)	*
Michael G. Wade	21,289 (3)(4)(6)(8)	*
William L. Wetty	134,392 (2)(3)(6)(8)	2.02%
All present and nominee directors and named executive officers as a group (16 persons)	1,414,059	21.02%

* Less than 1%

(1) Shares are deemed to be beneficially owned by a person if he or she directly or indirectly has or shares the power to vote or dispose of the shares, whether or not he or she has any economic interest in the shares. Unless otherwise indicated, the named beneficial owner has sole voting and investment power with respect to the shares. Also includes shares the holder has the right to acquire within sixty (60) days of March 12, 2018, and therefore amounts shown include options to acquire First Priority common stock that are exercisable on or before May 11, 2018. As of the date of this form 10-K, the number of shares represented by vested options which have been granted to all directors and named executive officers as a group totaled 81,892.

(2) Includes a total of 1,000 options granted on December 11, 2008 to each non-employee director at an exercise price of $10.25 per share, which vested in full four years from the date of grant and will terminate ten years from the date of grant.

(3) Mr. Donato's beneficial ownership includes 82,671 shares of common stock owned jointly with his wife; 3,300 shares held in the name of his wife; and 19,203 shares of common stock owned by his adult children with respect to which Mr. Donato does not exercise voting or investment power.

Mr. Ehrlich's beneficial ownership includes 42,696 shares of common stock in the estate of his parents in which Mr. Ehrlich shares voting and investment power.

Ms. Messmer's beneficial ownership includes 5,000 shares of common stock held jointly with her husband.

Mr. Shaftel's beneficial ownership includes 64,105 shares of common stock owned by trusts in which Mr. Shaftel shares voting and investment power.

Mr. Small's beneficial ownership includes 1,800 shares of common stock held jointly with his wife.

Mr. Smith's beneficial ownership includes 5,000 shares of common stock held jointly with his wife.

Mr. Sparks' beneficial ownership includes 75,200 shares of common stock owned by his wife; 1,750 shares of common stock owned by his adult children with respect to which Mr. Sparks does not exercise voting and investment power; and 11,671 shares of common stock in a family trust which Mr. Sparks exercises shared voting and investment power with his wife and adult children.

Mr. Spinieo's beneficial ownership includes 2,662 shares of common stock held in the name of his wife.

Mr. Wade's beneficial ownership includes 10,000 shares of common stock held jointly with his wife.

Mr. Wetty's beneficial ownership includes 123,642 shares of common stock owned jointly with his wife and 250 shares of common stock owned by his adult child with respect to which Mr. Wetty does not exercise voting or investment power.

(4) Beneficial ownership for Mr. Smith, Mr. Spinieo, and Mr. Wade includes 2,500, 10,000 and 2,500, respectively, vested options with an exercise price of $10.00 per share that expire October 18, 2017, issued to former directors of Prestige Community Bank as a grant for their contribution to Prestige Community Bank's at-risk organizing capital.

(5) The number of shares beneficially owned includes 31,892 options issued to Mr. Ehrlich as former CEO of ABI which became fully vested upon the change of control effective with the merger of ABI into First Priority and 42,696 shares of common stock held in the estate of his parents of which Mr. Ehrlich shares voting and investment power with his siblings.

(6) Includes the following number of options which were granted May 6, 2011, at an exercise price of $5.58 and are fully vested: Ms. Messmer – 15,000 options; Mr. Shaftel – 5,500 options; Mr. Small – 5,500 options; Mr. Smith – 2,000 options; Mr. Wetty – 2,000 options; Mr. Spinieo – 1,000 options; and Mr. Wade – 1,000 options.

(7) Includes the following number of shares of restricted stock granted on July 1, 2015, pursuant to the Company's Stock Compensation Program: Mr. Sparks – 12,500 shares; Mr. Ehrlich – 2,600 shares; Mr. Donato – 4,300 shares; Ms. Messmer – 2,600 shares; and Mr. M. Myers – 5,200 shares. The restricted shares vest on the earlier to occur of: four years of continued employment; the mutually agreed retirement of the executive after the age of 66; or a change in control of the Company. The individuals exercise voting power over the restricted shares, but do not have investment power until the restriction is removed.

(8) Includes the following fully vested options granted to non-employee directors as compensation for their service on the board of directors and board committees on which they served for the year 2012 which were granted on May 4, 2012

at an exercise price of $5.87 per share and will terminate ten years from the date of grant: Messrs. Shaftel, Small, Smith and Wetty – 3,000 options each; Messrs. Spinieo and Wade – 1,000 options each.

