BRIDGE BANCORP INC
Form 10-Q
August 08, 2014
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2014

Commission file number 001-34096

BRIDGE BANCORP, INC.

(Exact name of registrant as specified in its charter)

NEW YORK	11-2934195
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification Number)
2200 MONTAUK HIGHWAY, BRIDGEHAMPTON, NEW YORK	11932
(Address of principal executive offices)	(Zip Code)

Registrant s telephone number, including area code: (631) 537-1000

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 [X] No [ ]

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, 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 [X] No [ ]

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

Large accelerated filer [ ] Accelerated filer [X]

Non-accelerated filer [ ] (Do not check if a smaller reporting company) Smaller reporting company [ ]

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

There were 11,637,363 shares of common stock outstanding as of August 5, 2014.

Table of Contents

BRIDGE BANCORP, INC.

PART I -	**FINANCIAL INFORMATION**	
Item 1.	Financial Statements	3
	Consolidated Balance Sheets as of June 30, 2014 and December 31, 2013	3
	Consolidated Statements of Income for the Three and Six Months Ended June 30, 2014 and 2013	4
	Consolidated Statements of Comprehensive Income for the Three and Six Months Ended June 30, 2014 and 2013	5
	Consolidated Statements of Stockholders Equity for the Six Months Ended June 30, 2014 and 2013	6
	Consolidated Statements of Cash Flows for the Six Months Ended June 30, 2014 and 2013	7
	Condensed Notes to Consolidated Financial Statements	8
Item 2.	Management s Discussion and Analysis of Financial Condition and Results of Operations	34
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	49
Item 4.	Controls and Procedures	50
PART II -	**OTHER INFORMATION**	**51**
Item 1.	Legal Proceedings	51
Item 1A.	Risk Factors	51
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	51
Item 3.	Defaults Upon Senior Securities	51
Item 4.	Mine Safety Disclosures	51
Item 5.	Other Information	51
Item 6.	Exhibits	51
Signatures		52

Table of Contents

Item 1. Financial Statements

BRIDGE BANCORP, INC. AND SUBSIDIARIES

Consolidated Balance Sheets (unaudited)

(In thousands, except share and per share amounts)

	June 30, 2014	December 31, 2013
ASSETS		
Cash and due from banks	**$ 48,419**	$ 39,997
Interest earning deposits with banks	**14,782**	5,576
Total cash and cash equivalents	**63,201**	45,573
Securities available for sale, at fair value	**629,067**	575,179
Securities held to maturity (fair value of $205,341 and $197,339, respectively)	**205,062**	201,328
Total securities	**834,129**	776,507
Securities, restricted	**10,690**	7,034
Loans held for investments	**1,200,861**	1,013,263
Allowance for loan losses	**(16,680)**	(16,001)
Loans, net	**1,184,181**	997,262
Premises and equipment, net	**30,846**	27,983
Accrued interest receivable	**6,425**	5,648
Goodwill	**10,673**	2,034
Core deposit intangible	**1,967**	190
Bank owned life insurance	**10,176**	10,035
Prepaid pension	**8,625**	8,586
Other real estate owned	**577**	2,242
Other assets	**27,486**	13,652
Total Assets	**$ 2,188,976**	$ 1,896,746
LIABILITIES AND STOCKHOLDERS EQUITY		
Demand deposits	**$ 566,503**	$ 582,938
Savings, NOW and money market deposits	**1,016,887**	855,246
Certificates of deposit of $100,000 or more	**104,913**	64,445
Other time deposits	**62,768**	36,450
Total deposits	**1,751,071**	1,539,079
Federal Funds Purchased	**70,000**	64,000
Federal Home Loan Bank advances	**146,086**	98,000
Repurchase agreements	**11,392**	11,370
Junior subordinated debentures	**16,002**	16,002
Other liabilities and accrued expenses	**21,551**	8,835
Total Liabilities	**2,016,102**	1,737,286
Commitments and Contingencies		

Stockholders equity:				
Preferred stock, par value $.01 per share (2,000,000 shares authorized; none issued)				
Common stock, par value $.01 per share:				
Authorized: 20,000,000 shares; 11,632,113 and 11,317,367 shares issued, respectively; 11,632,113 and 11,307,607 shares outstanding, respectively		**116**		113
Surplus		**117,880**		111,377
Retained earnings		**60,878**		61,441
Less: Treasury Stock at cost, 0 and 9,760 shares, respectively				(235)
		178,874		172,696
Accumulated other comprehensive loss, net of income tax		**(6,000)**		(13,236)
Total Stockholders Equity		**172,874**		159,460
Total Liabilities and Stockholders Equity	**$**	**2,188,976**	$	1,896,746

See accompanying condensed notes to the Unaudited Consolidated Financial Statements.

Table of Contents

BRIDGE BANCORP, INC. AND SUBSIDIARIES

Consolidated Statements of Income (unaudited)

(In thousands, except per share amounts)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2014	2013	**2014**	2013
Interest income:				
Loans (including fee income)	**$ 14,068**	$ 11,182	**$ 27,382**	$ 21,850
Mortgage-backed securities, CMOs and other asset-backed securities	**2,949**	1,469	**5,240**	2,912
U.S. GSE securities	**698**	659	**1,505**	1,450
State and municipal obligations	**691**	646	**1,392**	1,326
Corporate Bonds	**211**	100	**365**	201
Deposits with banks	**7**	8	**15**	13
Other interest and dividend income	**106**	44	**189**	87
Total interest income	**18,730**	14,108	**36,088**	27,839
Interest expense:				
Savings, NOW and money market deposits	**801**	859	**1,638**	1,743
Certificates of deposit of $100,000 or more	**209**	341	**384**	670
Other time deposits	**121**	86	**216**	171
Federal funds purchased and repurchase agreements	**140**	131	**269**	255
Federal Home Loan Bank advances	**302**	43	**547**	83
Junior subordinated debentures	**342**	342	**683**	683
Total interest expense	**1,915**	1,802	**3,737**	3,605
Net interest income	**16,815**	12,306	**32,351**	24,234
Provision for loan losses	**500**	600	**1,200**	1,150
Net interest income after provision for loan losses	**16,315**	11,706	**31,151**	23,084
Non interest income:				
Service charges on deposit accounts	**878**	846	**1,677**	1,647
Fees for other customer services	**861**	908	**1,546**	1,561
Net securities (losses) gains	**(16)**	310	**(1,128)**	648
Title fee income	**461**	398	**783**	684
Other operating income	**108**	6	**216**	32
Total non interest income	**2,292**	2,468	**3,094**	4,572
Non interest expense:				
Salaries and employee benefits	**6,412**	5,326	**12,618**	10,720
Occupancy and equipment	**1,933**	1,418	**3,548**	2,609
Technology and communications	**766**	617	**1,483**	1,159
Marketing and advertising	**649**	533	**1,070**	881
Professional services	**400**	312	**756**	621
FDIC assessments	**346**	220	**634**	436
Acquisition costs and branch restructuring	**300**		**4,734**	

Amortization of core deposit intangible		**96**		15		**154**		31
Other operating expenses		**1,222**		914		**2,140**		1,806
Total non interest expense		**12,124**		9,355		**27,137**		18,263
Income before income taxes		**6,483**		4,819		**7,108**		9,393
Income tax expense		**2,165**		1,567		**2,384**		3,028
Net income	**$**	**4,318**	$	3,252	**$**	**4,724**	$	6,365
Basic earnings per share	**$**	**0.37**	$	0.36	**$**	**0.41**	$	0.70
Diluted earnings per share	**$**	**0.37**	$	0.36	**$**	**0.41**	$	0.70

See accompanying condensed notes to the Unaudited Consolidated Financial Statements.

Table of Contents

BRIDGE BANCORP, INC. AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income (unaudited)

(In thousands)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2014	2013	**2014**	2013
Net Income	**$ 4,318**	$ 3,252	**$ 4,724**	$ 6,365
Other comprehensive income (loss):				
Change in unrealized net gains (losses) on securities available for sale, net of reclassification and deferred income taxes	**4,179**	(8,536)	**7,590**	(9,143)
Adjustment to pension liability, net of deferred income taxes	**(3)**	49	**(7)**	88
Unrealized (losses) gains on cash flow hedge, net of deferred income taxes	**(256)**	156	**(347)**	173
Total other comprehensive income (loss)	**3,920**	(8,331)	**7,236**	(8,882)
Comprehensive income (loss)	**$ 8,238**	$ (5,079)	**$ 11,960**	$ (2,517)

See accompanying condensed notes to the Unaudited Consolidated Financial Statements.

Table of Contents

BRIDGE BANCORP, INC. AND SUBSIDIARIES

Consolidated Statements of Stockholders Equity (unaudited)

(In thousands, except per share amounts)

	Common Stock	Surplus	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Loss	Total
Balance at January 1, 2014	**$ 113**	**$ 111,377**	**$ 61,441**	**$ (235)**	**$ (13,236)**	**$ 159,460**
Net income			**4,724**			**4,724**
Shares issued under the dividend reinvestment plan (DRP)		**310**				**310**
Shares issued in the acquisition of FNBNY Bancorp, net of offering costs (240,598 shares)	**2**	**5,946**				**5,948**
Stock awards granted and distributed	**1**	**(432)**		**431**		
Stock awards forfeited		**58**		**(58)**		
Vesting of stock awards				**(147)**		**(147)**
Exercise of stock options		**(2)**		**9**		**7**
Tax effect of stock plans		**30**				**30**
Share based compensation expense		**593**				**593**
Cash dividend declared, $0.46 per share			**(5,287)**			**(5,287)**
Other comprehensive income, net of deferred income taxes					**7,236**	**7,236**
Balance at June 30, 2014	**$ 116**	**$ 117,880**	**$ 60,878**	**$**	**$ (6,000)**	**$ 172,874**

	Common Stock	Surplus	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Loss	Total
Balance at January 1, 2013	$ 89	$ 64,208	$ 55,102	$ (309)	$ (418)	$ 118,672
Net income			6,365			6,365
Shares issued under the dividend reinvestment plan (DRP)	1	3,003				3,004
Stock awards granted and distributed	1	(435)		434		
Stock awards forfeited		9		(9)		
Vesting of stock awards				(149)		(149)
Tax effect of stock plans		(9)				(9)
Share based compensation expense		662				662
Cash dividend declared, $0.23 per share			(2,069)			(2,069)
Other comprehensive loss, net of deferred income taxes					(8,882)	(8,882)
Balance at June 30, 2013	$ 91	$ 67,438	$ 59,398	$ (33)	$ (9,300)	$ 117,594

See accompanying condensed notes to the Unaudited Consolidated Financial Statements.

6

Table of Contents

BRIDGE BANCORP, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows (unaudited)

(In thousands)

	For the Six Months Ended June 30,	
	2014	2013
Cash flows from operating activities:		
Net Income	**$ 4,724**	$ 6,365
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	**1,200**	1,150
Depreciation and amortization	**1,246**	948
Net amortization on securities	**1,685**	2,987
Increase in cash surrender value of bank owned life insurance	**(141)**	
Amortization of core deposit intangible	**154**	31
Share based compensation expense	**593**	662
Net securities losses (gains)	**1,128**	(648)
Increase in accrued interest receivable	**(777)**	(132)
Increase in other assets	**(5,811)**	(70)
Increase in accrued expenses and other liabilities	**4,820**	4,359
Net cash provided by operating activities	**8,821**	15,652
Cash flows from investing activities:		
Purchases of securities available for sale	**(208,973)**	(210,801)
Purchases of securities, restricted	**(266,592)**	(19,873)
Purchases of securities held to maturity	**(30,936)**	(32,781)
Proceeds from sales of securities available for sale	**234,749**	75,165
Redemption of securities, restricted	**265,536**	16,852
Maturities, calls and principal payments of securities available for sale	**36,510**	97,170
Maturities, calls and principal payments of securities held to maturity	**26,763**	57,420
Net increase in loans	**(101,313)**	(102,956)
Proceeds from sales of other real estate owned, net	**2,242**	
Purchase of premises and equipment	**(2,321)**	(2,748)
Net cash acquired in business combination	**2,926**	
Net cash used in investing activities	**(41,409)**	(122,552)
Cash flows from financing activities:		
Net increase in deposits	**42,119**	45,785
Net increase (decrease) in federal funds purchased	**6,000**	(9,000)
Net increase in FHLB advances	**8,804**	60,000
Repayment of acquired unsecured debt	**(1,450)**	
Net increase (decrease) in repurchase agreements	**22**	(1,089)
Net proceeds from issuance of common stock	**310**	3,004
Net proceeds from exercise of stock options	**7**	
Repurchase of surrendered stock from vesting of restricted stock awards	**(147)**	(149)
Excess tax benefit (expense) from share based compensation	**30**	(9)
Cash dividends paid	**(5,287)**	(2,069)
Other, net	**(192)**	
Net cash provided in financing activities	**50,216**	96,473

Net decrease in cash and cash equivalents		**17,628**		(10,427)
Cash and cash equivalents at beginning of period		**45,573**		51,249
Cash and cash equivalents at end of period	**$**	**63,201**	$	40,822
Supplemental Information-Cash Flows:				
Cash paid for:				
Interest	**$**	**3,656**	$	3,592
Income tax	**$**	**883**	$	2,937
Noncash investing and financing activities:				
Securities which settled in the subsequent period	**$**	**5,372**	$	6,726
Transfers from portfolio loans to OREO	**$**	**577**	$	
Acquisition of noncash assets and liabilities:				
Fair value of assets acquired	**$**	**207,121**	$	
Fair value of liabilities assumed	**$**	**212,547**	$	

See accompanying condensed notes to the Unaudited Consolidated Financial Statements.

Table of Contents

BRIDGE BANCORP, INC. AND SUBSIDIARIES

CONDENSED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

1. BASIS OF PRESENTATION

Bridge Bancorp, Inc. (the Company) is a bank holding company incorporated under the laws of the State of New York. The Company s business currently consists of the operations of its wholly-owned subsidiary, The Bridgehampton National Bank (the Bank). The Bank s operations include its real estate investment trust subsidiary, Bridgehampton Community, Inc. (BCI), a financial title insurance subsidiary, Bridge Abstract LLC (Bridge Abstract), and an investment services subsidiary, Bridge Financial Services LLC that was formed on March 26, 2014. In addition to the Bank, the Company has another subsidiary Bridge Statutory Capital Trust II which was formed in 2009. In accordance with current accounting guidance, the trust is not consolidated in the Company s financial statements.

The accompanying Unaudited Consolidated Financial Statements, which include the accounts of the Company and its wholly-owned subsidiary, the Bank, have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. The Unaudited Consolidated Financial Statements included herein reflect all normal recurring adjustments that are, in the opinion of management, necessary for a fair presentation of the results for the interim periods presented. In preparing the interim financial statements, management has made 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 revenue and expense during the reported periods. Such estimates are subject to change in the future as additional information becomes available or previously existing circumstances are modified. Actual future results could differ significantly from those estimates. The annualized results of operations for the three months and six months ended June 30, 2014 are not necessarily indicative of the results of operations that may be expected for the entire fiscal year. Certain information and note disclosures normally included in the financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission (the SEC). Certain reclassifications have been made to prior year amounts, and the related discussion and analysis, to conform to the current year presentation. These reclassifications did not have an impact on net income or total stockholders equity. The Unaudited Consolidated Financial Statements should be read in conjunction with the Audited Consolidated Financial Statements and notes thereto included in the Company s Annual Report on Form 10-K for the year ended December 31, 2013.

2. EARNINGS PER SHARE

Financial Accounting Standards Board Accounting Standards Codification (FASB ASC) No. 260-10-45 addresses whether instruments granted in share-based payment transactions are participating securities prior to vesting and, therefore, need to be included in the earnings allocation in computing earnings per share (EPS). The restricted stock awards and restricted stock units granted by the Company contain non-forfeitable rights to dividends and therefore are considered participating securities. The two-class method for calculating basic EPS excludes dividends paid to participating securities and any undistributed earnings attributable to participating securities.

The computation of EPS for the three and six months ended June 30, 2014 and 2013 is as follows:

(In thousands, except per share data)	Three months ended, June 30, 2014	2013	Six months ended, June 30, 2014	2013
Net Income	**$ 4,318**	$ 3,252	**$ 4,724**	$ 6,365
Less: Dividends paid on and earnings allocated to participating securities	**(103)**	(88)	**(101)**	(169)
Income attributable to common stock	**$ 4,215**	$ 3,164	**$ 4,623**	$ 6,196
Weighted average common shares outstanding, including participating securities	**11,660**	9,105	**11,587**	9,042
Less: weighted average participating securities	**(279)**	(247)	**(271)**	(239)
Weighted average common shares outstanding	**11,381**	8,858	**11,316**	8,803
Basic earnings per common share	**$ 0.37**	$ 0.36	**$ 0.41**	$ 0.70
Income attributable to common stock	**$ 4,215**	$ 3,164	**$ 4,623**	$ 6,196
Weighted average common shares outstanding	**11,381**	8,858	**11,316**	8,803
Weighted average common equivalent shares outstanding				
Weighted average common and equivalent shares outstanding	**11,381**	8,858	**11,316**	8,803
Diluted earnings per common share	**$ 0.37**	$ 0.36	**$ 0.41**	$ 0.70

Table of Contents

There were 42,330 and 49,362 options outstanding at June 30, 2014 and June 30, 2013, respectively, that were not included in the computation of diluted earnings per share because the options exercise prices were greater than the average market price of common stock and were, therefore, antidilutive. The $16.0 million in convertible trust preferred securities outstanding at June 30, 2014, were not included in the computation of diluted earnings per share because the assumed conversion of the trust preferred securities was antidilutive.

3. STOCK BASED COMPENSATION PLANS

The Compensation Committee of the Board of Directors determines stock options and restricted stock awarded under the Bridge Bancorp, Inc. Equity Incentive Plan (Plan) and the Company accounts for this Plan under the FASB ASC No. 718 and 505. On May 4, 2012, the stockholders of the Company approved the Company s 2012 Stock-Based Incentive Plan which supersedes the Bridge Bancorp, Inc. Equity Incentive Plan that was approved in 2006 (the 2006 Plan). The plan provides for the grant of stock-based and other incentive awards to officers, employees and directors of the Company.

No new grants of stock options were awarded and no compensation expense was attributable to stock options for the six months ended June 30, 2014 and June 30, 2013 because all stock options were vested.

The intrinsic value for stock options is calculated based on the exercise price of the underlying awards and the market price of our common stock as of the reporting date. The intrinsic value of options exercised during the six months ended June 30, 2014 and June 30, 2013, was $1,000 and $0, respectively. The intrinsic value of options outstanding and exercisable at June 30, 2014 and June 30, 2013 was $0.

A summary of the status of the Company s stock options as of and for the six months ended June 30, 2014 is as follows:

(Dollars in thousands, except per share amounts)	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Aggregate Intrinsic Value
Outstanding, January 1, 2014	45,395	$ 25.54		
Granted				
Exercised	(1,274)	$ 24.00		
Forfeited	(1,230)	$ 25.25		
Expired	(561)	$ 24.00		
Outstanding, June 30, 2014	42,330	$ 25.61	2.22 years	
Vested and Exercisable, June 30, 2014	42,330	$ 25.61	2.22 years	

Range of Exercise Prices	Number of Options	Exercise Price
	37,199	$ 25.25
	3,000	$ 26.55

	2,131	$	30.60
	42,330		

During the six months ended June 30, 2014 restricted stock awards of 74,823 shares were granted. Of the 74,823 shares granted, 53,425 shares vest over seven years with a third vesting after years five, six and seven, 17,898 shares vest over five years with a third vesting after years three, four and five and the remaining 3,500 shares vest ratably over approximately two years. During the six months ended June 30, 2013, restricted stock awards of 72,940 shares were granted. Of the 72,940 shares granted, 51,175 shares vest over seven years with one third vesting after each of the years five, six and seven; 12,652 shares vest over five years with one third vesting after each of the years three, four and five; and the remaining 9,113 shares vest ratably over approximately five years. Compensation expense attributable to restricted stock awards was $263,000 and $514,000 for the three and six months ended June 30, 2014, respectively, and $288,000 and $587,000 for the three and six months ended June 30, 2013, respectively.