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

Transactions with Related Parties

Certain directors and executive officers of First Priority, and their associates, were customers of and had transactions with the Bank in the ordinary course of business during the fiscal year ended December 31, 2017. Similar transactions may be expected to take place in the future. Such transactions included the purchase of certificates of deposit and extensions of credit in the ordinary course of business on substantially the same terms, including interest rate and collateral, as those prevailing at the time for comparable transactions with other persons and did not involve more than the normal risks of collectability or present other unfavorable features. It is expected that any other transactions with directors and officers and their associates in the future will be conducted on the same basis. The aggregate extensions of credit to all such persons, as a group, totaled $8,956,096 with loans outstanding of $5,556,423 at December 31, 2017.

Board and Board Committees

The board of directors held ten (10) meetings in 2017. The board of directors maintains an audit and governance committee, a compensation committee, a nominating committee and a strategic finance committee.

The membership of the compensation committee consists of Messrs. Small (Chairman), MacLean, Marcus, B. Myers, Novak, Shaftel and Spinieo and the committee met four (4) times in 2017. Each member of the Compensation Committee is “independent” as determined under NASDAQ listing standards and SEC rules. In determining the independence of members of the Compensation Committee, the Board considers all factors specifically relevant to determining whether the director has a relationship to the Company that is material to that director’s ability to be independent from management in connection with the duties of a compensation committee member, including (i) the source of the directors’ compensation, including any consulting, advisory or other compensation fees; and (ii) any affiliate relationship between the director and the Company or any of its subsidiaries. The compensation committee operates under a written charter.

The nominating committee consists of Messrs. Wetty (Chairman), Marcus, Novak, Small, Smith, Spinieo and Wade and met twice during 2017. Each member of the nominating committee is “independent” as determined under NASDAQ listing standards. The nominating committee operates under a written charter. The nominating committee develops and recommends criteria for the selection of director nominees to the board, including, but not limited to, diversity, age, skills, experience, and time availability (including consideration of the number of other boards on which the proposed director sits) in the context of the needs of the board and First Priority and such other criteria as the committee determines to be relevant at the time. The committee has adopted and the board of directors has approved a policy that disallows a person from standing for election to the board of directors once they have reached the age of 76. The committee has the power to apply these criteria in connection with the identification of individuals to be board members, as well as to apply the standards for independence imposed by NASDAQ and all applicable federal laws in connection with this identification process. The nominating committee considers potential candidates recommended by its members, management and others, including shareholders. The nominating committee applies the same criteria for evaluating the qualifications of directors proposed or nominated by shareholders as it applies to director nominees proposed or nominated by board members or other parties. Messrs. Sparks and Ehrlich serve as ex-officio members of the nominating committee.

The audit and governance committee consists of Messrs. Smith (Chairman), Frank, Marcus, Shaftel and Small and met eight times during 2017. Each member of the audit and governance committee is “independent” under NASDAQ listing standards and SEC rules. The audit and governance committee operates under a written charter. Messrs. Small and Smith have been designated the “audit and governance committee financial experts,” and meet the qualifications to serve as such under the NASDAQ listing standards. The audit and governance committee is responsible for selecting the Company’s independent registered public accounting firm and reviewing their reports and the reports of the Bank’s internal auditors.

The strategic finance committee consists of Messrs. Shaftel (Chairman), MacLean, B. Myers, Small, Smith and Sparks. The committee does not operate under a written charter. The committee’s responsibility is to evaluate capital structure and financing opportunities, capital market activities and strategic opportunities which may be identified by the Company. Messrs. Donato and Ehrlich serve as ex-officio members of the strategic finance committee

During 2017, all directors attended at least 75% of the aggregate number of board and committee meetings to which they are members.

Compensation Committee Interlocks and Insider Participation

No member of the compensation committee is or has been an officer or employee of the Company or the Bank. Also, during 2017, none of First Priority's executive officers served as a member of the compensation committee of another entity, one of whose executive officers served on First Priority's compensation committee.

Item 14. Principal Accounting Fees and Services.

Fees of Independent Registered Public Accounting Firm

The following table sets forth the aggregate fees billed to the Company by BDO USA, LLP for the fiscal years ended December 31, 2017 and December 31, 2016.