Table of Contents

A summary of the status of the Company s unvested restricted stock as of and for the six months ended June 30, 2014 is as follows:

	Shares	Weighted Average Grant-Date Fair Value
Unvested, January 1, 2014	197,599	$ 21.18
Granted	74,823	$ 25.42
Vested	(23,695)	$ 21.58
Forfeited	(2,398)	$ 22.33
Unvested, June 30, 2014	246,329	$ 22.42

In April 2009, the Company adopted a Directors Deferred Compensation Plan. Under the Plan, independent directors may elect to defer all or a portion of their annual retainer fee in the form of restricted stock units. In addition, Directors receive a non-election retainer in the form of restricted stock units. These restricted stock units vest ratably over one year and have dividend rights but no voting rights. In connection with this Plan, the Company recorded expenses of approximately $39,000 and $79,000 for the three and six months ended June 30, 2014, respectively, and $36,000 and $75,000 for the three and six months ended June 30, 2013, respectively.

4. SECURITIES

The following table summarizes the amortized cost and fair value of the available for sale and held to maturity investment securities portfolio at June 30, 2014 and December 31, 2013 and the corresponding amounts of unrealized gains and losses therein:

	June 30, 2014			
(In thousands)	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Estimated Fair Value**
Available for sale:				
U.S. GSE securities	**$ 125,653**	**$ 106**	**$ (3,200)**	**$ 122,559**
State and municipal obligations	**58,973**	**447**	**(271)**	**59,149**
U.S. GSE residential mortgage-backed securities	**55,629**	**438**	**(63)**	**56,004**
U.S. GSE residential collateralized mortgage obligations	**290,775**	**412**	**(4,165)**	**287,022**
U.S. GSE commercial mortgage-backed securities	**3,046**		**(134)**	**2,912**
U.S. GSE commercial collateralized mortgage obligations	**32,080**	**178**	**(58)**	**32,200**
Other Asset backed securities	**49,396**		**(1,095)**	**48,301**
Corporate Bonds	**20,819**	**107**	**(6)**	**20,920**
Total available for sale	**636,371**	**1,688**	**(8,992)**	**629,067**
Held to maturity:				
U.S. GSE securities	**11,268**	**104**	**(46)**	**11,326**
State and municipal obligations	**51,504**	**1,564**	**(5)**	**53,063**
U.S. GSE residential mortgage-backed securities	**7,342**		**(137)**	**7,205**
U.S. GSE residential collateralized mortgage obligations	**63,812**	**684**	**(1,805)**	**62,691**
U.S. GSE commercial mortgage-backed securities	**10,034**	**39**	**(87)**	**9,986**
U.S. GSE commercial collateralized mortgage obligations	**38,186**	**332**	**(488)**	**38,030**

Corporate Bonds	**22,916**	**142**	**(18)**	**23,040**
Total held to maturity	**205,062**	**2,865**	**(2,586)**	**205,341**
Total securities	**$ 841,433**	**$ 4,553**	**$ (11,578)**	**$ 834,408**

Table of Contents

(In thousands)	December 31, 2013 Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Available for sale:				
U.S. GSE securities	$ 164,278	$ 15	$ (11,536)	$ 152,757
State and municipal obligations	62,141	602	(1,087)	61,656
U.S. GSE residential mortgage-backed securities	14,609	36	(210)	14,435
U.S. GSE residential collateralized mortgage obligations	285,595	559	(6,963)	279,191
U.S. GSE commercial mortgage-backed securities	3,076		(242)	2,834
U.S. GSE commercial collateralized mortgage obligations	26,740	194	(24)	26,910
Non Agency commercial mortgage-backed securities	3,658		(80)	3,578
Other Asset backed securities	34,970	42	(1,194)	33,818
Total available for sale	595,067	1,448	(21,336)	575,179
Held to maturity:				
U.S. GSE securities	11,254		(375)	10,879
State and municipal obligations	67,232	863	(179)	67,916
U.S. GSE residential mortgage-backed securities	8,001		(312)	7,689
U.S. GSE residential collateralized mortgage obligations	68,197	537	(3,655)	65,079
U.S. GSE commercial mortgage-backed securities	10,132		(356)	9,776
U.S. GSE commercial collateralized mortgage obligations	13,627		(706)	12,921
Corporate Bonds	22,885	203	(9)	23,079
Total held to maturity	201,328	1,603	(5,592)	197,339
Total securities	$ 796,395	$ 3,051	$ (26,928)	$ 772,518

The following table summarizes the amortized cost, fair value and maturities of the available for sale and held to maturity investment securities portfolio at June 30, 2014. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

(In thousands)	**June 30, 2014** **Amortized Cost**	**Fair Value**
Maturity		
Available for sale:		
Within one year	**$ 16,648**	**$ 16,780**
One to five years	**29,727**	**29,940**
Five to ten years	**150,836**	**148,199**
Beyond ten years	**439,160**	**434,148**
Total	**$ 636,371**	**$ 629,067**
Held to maturity:		
Within one year	**$ 7,040**	**$ 7,063**
One to five years	**41,517**	**41,742**
Five to ten years	**40,885**	**41,883**
Beyond ten years	**115,620**	**114,653**
Total	**$ 205,062**	**$ 205,341**

Table of Contents

Securities with unrealized losses at June 30, 2014 and December 31, 2013, aggregated by category and length of time that individual securities have been in a continuous unrealized loss position, are as follows:

June 30, 2014 (In thousands)	**Less than 12 months** **Fair Value**	**Less than 12 months** **Unrealized losses**	**Greater than 12 months** **Fair Value**	**Greater than 12 months** **Unrealized losses**
Available for sale:				
U.S. GSE securities	$	$	$ **114,950**	$ **3,200**
State and municipal obligations	**6,698**	**27**	**13,017**	**244**
U.S. GSE residential mortgage-backed securities			**1,550**	**63**
U.S. GSE residential collateralized mortgage obligations	**67,582**	**384**	**124,854**	**3,781**
U.S. GSE commercial mortgage-backed securities			**2,912**	**134**
U.S. GSE commercial collateralized mortgage obligations	**18,731**	**58**		
Other Asset backed securities	**33,317**	**833**	**14,984**	**262**
Corporate Bonds	**4,994**	**6**		
Total available for sale	**131,322**	**1,308**	**272,267**	**7,684**
Held to maturity:				
U.S. GSE securities			**7,404**	**46**
State and municipal obligations			**641**	**5**
U.S. GSE residential mortgage-backed securities			**7,205**	**137**
U.S. GSE residential collateralized mortgage obligations	**5,940**	**58**	**32,032**	**1,747**
U.S. GSE commercial mortgage-backed securities			**4,179**	**87**
U.S. GSE commercial collateralized mortgage obligations	**6,593**	**35**	**8,514**	**453**
Corporate Bonds	**5,982**	**18**	**1,000**	
Total held to maturity	$ **18,515**	$ **111**	$ **60,975**	$ **2,475**

December 31, 2013 (In thousands)	Less than 12 months Fair Value	Less than 12 months Unrealized losses	Greater than 12 months Fair Value	Greater than 12 months Unrealized losses
Available for sale:				
U.S. GSE securities	$ 128,468	$ 8,915	$ 23,966	$ 2,621
State and municipal obligations	23,765	1,046	966	41
U.S. GSE residential mortgage-backed securities	10,410	210		
U.S. GSE residential collateralized mortgage obligations	218,415	6,476	12,757	487
U.S. GSE commercial mortgage-backed securities	2,834	242		
U.S. GSE commercial collateralized mortgage obligations	4,912	24		
Non Agency commercial mortgage-backed securities	3,578	80		
Other Asset backed securities	21,144	1,103	2,906	91
Total available for sale	413,526	18,096	40,595	3,240
Held to maturity:				
U.S. GSE securities	10,879	375		
State and municipal obligations	24,079	178	385	1
U.S. GSE residential mortgage-backed securities	7,689	312		
U.S. GSE residential collateralized mortgage obligations	29,570	2,169	17,752	1,486
U.S. GSE commercial mortgage-backed securities	9,776	356		
U.S. GSE commercial collateralized mortgage obligations	12,921	706		
Corporate Bonds	1,993	7	999	2
Total held to maturity	$ 96,907	$ 4,103	$ 19,136	$ 1,489

Other-Than-Temporary-Impairment

Management evaluates securities for other-than-temporary impairment (OTTI) at least on a quarterly basis, and more frequently when economic or market conditions warrant. The investment securities portfolio is evaluated for OTTI by segregating the portfolio into two general segments and applying the appropriate OTTI model. Investment securities classified as available for sale or held-to-maturity are generally evaluated for OTTI under FASB ASC 320, *Accounting for Certain Investments in Debt and Equity Securities*. In determining OTTI under the FASB ASC 320 model, management considers many factors, including: (1) the length of time and the

Table of Contents

extent to which the fair value has been less than cost, (2) the financial condition and near term prospects of the issuer, (3) whether the market decline was affected by macroeconomic conditions, and (4) whether the Company has the intent to sell the debt security or more likely than not will be required to sell the debt security before its anticipated recovery. If either of the criteria regarding intent or requirement to sell is met, the entire difference between amortized cost and fair value is recognized as impairment through earnings. For debt securities that do not meet the aforementioned criteria, the amount of impairment is split into two components as follows: (1) OTTI related to credit loss, which must be recognized in the income statement and (2) OTTI related to other factors, which is recognized in other comprehensive income. The credit loss is defined as the difference between the present value of the cash flows expected to be collected and the amortized cost basis. The assessment of whether an other-than-temporary decline exists involves a high degree of subjectivity and judgment and is based on the information available to management at a point in time.

At June 30, 2014, the majority of unrealized losses on both the available for sale and held to maturity securities are related to the Company s U.S. GSE securities and U.S. GSE residential collateralized mortgage obligations. The decrease in fair value of the U.S. GSE securities and U.S. GSE residential collateralized mortgage obligations is attributable to changes in interest rates and not credit quality. The Company does not have the intent to sell these securities and it is more likely than not that it will not be required to sell the securities before their anticipated recovery. Therefore, the Company does not consider these securities to be other-than-temporarily impaired at June 30, 2014.

Proceeds from sales of securities available for sale were $36.0 million and $28.6 million for the three months ended June 30, 2014 and 2013, respectively. Proceeds from sales of securities available for sale were $234.7 million and $75.2 million for the six months ended June 30, 2014 and 2013, respectively. Net losses of $16,000 and net gains of $0.3 million were realized on these sales during the three months ended June 30, 2014 and 2013, respectively. Net losses of $1.1 million and net gains of $0.6 million were realized on these sales during the six months ended June 30, 2014 and 2013, respectively. Proceeds from calls of securities were $2.2 million and $15.0 million for the three months ended June 30, 2014 and 2013, respectively. Proceeds from calls of securities were $2.5 million and $46.7 million for the six months ended June 30, 2014 and 2013, respectively.

Securities having a fair value of approximately $410.2 million and $397.5 million at June 30, 2014 and December 31, 2013, respectively, were pledged to secure public deposits and Federal Home Loan Bank and Federal Reserve Bank overnight borrowings. The Bank did not hold any trading securities during the six months ended June 30, 2014 or the year ended December 31, 2013.

The Bank is a member of the Federal Home Loan Bank (FHLB) of New York. Members are required to own a particular amount of stock based on the level of borrowings and other factors, and may invest in additional amounts. The Bank is a member of the Atlantic Central Banker s Bank (ACBB) and is required to own ACBB stock. The Bank is also a member of the Federal Reserve Bank (FRB) system and required to own FRB stock. FHLB, ACBB and FRB stock is carried at cost and periodically evaluated for impairment based on ultimate recovery of par value. Both cash and stock dividends are reported as income. The Bank owned approximately $10.7 million and $7.0 million in FHLB, ACBB and FRB stock at June 30, 2014 and December 31, 2013. These amounts were reported as restricted securities in the consolidated balance sheets.

5. ESTIMATED FAIR VALUE OF FINANCIAL INSTRUMENTS

FASB ASC No. 820-10 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. FASB ASC 820-10 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize

the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair values:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

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

Level 3: Significant unobservable inputs that reflect a reporting entity s own assumptions about the assumptions that market participants would use in pricing an asset or liability.

Table of Contents

Assets and liabilities measured on a recurring basis:

		Fair Value Measurements at June 30, 2014 Using:		
(In thousands)	**Carrying Value**	**Quoted Prices In Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Financial Assets:				
Available for sale securities:				
U.S. GSE securities	**$ 122,559**		**$ 122,559**	
State and municipal obligations	**59,149**		**59,149**	
U.S. GSE residential mortgage-backed securities	**56,004**		**56,004**	
U.S. GSE residential collateralized mortgage obligations	**287,022**		**287,022**	
U.S. GSE commercial mortgage-backed securities	**2,912**		**2,912**	
U.S. GSE commercial collateralized mortgage obligations	**32,200**		**32,200**	
Other Asset backed securities	**48,301**		**48,301**	
Corporate Bonds	**20,920**		**20,920**	
Total available for sale	**$ 629,067**		**$ 629,067**	
Financial Liabilities:				
Derivatives	**$ (740)**		**$ (740)**	

		Fair Value Measurements at December 31, 2013 Using:		
(In thousands)	Carrying Value	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial Assets:				
Available for sale securities:				
U.S. GSE securities	$ 152,757		$ 152,757	
State and municipal obligations	61,656		61,656	
U.S. GSE residential mortgage-backed securities	14,435		14,435	
U.S. GSE residential collateralized mortgage obligations	279,191		279,191	
U.S. GSE commercial mortgage-backed securities	2,834		2,834	
U.S. GSE commercial collateralized mortgage obligations	26,910		26,910	
Non Agency commercial mortgage-backed securities	3,578		3,578	
Other Asset backed securities	33,818		33,818	
Total available for sale	$ 575,179		$ 575,179	

Financial Liabilities:				
Derivatives	$	(164)	$	(164)

Table of Contents

Assets measured at fair value on a non-recurring basis are summarized below:

		Fair Value Measurements at June 30, 2014 Using:		
(In thousands)	Carrying Value	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Impaired loans	**$ 183**			**$ 183**
Other real estate owned	**557**			**557**

		Fair Value Measurements at December 31, 2013 Using:		
(In thousands)	Carrying Value	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Impaired loans	$ 1,329			$ 1,329
Other real estate owned	2,242			2,242

Impaired loans with allocated allowance for loan losses at June 30, 2014, had a carrying amount of $0.2 million, which is made up of the outstanding balance of $0.4 million, net of a valuation allowance of $0.2 million. No additional provision for loan losses was necessary for the six months ended June 30, 2014. Impaired loans with allocated allowance for loan losses at December 31, 2013, had a carrying amount of $1.3 million, which is made up of the outstanding balance of $1.5 million, net of a valuation allowance of $0.2 million. This resulted in an additional provision for loan losses of $0.2 million for the twelve months ended December 31, 2013.

Other real estate owned at June 30, 2014 and December 31, 2013 had a carrying amount of $0.6 million and $2.2 million, respectively, and no valuation allowance recorded. Accordingly, there was no additional provision for loan losses included in the amount reported on the Consolidated Statements of Income. The Company deemed ASC 2011-04 disclosures of significant unobservable inputs to be immaterial to the overall consolidated financial statement presentation given the low level of impaired loans and other real estate owned.

The Company used the following method and assumptions in estimating the fair value of its financial instruments:

Cash and Due from Banks and Federal Funds Sold: Carrying amounts approximate fair value, since these instruments are either payable on demand or have short-term maturities. Cash on hand and non-interest due from bank accounts are Level 1 and interest bearing Cash Due from Banks and Federal Funds Sold are Level 2.

Securities Available for Sale and Held to Maturity: The estimated fair values are based on independent dealer quotations on nationally recognized securities exchanges, if available (Level 1). For securities where quoted prices are not available, fair value is based on matrix pricing, which is a mathematical technique widely used in the industry to value debt securities without relying exclusively on quoted prices for the specific securities but rather by relying on the securities relationship to other benchmark quoted securities (Level 2).

Restricted Securities: It is not practicable to determine the fair value of FHLB, ACBB and FRB stock due to restrictions placed on its transferability.

Derivatives: Represents an interest rate swap and the estimated fair values are based on valuation models using observable market data as of measurement date (Level 2).

Loans: The estimated fair values of real estate mortgage loans and other loans receivable are based on discounted cash flow calculations that use available market benchmarks when establishing discount factors for the types of loans resulting in a Level 3 classification. Exceptions may be made for adjustable rate loans (with resets of one year or less), which would be discounted straight to their rate index plus or minus an appropriate spread. All nonaccrual loans are carried at their current fair value. The methods

Table of Contents

utilized to estimate the fair value of loans do not necessarily represent an exit price and therefore, while permissible for presentation purposed under ASC 825-10, do not conform to ASC 820-10.

Impaired Loans: For impaired loans, the Company evaluates the fair value of the loan in accordance with current accounting guidance. For loans that are collateral dependent, the fair value of the collateral is used to determine the fair value of the loan. The fair value of the collateral is determined based upon recent appraised values. The fair value of other real estate owned is also evaluated in accordance with current accounting guidance and determined based upon recent appraised values. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the independent appraisers to adjust for differences between the comparable sales and income data available. Adjustments may relate to location, square footage, condition, amenities, market rate of leases as well as timing of comparable sales. All appraisals undergo a second review process to insure that the methodology employed and the values derived are accurate. The fair value of the loan is compared to the carrying value to determine if any write-down or specific reserve is required. Impaired loans are evaluated on a quarterly basis for additional impairment and adjusted accordingly.

Appraisals for collateral-dependent impaired loans are performed by certified general appraisers (for commercial properties) or certified residential appraisers (for residential properties) whose qualifications and licenses have been reviewed and verified by the Company. Once received, the Credit Administration department reviews the assumptions and approaches utilized in the appraisal as well as the overall resulting fair value in comparison with independent data sources such as recent market data or industry-wide statistics. On a quarterly basis, the Company compares the actual selling price of collateral that has been sold to the most recent appraised value to determine what additional adjustment should be made to the appraisal value to arrive at fair value. Management also considers the appraisal values for commercial properties associated with current loan origination activity. Collectively, this information is reviewed to help assess current trends in commercial property values. For each collateral dependent impaired loan, management considers information that relates to the type of commercial property to determine if such properties may have appreciated or depreciated in value since the date of the most recent appraisal.

Deposits: The estimated fair value of certificates of deposits are based on discounted cash flow calculations that use a replacement cost of funds approach to establishing discount rates for certificates of deposits maturities resulting in a Level 2 classification. Stated value is fair value for all other deposits resulting in a Level 1 classification.

Borrowed Funds: The estimated fair value of borrowed funds are based on discounted cash flow calculations that use a replacement cost of funds approach to establishing discount rates for funding maturities resulting in a Level 2 classification.

Junior Subordinated Debentures: The estimated fair value is based on estimates using market data for similarly risk weighted items and takes into consideration the convertible features of the debentures into common stock of the Company which is an unobservable input resulting in a Level 3 classification.

Accrued Interest Receivable and Payable: For these short-term instruments, the carrying amount is a reasonable estimate of the fair value resulting in a Level 1 or 2 classification.

Off-Balance-Sheet Liabilities: The fair value of off-balance-sheet commitments to extend credit is estimated using fees currently charged to enter into similar agreements. The fair value is immaterial as of June 30, 2014 and December 31, 2013.