December 31, 2017		
Audit Fees	$	166,980
Audit-Related Fees	$	—
Tax Fees	$	23,638
All Other Fees	$	—
Total Fees	$	190,618

December 31, 2016		
Audit Fees	$	131,100
Audit-Related Fees	$	—
Tax Fees	$	17,700
All Other Fees	$	—
Total Fees	$	148,800

Audit fees include audit fees related to the audit of the Company's annual consolidated financial statements, quarterly reviews and related expenses and for the year ended December 31, 2016 audit fees related to the filing of the S-8 registration statement for up to 1,308,000 shares of common stock offered through the Company's Stock Compensation Plan. Tax fees include the preparation of the Company's tax return. All fees paid to BDO USA, LLP were pre-approved by the audit and governance committee.

PART IV

Item 15. Exhibits, Financial Statement Schedules.

(a) Exhibits. The following is a list of Exhibits to this Annual Report on Form 10-K.

Exhibit No.	Description
2.1	Agreement and Plan of Merger dated as of January 16, 2018 by and between First Priority Financial Corporation and Mid Penn Bancorp, Inc. (incorporated by reference to Exhibit 2.1 to First Priority's Current Report on Form 8-K filed with the SEC on January 17, 2018)
3.1(i)	Articles of Incorporation of First Priority Financial Corp. (incorporated by reference to Exhibit 3.1 to First Priority's Quarterly Report on Form 10-Q for the three months ended March 31, 2016, filed with the SEC on May 16, 2016)
3.1(ii)	Certificate of Designations for the "Fixed Rate Cumulative Perpetual Preferred Stock, Series C" of First Priority Financial Corp. (incorporated by reference to Exhibit 2.1 to First Priority's Registration Statement No. 333-183118 on Form S-4 filed with the SEC on August 7, 2012)
3.2	Bylaws of First Priority Financial Corp. (incorporated by reference to Exhibit 3.2 to First Priority's registration statement No. 333-147950 on Form S-4 filed with the SEC on December 7, 2007)
10.1*	Form of First Priority Bank Severance Plan (incorporated by reference to Exhibit 10.1 to First Priority's Annual Report on Form 10-K for the year ended December 31, 2013, filed with the SEC on March 28, 2014)
10.2*	Employment Agreement between First Priority Financial Corp. and Steven A. Ehrlich (incorporated by reference to Exhibit 10.2 to First Priority's Registration Statement No. 333-183118 on Form S-4 filed with the SEC on August 7, 2012)
10.3*	First Priority Financial Corp. Stock Compensation Program (incorporated by reference to Exhibit 10.3 to First Priority's Annual Report on Form 10-K for the year ended December 31, 2014, filed with the SEC on March 27, 2015)
11.1	Statements re-computation of per share earnings (see Note 3 to First Priority's Audited Consolidated Financial Statements filed herewith)
21.1	Subsidiaries of First Priority Financial Corp. (incorporated by reference to Exhibit 21.1 to First Priority's Annual Report on Form 10-K for the year ended December 31, 2013, filed with the SEC on March 28, 2014)
23.1	Consent of Independent Registered Public Accounting Firm
31.1	Certification of David E. Sparks, Chairman and Chief Executive Officer of First Priority Financial Corp., pursuant to Rule 13a-14(a) of the Securities and Exchange Act of 1934, as amended, as enacted by Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Mark J. Myers, Chief Financial Officer of First Priority Financial Corp., pursuant to Rule 13a-14(a) of the Securities and Exchange Act of 1934, as amended, as enacted by Section 302 of the Sarbanes-Oxley Act of 2002.
32.1**	Certification of David E. Sparks, Chairman and Chief Executive Officer of First Priority Financial Corp., pursuant to 18 United States Code § 1350, as enacted by Section 906 of the Sarbanes-Oxley Act of 2002.
32.2**	Certification of Mark J. Myers, Chief Financial Officer of First Priority Financial Corp., pursuant to 18 United States Code § 1350, as enacted by Section 906 of the Sarbanes-Oxley Act of 2002.
101	The following financial information from First Priority Financial Corp. Annual Report on Form 10-K for the year ended December 31, 2017, formatted in XBRL (Extensible Business Reporting Language) includes: (i) Consolidated Balance Sheets as of December 31, 2017 and 2016, (ii) Consolidated Statements of Operations for the years ended December 31, 2017 and 2016, (iii) Consolidated Statements of Comprehensive Income for the years ended December 31, 2017 and 2016, (iv) Consolidated Statements of Shareholders' Equity for the years ended December 31, 2017 and 2016, (v) Cash Flows for the years ended December 31, 2017 and 2016, and (vi) the Notes to the Consolidated Financial Statements.