Fair value estimates are made at specific points in time and are based on existing on-and off-balance sheet financial instruments. Such estimates are generally subjective in nature and dependent upon a number of significant assumptions associated with each financial instrument or group of financial instruments, including estimates of discount rates, risks associated with specific financial instruments, estimates of future cash flows, and relevant available market information. Changes in assumptions could significantly affect the estimates. In addition, fair value estimates do not reflect the value of anticipated future business, premiums or discounts that could result from offering for sale at one time the Company s entire holdings of a particular financial instrument, or the tax consequences of realizing gains or losses on the sale of financial instruments.

Table of Contents

The estimated fair values and recorded carrying amounts of the Bank s financial instruments at June 30, 2014 and December 31, 2013 are as follows:

		Fair Value Measurements at June 30, 2014 Using:			
(In thousands)	Carrying Amount	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Financial assets:					
Cash and due from banks	**$ 48,419**	**$ 48,419**	**$**	**$**	**$ 48,419**
Interest bearing deposits with banks	**14,782**		**14,782**		**14,782**
Securities available for sale	**629,067**		**629,067**		**629,067**
Securities restricted	**10,690**	**n/a**	**n/a**	**n/a**	**n/a**
Securities held to maturity	**205,062**		**205,341**		**205,341**
Loans, net	**1,184,181**			**1,190,015**	**1,190,015**
Accrued interest receivable	**6,425**		**2,771**	**3,654**	**6,425**
Financial liabilities:					
Certificates of deposit	**167,681**		**168,991**		**168,991**
Demand and other deposits	**1,583,390**	**1,583,390**			**1,583,390**
Federal funds purchased	**70,000**	**70,000**			**70,000**
Federal Home Loan Bank overnight borrowings	**72,000**	**71,992**			**71,992**
Federal Home Loan Bank term advances	**74,086**		**75,671**		**75,671**
Repurchase agreements	**11,392**		**11,940**		**11,940**
Junior Subordinated Debentures	**16,002**			**15,903**	**15,903**
Derivatives	**740**		**740**		**740**
Accrued interest payable	**305**	**76**	**229**		**305**

		Fair Value Measurements at December 31, 2013 Using:			
(In thousands)	Carrying Amount	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Financial assets:					
Cash and due from banks	$ 39,997	$ 39,997	$	$	$ 39,997
Interest bearing deposits with banks	5,576		5,576		5,576
Securities available for sale	575,179		575,179		575,179
Securities restricted	7,034	n/a	n/a	n/a	n/a
Securities held to maturity	201,328		197,338		197,338
Loans, net	997,262			1,002,314	1,002,314
Accrued interest receivable	5,648		2,747	2,901	5,648
Financial liabilities:					
Certificates of deposit	100,895		101,509		101,509
Demand and other deposits	1,438,184	1,438,184			1,438,184
Federal funds purchased	64,000	64,000			64,000

Federal Home Loan Bank overnight borrowings	58,000	57,994			57,994
Federal Home Loan Bank term advances	40,000		40,060		40,060
Repurchase agreements	11,370		11,803		11,803
Junior Subordinated Debentures	16,002			15,215	15,215
Derivatives	164		164		164
Accrued interest payable	225	76	149		225

Table of Contents

6. LOANS

The following table sets forth the major classifications of loans:

(In thousands)	June 30, 2014	December 31, 2013
Commercial real estate mortgage loans	**$ 546,444**	$ 484,900
Multi-family mortgage loans	**173,503**	107,488
Residential real estate mortgage loans	**160,202**	153,417
Commercial, financial, and agricultural loans	**261,925**	209,452
Real estate-construction and land loans	**46,204**	46,981
Installment/consumer loans	**10,604**	9,287
Total loans	**1,198,882**	1,011,525
Net deferred loan costs and fees	**1,979**	1,738
	1,200,861	1,013,263
Allowance for loan losses	**(16,680)**	(16,001)
Net loans	**$ 1,184,181**	$ 997,262

On February 14, 2014, the Company completed the acquisition of FNBNY Bancorp, Inc. and its wholly owned subsidiary First National Bank of New York (collectively FNBNY) resulting in the addition of $87.4 million of acquired loans recorded at their fair value. There were approximately $74 million of acquired FNBNY loans remaining as of June 30, 2014.

Lending Risk

The principal business of the Bank is lending, primarily in commercial real estate mortgage loans, multi-family mortgage loans, residential real estate mortgage loans, construction loans, home equity loans, commercial and industrial loans, land loans and consumer loans. The Bank considers its primary lending area to be eastern Long Island in Suffolk County, New York, and a substantial portion of the Bank s loans are secured by real estate in this area. Accordingly, the ultimate collectibility of such a loan portfolio is susceptible to changes in market and economic conditions in this region.

Commercial Real Estate Mortgages

Loans in this classification include income producing investment properties and owner occupied real estate used for business purposes. The underlying properties are generally located largely in our primary market area. The cash flows of the income producing investment properties are adversely impacted by a downturn in the economy as evidenced by increased vacancy rates, which in turn, will have an effect on credit quality. Generally, management seeks to obtain annual financial information for borrowers with loans in excess of $0.25 million in this category. In the case of owner-occupied real estate used for business purposes, a weakened economy and resultant decreased consumer and/or business spending will have an adverse effect on credit quality.

Multi-Family Mortgages

Loans in this classification include income producing residential investment properties of 5 or more families. The loans are usually made in areas with limited single family residences generating high demand for these facilities. Loans are made to established owners with a proven and demonstrable record of strong performance. Loans are secured by a first mortgage lien on the subject property with a loan to value ratio generally not exceeding 75%. Repayment is derived generally from the rental income generated from the property and maybe supplemented by the owners   personal cash flow. Credit risk arises with an increase in vacancy rates, property mismanagement and the predominance of non-recourse loans that are customary in the industry.

Residential Real Estate Mortgages and Home Equity Loans

Loans in these classifications are made to and secured by owner-occupied residential real estate and repayment is dependent on the credit quality of the individual borrower. The overall health of the economy, including unemployment rates and housing prices, can have an effect on the credit quality in this loan class. The Bank generally does not originate loans with a loan-to-value ratio greater than 80% and does not grant subprime loans.

Table of Contents

Commercial, Industrial and Agricultural Loans

Loans in this classification are made to businesses. Generally these loans are secured by assets of the business and repayment is expected from the cash flows of the business. A weakened economy, and resultant decreased consumer and/or business spending can have an effect on the credit quality in this loan class.

Real Estate Construction and Land Loans

Loans in this classification primarily include land loans to local individuals, contractors and developers for developing the land for sale or for the purpose of making improvements thereon. Repayment is derived primarily from sale of the lots/units including any pre-sold units. Credit risk is affected by market conditions, time to sell at an adequate price and cost overruns. To a lesser extent this class includes commercial development projects that the Company finances, which in most cases require interest only during construction, and then convert to permanent financing. Credit risk is affected by construction delays, cost overruns, market conditions and the availability of permanent financing, to the extent such permanent financing is not being provided by us.

Installment and Consumer Loans

Loans in this classification may be either secured or unsecured and repayment is dependent on the credit quality of the individual borrower and, if applicable, sale of the collateral securing the loan such as automobiles. Therefore, the overall health of the economy, including unemployment rates and housing prices, will have an effect on the credit quality in this loan class.

Credit Quality Indicators

The Company categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt including repayment patterns, probable incurred losses, past loss experience, current economic conditions, and various types of concentrations of credit. Assigned risk rating grades are continuously updated as new information is obtained. Loans risk rated special mention, substandard and doubtful are reviewed on a quarterly basis. The Company uses the following definitions for risk rating grades:

Pass: Loans classified as pass include current loans performing in accordance with contractual terms, pools of homogenous residential real estate and installment/consumer loans that are not individually risk rated and loans which do not exhibit certain risk factors that require greater than usual monitoring by management.

Special mention: Loans classified as special mention, while generally not delinquent, have potential weaknesses that deserve management s close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or in the Bank s credit position at some future date.

Substandard: Loans classified as substandard have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. There is a distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected.

Doubtful: Loans classified as doubtful have all the weaknesses inherent in a substandard loan, and may also be at delinquency status and have defined weaknesses based on currently existing facts, conditions and values making collection or liquidation in full highly questionable and improbable.

Table of Contents

The following table represents loans by class categorized by internally assigned risk grades as of June 30, 2014 and December 31, 2013:

June 30, 2014	**Pass**	**Special Mention**	**Grades: Substandard**	**Doubtful**	**Total**
(In thousands)					
Commercial real estate:					
Owner occupied	**$ 218,953**	**$ 11,127**	**$ 6,693**	**$**	**$ 236,773**
Non-owner occupied	**302,406**	**2,444**	**4,821**		**309,671**
Multi-Family	**168,679**	**2,359**	**2,465**		**173,503**
Residential real estate:					
Residential mortgage	**90,200**	**180**	**2,327**		**92,707**
Home equity	**64,757**	**1,022**	**1,716**		**67,495**
Commercial:					
Secured	**89,868**	**1,197**	**2,136**		**93,201**
Unsecured	**163,322**	**4,472**	**930**		**168,724**
Real estate construction and land loans	**45,835**		**369**		**46,204**
Installment/consumer loans	**10,362**	**142**	**100**		**10,604**
Total loans	**$ 1,154,382**	**$ 22,943**	**$ 21,557**	**$**	**$ 1,198,882**

At June 30, 2014 there were $2.4 million and $3.9 million, respectively, of acquired FNBNY loans included in the special mention and substandard grades.

December 31, 2013	Pass	Special Mention	Grades: Substandard	Doubtful	Total
(In thousands)					
Commercial real estate:					
Owner occupied	$ 164,502	$ 11,828	$ 7,336	$	$ 183,666
Non-owner occupied	291,758	5,490	3,986		301,234
Multi-family loans	107,488				107,488
Residential real estate:					
First lien	87,288	264	2,847		90,399
Home equity	60,285	1,014	1,719		63,018
Commercial:					
Secured	69,475	4,320	2,175		75,970
Unsecured	128,655	3,749	1,078		133,482
Real estate construction and land loans	46,311		670		46,981
Installment/consumer loans	9,144	44	99		9,287
Total loans	$ 964,906	$ 26,709	$ 19,910	$	$ 1,011,525

Table of Contents

Past Due and Nonaccrual Loans

The following table represents the aging of the recorded investment in past due loans as of June 30, 2014 and December 31, 2013 by class of loans, as defined by ASC 310-10:

June 30, 2014 (In thousands)	**30-59 Days Past Due**	**60-89 Days Past Due**	**≥90 Days Past Due and Accruing**	**Nonaccrual Including 90 Days or More Past Due**	**Total Past Due and Nonaccrual**	**Current**	**Total Loans**
Commercial real estate:							
Owner occupied	$	$ 191	$ 603	$ 676	$ 1,470	$ 235,303	$ 236,773
Non-owner occupied	188		103		291	309,380	309,671
Multi-Family			472		472	173,031	173,503
Residential real estate:							
Residential mortgages	8			843	851	91,856	92,707
Home equity	124	291	124	745	1,284	66,211	67,495
Commercial:							
Secured				47	47	93,154	93,201
Unsecured	115			10	125	168,599	168,724
Real estate construction and land loans						46,204	46,204
Installment/consumer loans	7			6	13	10,591	10,604
Total loans	$ 442	$ 482	$ 1,302	$ 2,327	$ 4,553	$ 1,194,329	$ 1,198,882

At June 30, 2014 there were no FNBNY acquired loans that were 30-59 days past due. All loans 90 days or more past due that are still accruing interest represent loans that were acquired from FNBNY and Hamptons State Bank and were recorded at fair value upon acquisition. These loans are considered to be accruing as management can reasonably estimate future cash flows and expect to fully collect the carrying value of these acquired loans. Therefore, the difference between the carrying value of these loans and their expected cash flows is being accreted into income.

December 31, 2013 (In thousands)	30-59 Days Past Due	60-89 Days Past Due	≥90 Days Past Due and Accruing	Nonaccrual Including 90 Days or More Past Due	Total Past Due and Nonaccrual	Current	Total Loans
Commercial real estate:							
Owner occupied	$ 327	$ 201	$ 1	$ 1,072	$ 1,601	$ 182,065	$ 183,666
Non-owner occupied		193		617	810	300,424	301,234
Multi-family loans						107,488	107,488
Residential real estate:							
First lien	329			1,286	1,615	88,784	90,399
Home equity	341	127		767	1,235	61,783	63,018
Commercial:							
Secured				58	58	75,912	75,970

Unsecured		20		21	41	133,441	133,482
Real estate construction and land loans						46,981	46,981
Installment/consumer loans	5	6			11	9,276	9,287
Total loans	$ 1,002	$ 547	$ 1	$ 3,821	$ 5,371	$ 1,006,154	$ 1,011,525

Impaired Loans

As of June 30, 2014 and December 31, 2013, the Company had impaired loans as defined by FASB ASC No. 310, Receivables of $7.0 million and $8.9 million, respectively. For a loan to be considered impaired, management determines after review whether it is probable that the Bank will not be able to collect all amounts due according to the contractual terms of the loan agreement. Management applies its normal loan review procedures in making these judgments. Impaired loans include individually classified nonaccrual loans and troubled debt restructured (TDR) loans. For impaired loans, the Bank evaluates the impairment of the loan in accordance with FASB ASC 310-10-35-22. Impairment is determined based on the present value of expected future cash flows discounted at the loan s effective interest rate. For loans that are collateral dependent, the fair value of the collateral is used to determine the fair value of the loan. The fair value of the collateral is determined based upon recent appraised values. The fair value of

Table of Contents

the collateral or present value of expected cash flows is compared to the carrying value to determine if any write-down or specific loan loss allowance allocation is required. These methods of fair value measurement for impaired loans are considered level 3 within the fair value hierarchy described in FASB ASC 820-10-50-5.

For individually impaired loans, the following tables set forth by class of loans at June 30, 2014 and December 31, 2013 the recorded investment, unpaid principal balance and related allowance. The tables also set forth the average recorded investment of individually impaired loans and interest income recognized while the loans were impaired during the six months and three months ended June 30, 2014 and 2013:

		June 30, 2014		Three Months Ended June 30, 2014		Six Months Ended June 30, 2014	
(In thousands)	**Recorded Investment**	**Unpaid Principal Balance**	**Related Allocated Allowance**	**Average Recorded Investment**	**Interest Income Recognized**	**Average Recorded Investment**	**Interest Income Recognized**
With no related allowance recorded:							
Commercial real estate:							
Owner occupied	**$ 3,647**	**$ 3,773**	**$**	**$ 3,957**	**$ 28**	**$ 4,061**	**$ 56**
Non-owner occupied	**1,261**	**1,529**		**965**	**16**	**967**	**32**
Residential real estate:							
Residential mortgages	**692**	**1,407**		**834**		**981**	
Home equity	**543**	**950**		**576**		**584**	
Commercial:							
Secured	**357**	**357**		**358**	**6**	**359**	**13**
Unsecured	**158**	**158**		**162**	**3**	**167**	**6**
Total with no related allowance recorded	**6,658**	**8,174**		**6,852**	**53**	**7,119**	**107**
With an allowance recorded:							
Residential real estate - Residential mortgage	**151**	**155**	**77**	**152**		**152**	
Residential real estate - Home equity	**202**	**216**	**93**	**202**		**203**	
Total with an allowance recorded:	**353**	**371**	**170**	**354**		**355**	
Total:							
Commercial real estate:							
Owner occupied	**3,647**	**3,773**		**3,957**	**28**	**4,061**	**56**
Non-owner occupied	**1,261**	**1,529**		**965**	**16**	**967**	**32**
Residential real estate:							
Residential mortgages	**843**	**1,562**	**77**	**986**		**1,133**	
Home equity	**745**	**1,166**	**93**	**778**		**787**	
Commercial:							
Secured	**357**	**357**		**358**	**6**	**359**	**13**
Unsecured	**158**	**158**		**162**	**3**	**167**	**6**
Total	**$ 7,011**	**$ 8,545**	**$ 170**	**$ 7,206**	**$ 53**	**$ 7,474**	**$ 107**

Table of Contents

(In thousands)	December 31, 2013 Recorded Investment	December 31, 2013 Unpaid Principal Balance	December 31, 2013 Related Allocated Allowance	Three Months Ended June 30, 2013 Average Recorded Investment	Three Months Ended June 30, 2013 Interest Income Recognized	Six Months Ended June 30, 2013 Average Recorded Investment	Six Months Ended June 30, 2013 Interest Income Recognized
With no related allowance recorded:							
Commercial real estate:							
Owner occupied	$ 3,696	$ 3,805	$	$ 3,740	$ 29	$ 3,753	$ 59
Non-owner occupied	917	917		916	15	916	29
Residential real estate:							
First lien	1,463	2,213		1,495	6	1,515	13
Home equity	689	1,046		821		856	
Commercial:							
Secured	352	352		446	7	462	13
Unsecured	174			240	1	245	2
Total with no related allowance recorded	7,291	8,333		7,658	58	7,747	116
With an allowance recorded:							
Commercial real estate - Owner occupied	720	720	94	240		120	
Commercial real estate - Non-owner occupied	617	617	22	618	9	412	12
Residential real estate - First lien	152	156	42	155		130	
Residential real estate - Home equity	78	89	80	82		83	
Commercial - Secured							
Commercial - Unsecured							
Total with an allowance recorded:	1,567	1,582	238	1,095	9	745	12
Total:							
Commercial real estate:							
Owner occupied	4,416	4,525	94	3,980	29	3,873	59
Non-owner occupied	1,534	1,534	22	1,534	24	1,328	41
Residential real estate:							
First lien	1,615	2,369	42	1,650	6	1,645	13
Home equity	767	1,135	80	903		939	
Commercial:							
Secured	352	352		446	7	462	13
Unsecured	174			240	1	245	2
Total	$ 8,858	$ 9,915	$ 238	$ 8,753	$ 67	$ 8,492	$ 128

The Bank had $0.6 million and $2.2 million other real estate owned at June 30, 2014 and December 31, 2013, respectively.

Troubled Debt Restructurings

The terms of certain loans were modified and are considered TDRs. The modification of the terms of such loans included one or a combination of the following: a reduction of the stated interest rate of the loan; an extension of the maturity date at a stated rate of interest lower than the current market rate for new debt with similar risk; or a permanent reduction of the recorded investment in the loan. The modification of these loans involved a loan to borrowers who were experiencing financial difficulties.

In order to determine whether a borrower is experiencing financial difficulty, an evaluation is performed to determine if that borrower is currently in payment default under any of its obligations or whether there is a probability that the borrower will be in payment default on any of its debt in the foreseeable future without the modification. This evaluation is performed under the Company s internal underwriting policy.

During the six months ended June 30, 2014, there were no loans modified as TDRs. During the six months ended June 30, 2013, the Bank modified two loans as TDRs totaling $0.6 million.

There were no loans modified as TDRs during the three months ended June 30, 2014 or June 30, 2013.

Table of Contents

There were no TDRs or charge offs relating to TDRs during the quarter ending June 30, 2014. There were no loans modified as TDRs for which there was a payment default within twelve months following the modification for the six months ended June 30, 2014. There was one non-owner occupied commercial real estate loan modified as a TDR for which there was a payment default within twelve months following the modification during the six months ended June 30, 2013. A loan is considered to be in payment default once it is 30 days contractually past due under the modified terms.

As of June 30, 2014 and December 31, 2013, the Company had $1.0 million and $2.0 million, respectively of nonaccrual TDR loans and $4.7 million and $5.1 million, respectively of performing TDRs. At June 30, 2014 and December 31, 2013, total nonaccrual TDR loans are secured with collateral that has an appraised value of $1.9 million and $2.3 million, respectively. Furthermore, the Bank has no commitment to lend additional funds to these debtors.

The terms of certain other loans were modified during the quarter ending June 30, 2014 that did not meet the definition of a TDR. These loans have a total recorded investment as of June 30, 2014 of $3.6 million. The modification of these loans involved a modification of the terms of loans to borrowers who were not experiencing financial difficulties.