* Denotes a compensation plan or agreement

** A certification furnished pursuant to this item will not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the "Exchange Act") (15 U.S.C. § 78r), or otherwise subject to the liability of that section. Such certification will not be deemed to be incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Exchange Act.

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.

	First Priority Financial Corp.
March 23, 2018	By: /s/ David E. Sparks
	David E. Sparks, Chairman and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons in the capacities indicated on the date indicated:

Signature	Title	Date
/s/ David E. Sparks David E. Sparks	Chairman and Chief Executive Officer (Principal Executive Officer) and Director	March 23, 2018
/s/ Mark J. Myers Mark J. Myers	Chief Financial Officer (Principal Financial and Accounting Officer)	March 23, 2018
/s/ Steven A. Ehrlich Steven A. Ehrlich	President and Director	March 23, 2018
/s/ Joel L. Frank Joel L. Frank	Director	March 23, 2018
/s/ Burton A. MacLean, Jr. Burton A. MacLean, Jr.	Director	March 23, 2018
/s/ Jerome I. Marcus Jerome I. Marcus	Director	March 23, 2018
/s/ Barry L. Myers Barry L. Myers	Director	March 23, 2018
/s/ Alan P. Novak Alan P. Novak	Director	March 23, 2018
/s/ Mel A. Shaftel Mel A. Shaftel	Director	March 23, 2018
/s/ Vincent P. Small Jr. Vincent P. Small Jr.	Director	March 23, 2018
/s/ Patrick M. Smith Patrick M. Smith	Director	March 23, 2018
/s/ Christopher E. Spinieo Christopher E. Spinieo	Director	March 23, 2018
/s/ Michael G. Wade Michael G. Wade	Director	March 23, 2018
/s/ William L. Wetty William L. Wetty	Director	March 23, 2018

(Back To Top)

Section 2: EX-23.1 (EX-23.1)

Exhibit 23.1

Consent of Independent Registered Public Accounting Firm

First Priority Financial Corp.
Malvern, Pennsylvania

We hereby consent to the incorporation by reference in the Registration Statement on Form S-8 (No. 333-211391) of First Priority Financial Corp of our report dated March 23, 2018, relating to the consolidated financial statements which appears in this Form 10-K.

/s/ BDO USA, LLP

Philadelphia, Pennsylvania
March 23, 2018

(Back To Top)

Section 3: EX-31.1 (EX-31.1)

Exhibit 31.1

CHIEF EXECUTIVE OFFICER CERTIFICATION

I, David E. Sparks, Chairman and Chief Executive Officer of First Priority Financial Corp., certify that:

1. I have reviewed this annual report on Form 10-K of First Priority Financial Corp.;

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

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

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

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

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

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

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

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

(a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 23, 2018

/s/ DAVID E. SPARKS
David E. Sparks
Chairman and Chief Executive Officer

(Back To Top)

Section 4: EX-31.2 (EX-31.2)

Exhibit 31.2

CHIEF FINANCIAL OFFICER CERTIFICATION

I, Mark J. Myers, Chief Financial Officer of First Priority Financial Corp., certify that:

1. I have reviewed this annual report on Form 10-K of First Priority Financial Corp.;

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

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

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

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

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

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

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

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

(a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 23, 2018

/s/ MARK J. MYERS
Mark J. Myers
Chief Financial Officer

(Back To Top)

Section 5: EX-32.1 (EX-32.1)

Exhibit 32.1

CERTIFICATION PURSUANT TO

18 U.S.C. SECTION 1350

AS ADOPTED PURSUANT TO

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of First Priority Financial Corp. (the "Company") on Form 10-K for the period ended December 31, 2017, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, David E. Sparks, Chairman and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operation of the Company.

/s/ DAVID E. SPARKS
David E. Sparks
Chairman and Chief Executive Officer

Dated: March 23, 2018

(Back To Top)

Section 6: EX-32.2 (EX-32.2)

Exhibit 32.2

CERTIFICATION PURSUANT TO

18 U.S.C. SECTION 1350

AS ADOPTED PURSUANT TO

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of First Priority Financial Corp. (the "Company") on Form 10-K for the period ended December 31, 2017, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Mark J. Myers, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operation of the Company.

/s/ MARK J. MYERS
Mark J. Myers
Chief Financial Officer

Dated: March 23, 2018

(Back To Top)