Acquired FNBNY Loans

Loans acquired in a business combination are recorded at their fair value at the acquisition date. Credit discounts are included in the determination of fair value; therefore, an allowance for loan losses is not recorded at the acquisition date.

In determining the acquisition date fair value of purchased loans, acquired loans are aggregated into pools of loans with common characteristics. Each loan is reviewed at acquisition to determine if it should be accounted for as a loan that has experienced credit deterioration and it is probable that at acquisition, the Company will not be able to collect all the contractual principle and interest due from the borrower. All loans with evidence of deterioration in credit quality are considered purchased credit impaired (PCI) loans unless the loan type is specifically excluded from the scope of ASC 310-30 Loans and Debt Securities Acquired with Deteriorated Credit Quality, such as loans with active revolver features or because management has minimal doubt in the collection of the loan. This policy is based on the following general themes;

1. The loans were acquired in a business combination;
2. The acquisition of the loans will result in recognition of a discount attributable, at least in part, to credit quality; and
3. The loans are not subsequently accounted for at fair value

The Bank makes an estimate of the loans contractual principal and contractual interest payments as well as the total cash flows it expects to collect from the pools of loans, which includes undiscounted expected principal and interest. The excess of contractual amounts over the total cash flows expected to be collected from the loans is referred to as non-accretable difference, which is not accreted into income. The excess of

the expected undiscounted cash flows over the fair value of the loans is referred to as accretable discount. Accretable discount is recognized as interest income on a level-yield basis over the life of the loans. Management has not included prepayment assumptions in its modeling of contractual or expected cash flows. The Bank continues to estimate cash flows expected to be collected over the life of the loans. Subsequent increases in total cash flows expected to be collected are recognized as an adjustment to the accretable yield with the amount of periodic accretion adjusted over the remaining life of the loans. Subsequent decreases in cash flows expected to be collected over the life of the loans are recognized as impairment in the current period through allowance for loan losses.

A PCI loan may be resolved either through a sale of the loan, by working with the customer and obtaining partial or full repayment, by short sale of the collateral, or by foreclosure. When a loan accounted for in a pool is resolved, it is removed from the pool at its carrying amount. Any differences between the amounts received and the outstanding balance are absorbed by the non-accretable difference of the pool. For loans not accounted for in pools, a gain or loss on resolution would be recognized based on the difference between the proceeds received and the carrying amount of the loan.

Payments received earlier than expected or in excess of expected cash flows from sales or other resolutions may result in the carrying value of a pool being reduced to zero even though outstanding contractual balances and expected cash flows remain related to loans in the pool. Once the carrying value of a pool is reduced to zero, any future proceeds, which may include cash or real estate acquired in foreclosure, from the remaining loans, representing further realization of accretable yield, are recognized as interest income upon receipt.

At the acquisition date, the purchased credit impaired loans had contractually required principal and interest payments receivable of $44.6 million; expected cash flows of $30.0 million; and a fair value (initial carrying amount) of $22.9 million. The difference between the contractually required principal and interest payments receivable and the expected cash flows ($14.6 million) represented the non-accretable difference. The difference between the expected cash flows and fair value ($7.1) million represented the initial

Table of Contents

accretable yield. At June 30, 2014, the carrying amount of the purchased credit impaired loans was $15.2 million with a remaining non-accretable difference of $11.3 million. At June 30, 2014, the remaining carrying amount of the purchased credit impaired loans from the Hamptons State Bank acquisition was $1.2 million.

The following table summarizes the activity in the accretable yield for the purchased credit impaired loans for the six months ended June 30, 2014:

(In thousands)	Six Months Ended June 30, 2014	
Balance at beginning of period	$	**6,866**
Accretable discount arising from acquisition of PCI loans		
Accretion		**(488)**
Reclassification from (to) nonaccretable difference during the period		**1,307**
Other changes in expected cash flows		
Other		**(71)**
Accretable discount at end of period	$	**7,614**

7. ALLOWANCE FOR LOAN LOSSES

The allowance for loan losses is established and maintained through a provision for loan losses based on probable incurred losses inherent in the Bank s loan portfolio. Management evaluates the adequacy of the allowance on a quarterly basis. The allowance is comprised of both individual valuation allowances and loan pool valuation allowances.

The Bank monitors its entire loan portfolio on a regular basis, with consideration given to detailed analysis of classified loans, repayment patterns, probable incurred losses, past loss experience, current economic conditions, and various types of concentrations of credit. Additions to the allowance are charged to expense and realized losses, net of recoveries, are charged to the allowance.

Individual valuation allowances are established in connection with specific loan reviews and the asset classification process including the procedures for impairment testing under FASB Accounting Standard Codification (ASC) No. 310, Receivables . Such valuation, which includes a review of loans for which full collectibility in accordance with contractual terms is not reasonably assured, considers the estimated fair value of the underlying collateral less the costs to sell, if any, or the present value of expected future cash flows, or the loan s observable market value. Any shortfall that exists from this analysis results in a specific allowance for the loan. Pursuant to our policy, loan losses must be charged-off in the period the loans, or portions thereof, are deemed uncollectible. Assumptions and judgments by management, in conjunction with outside sources, are used to determine whether full collectibility of a loan is not reasonably assured. These assumptions and judgments are also used to determine the estimates of the fair value of the underlying collateral or the present value of expected future cash flows or the loan s observable market value. Individual valuation allowances could differ materially as a result of changes in these assumptions and judgments. Individual loan analyses are periodically performed on specific loans considered impaired. The results of the individual valuation allowances are aggregated and included in the overall allowance for loan losses.

Loan pool valuation allowances represent loss allowances that have been established to recognize the inherent risks associated with our lending activities, but which, unlike individual allowances, have not been allocated to particular problem assets. Pool evaluations are broken down into loans with homogenous characteristics by loan type and include commercial real estate mortgages, multi-family mortgage loans, home equity loans, residential real estate mortgages, commercial and industrial loans, real estate construction and land loans and consumer loans. The determination of the adequacy of the valuation allowance is a process that takes into consideration a variety of factors. The Bank has developed a range of valuation allowances necessary to adequately provide for probable incurred losses inherent in each pool of loans. We consider our own charge-off history along with the growth in the portfolio as well as the Bank s credit administration and asset management philosophies and procedures when determining the allowances for each pool. In addition, we evaluate and consider the credit s risk rating which includes management s evaluation of: cash flow, collateral, guarantor support, financial disclosures, industry trends and strength of borrowers management, the impact that economic and market conditions may have on the portfolio as well as known and inherent risks in the portfolio. Finally, we evaluate and consider the allowance ratios and coverage percentages of both peer group and regulatory agency data. These evaluations are inherently subjective because, even though they are based on objective data, it is management s interpretation of that data that determines the amount of the appropriate allowance. If the evaluations prove to be incorrect, the allowance for loan losses may not be sufficient to cover losses inherent in the loan portfolio, resulting in additions to the allowance for loan losses.

For purchased credit impaired loans, a valuation allowance is established when it is probable that the Bank will be unable to collect all the cash flows expected at acquisition plus additional cash flows expected to be collected arising from changes in estimate after

Table of Contents

acquisition. A specific allowance is established when subsequent evaluations of expected cash flows from purchased credit impaired loans reflect a decrease in those estimates.

The Bank uses assumptions and methodologies that are relevant to estimating the level of impairment and probable losses in the loan portfolio. To the extent that the data supporting such assumptions has limitations, management s judgment and experience play a key role in recording the allowance estimates. Additions to the allowance for loan losses are made by provisions charged to earnings. Furthermore, an improvement in the expected cash flows related to purchased credit impaired loans would result in a reduction of the required specific allowance with a corresponding credit to the provision.

The Credit Risk Management Committee is comprised of Bank management. The adequacy of the allowance is analyzed quarterly, with any adjustment to a level deemed appropriate by the Credit Risk Management Committee, based on its risk assessment of the entire portfolio. Each quarter, members of the Credit Risk Management Committee meet with the Credit Risk Committee of the Board to review credit risk trends and the adequacy of the allowance for loan losses. Based on the Credit Risk Management Committee s review of the classified loans and the overall allowance levels as they relate to the loan portfolio at June 30, 2014, management believes the allowance for loan losses has been established at levels sufficient to cover the probable incurred losses in the Bank s loan portfolio. Future additions or reductions to the allowance may be necessary based on changes in economic, market or other conditions. Changes in estimates could result in a material change in the allowance. In addition, various regulatory agencies, as an integral part of the examination process, periodically review the allowance for loan losses. Such agencies may require the Bank to recognize adjustments to the allowance based on their judgments of the information available to them at the time of their examination.

The following table represents the balance in the allowance for loan losses and the recorded investment in loans by portfolio segment, as defined under ASC 310-10, and based on impairment method as of June 30, 2014 and December 31, 2013. Additionally, the following tables represent the changes in the allowance for loan losses for the three and six month periods ended June 30, 2014 and 2013, and the twelve month period ended December 31, 2013, by portfolio segment, as defined under ASC 310-10. The loan segment represents the categories that the Bank develops to determine its allowance for loan losses.

	For the Three Months Ended June 30, 2014						
(In thousands)	**Commercial Real Estate Mortgage Loans**	**Multi-Family**	**Residential Real Estate Mortgage Loans**	**Commercial, Financial and Agricultural Loans**	**Real Estate Construction and Land Loans**	**Installment/ Consumer Loans**	**Total**
Allowance for Loan Losses:							
Beginning balance	**$ 6,621**	**$ 1,594**	**$ 2,603**	**$ 4,270**	**$ 1,103**	**$ 178**	**$ 16,369**
Charge-offs	**(143)**		**(50)**	**(13)**		**(1)**	**(207)**
Recoveries			**10**	**8**			**18**
Provision	**197**	**503**	**(38)**	**(75)**	**(68)**	**(19)**	**500**
Ending Balance	**$ 6,675**	**$ 2,097**	**$ 2,525**	**$ 4,190**	**$ 1,035**	**$ 158**	**$ 16,680**

Table of Contents

	For the Six Months Ended June 30, 2014						
(In thousands)	Commercial Real Estate Mortgage Loans	Multi-Family	Residential Real Estate Mortgage Loans	Commercial, Financial and Agricultural Loans	Real Estate Construction and Land Loans	Installment/ Consumer Loans	Total
Allowance for Loan Losses:							
Beginning balance	$ 6,279	$ 1,597	$ 2,712	$ 4,006	$ 1,206	$ 201	$ 16,001
Charge-offs	(410)		(50)	(98)		(1)	(559)
Recoveries			20	17		1	38
Provision	806	500	(157)	265	(171)	(43)	1,200
Ending Balance	$ 6,675	$ 2,097	$ 2,525	$ 4,190	$ 1,035	$ 158	$ 16,680
Ending balance: individually evaluated for impairment	$	$	$ 170	$	$	$	$ 170
Ending balance: collectively evaluated for impairment	$ 6,675	$ 2,097	$ 2,355	$ 4,190	$ 1,035	$ 158	$ 16,510
Ending balance: loans acquired with deteriorated credit quality	$	$	$	$	$	$	$
Loans	$ 546,444	$ 173,503	$ 160,202	$ 261,925	$ 46,204	$ 10,604	$ 1,198,882
Ending balance: individually evaluated for impairment	$ 4,908	$	$ 1,588	$ 515	$	$	$ 7,011
Ending balance: collectively evaluated for impairment	$ 529,198	$ 173,503	$ 157,752	$ 258,163	$ 46,204	$ 10,604	$ 1,175,424
Ending balance: loans acquired with deteriorated credit quality (1)	$ 12,338	$	$ 862	$ 3,247	$	$	$ 16,447

(1) Includes loans acquired on February 14, 2014 from FNBNY.

Table of Contents

(In thousands)	Commercial Real Estate Mortgage Loans	Multi-Family	Residential Real Estate Mortgage Loans	Commercial, Financial and Agricultural Loans	Real Estate Construction and Land Loans	Installment/ Consumer Loans	Total
	For the Year Ended December 31, 2013						
Allowance for Loan Losses:							
Beginning balance	$ 4,445	$ 1,239	$ 2,803	$ 4,349	$ 1,375	$ 228	$ 14,439
Charge-offs			(420)	(420)	(23)	(53)	(916)
Recoveries			34	87	2	5	128
Provision	1,834	358	295	(10)	(148)	21	2,350
Ending Balance	$ 6,279	$ 1,597	$ 2,712	$ 4,006	$ 1,206	$ 201	$ 16,001
Ending balance: individually evaluated for impairment	$ 116	$	$ 122	$	$	$	$ 238
Ending balance: collectively evaluated for impairment	$ 6,163	$ 1,597	$ 2,590	$ 4,006	$ 1,206	$ 201	$ 15,763
Ending balance: loans acquired with deteriorated credit quality	$	$	$	$	$	$	$
Loans	$ 484,900	$ 107,488	$ 153,417	$ 209,452	$ 46,981	$ 9,287	$ 1,011,525
Ending balance: individually evaluated for impairment	$ 5,950	$	$ 2,382	$ 526	$	$	$ 8,858
Ending balance: collectively evaluated for impairment	$ 478,129	$ 107,488	$ 151,035	$ 208,677	$ 46,641	$ 9,287	$ 1,001,257
Ending balance: loans acquired with deteriorated credit quality	$ 821	$	$	$ 249	$ 340	$	$ 1,410

(In thousands)	Commercial Real Estate Mortgage Loans	Multi-Family	Residential Real Estate Mortgage Loans	Commercial, Financial and Agricultural Loans	Real Estate Construction and Land Loans	Installment/ Consumer Loans	Total
	For the Three Months Ended June 30, 2013						
Allowance for Loan Losses:							
Beginning balance	$ 4,643	$ 1,436	$ 2,673	$ 4,387	$ 1,598	$ 187	$ 14,924
Charge-offs			(100)	(260)		(50)	(410)
Recoveries			2	12	1	1	16
Provision	557	(6)	116	(144)	3	74	600
Ending Balance	$ 5,200	$ 1,430	$ 2,691	$ 3,995	$ 1,602	$ 212	$ 15,130

For the Six Months Ended June 30, 2013

(In thousands)	Commercial Real Estate Mortgage Loans	Multi-Family	Residential Real Estate Mortgage Loans	Commercial, Financial and Agricultural	Real Estate Construction and Land Loans	Installment/ Consumer Loans	Total

		Loans					
Allowance for Loan Losses:							
Beginning balance	$ 4,445	$ 1,239	$ 2,803	$ 4,349	$ 1,375	$ 228	$ 14,439
Charge-offs			(201)	(260)	(22)	(50)	(533)
Recoveries			3	67	1	3	74
Provision	755	191	86	(161)	248	31	1,150
Ending Balance	$ 5,200	$ 1,430	$ 2,691	$ 3,995	$ 1,602	$ 212	$ 15,130

Table of Contents

8. EMPLOYEE BENEFITS

The Bank maintains a noncontributory pension plan covering all eligible employees. The Bank uses a December 31st measurement date for this plan in accordance with FASB ASC 715-30 *Compensation Retirement Benefits Defined Benefit Plans Pension.* During 2012, the Company amended the pension plan revising the formula for determining benefits effective January 1, 2013, except for certain grandfathered employees. Additionally, new employees hired on or after October 1, 2012 are not eligible for the pension plan.

During 2001, the Bank adopted the Bridgehampton National Bank Supplemental Executive Retirement Plan (SERP). The SERP provides benefits to certain employees, as recommended by the Compensation Committee of the Board of Directors and approved by the full Board of Directors, whose benefits under the pension plan are limited by the applicable provisions of the Internal Revenue Code. The benefit under the SERP is equal to the additional amount the employee would be entitled to under the Pension Plan and the 401(k) Plan in the absence of such Internal Revenue Code limitations. The assets of the SERP are held in a rabbi trust to maintain the tax-deferred status of the plan and are subject to the general, unsecured creditors of the Company. As a result, the assets of the trust are reflected on the Consolidated Balance Sheets of the Company.

There were no contributions to the pension plan or the SERP during the six months ended June 30, 2014. In accordance with the SERP, a retired executive received a distribution from the Plan totaling $56,000 during the six months ended June 30, 2014.

The Company s funding policy with respect to its benefit plans is to contribute at least the minimum amounts required by applicable laws and regulations.

The following table sets forth the components of net periodic benefit cost and other amounts recognized in Other Comprehensive Income:

	Three months ended June 30,				Six months ended June 30,			
	Pension Benefits		SERP Benefits		Pension Benefits		SERP Benefits	
(In thousands)	**2014**	2013	**2014**	2013	**2014**	2013	**2014**	2013
Service cost	**$ 227**	$ 232	**$ 33**	$ 37	**$ 451**	$ 462	**$ 66**	$ 73
Interest cost	**160**	140	**22**	19	**318**	279	**44**	38
Expected return on plan assets	**(406)**	(345)			**(808)**	(686)		
Amortization of net loss	**7**	81		4	**14**	153		8
Amortization of unrecognized prior service cost	**(19)**	(19)			**(39)**	(38)		
Amortization of unrecognized transition obligation			**7**	7			**14**	14
Net periodic benefit cost	**$ (31)**	$ 89	**$ 62**	$ 67	**$ (64)**	$ 170	**$ 124**	$ 133

9. SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE

At June 30, 2014, June 30, 2013 and December 31, 2013, securities sold under agreements to repurchase totaled $11.4 million, $11.3 million, and $11.4 million, respectively, and were secured by U.S. GSE, residential mortgage-backed securities and residential collateralized mortgage obligations with a carrying amount of $15.4 million, $15.7 million and $17.5 million, respectively.

Securities sold under agreements to repurchase are financing arrangements with $1.4 million maturing during the third quarter of 2014, and $10.0 million maturing during the first quarter of 2015. At maturity, the securities underlying the agreements are returned to the Company. Information concerning the securities sold under agreements to repurchase is summarized as follows:

	For the six months ended		For the year ended
(Dollars in thousands)	**June 30, 2014**	June 30, 2013	December 31, 2013
Average daily balance	**$ 11,594**	$ 12,416	$ 11,770
Average interest rate	**3.22%**	3.00%	3.17%
Maximum month-end balance	**$ 12,045**	$ 12,903	$ 12,903
Weighted average interest rate	**3.17%**	2.97%	3.13%

Table of Contents

10. FEDERAL HOME LOAN BANK ADVANCES

The following table sets forth the contractual maturities and weighted average interest rates of FHLB advances for each of the next five years and the period thereafter at June 30, 2014 and December 31, 2013:

Contractual Maturity (Dollars in thousands)	June 30, 2014 Amount		Weighted Average Rate
Overnight	**$**	**72,000**	**0.38%**
2014		**44,517**	**0.37%**
2015		**1,524**	**0.09%**
2016		**11,756**	**0.69%**
2017			
2018		**16,289**	**0.99%**
		74,086	**0.55%**
	$	**146,086**	**0.47%**

Contractual Maturity (Dollars in thousands)	December 31, 2013 Amount		Weighted Average Rate
Overnight	$	58,000	0.40%
2014		40,000	0.46%
		40,000	0.46%
	$	98,000	0.42%

Each advance is payable at its maturity date, with a prepayment penalty for fixed rate advances. The advances were collateralized by $366.0 million and $336.6 million of residential and commercial mortgage loans under a blanket lien arrangement at June 30, 2014 and December 31, 2013, respectively. Based on this collateral and the Company s holdings of FHLB stock, the Company is eligible to borrow up to a total of $655.7 million at June 30, 2014.

11. JUNIOR SUBORDINATED DEBENTURES

In December 2009, the Company completed the private placement of $16.0 million in aggregate liquidation amount of 8.50% cumulative convertible trust preferred securities (the TPS), through its wholly-owned subsidiary, Bridge Statutory Capital Trust II. The TPS have a liquidation amount of $1,000 per security and are convertible into our common stock, at an effective conversion price of $31 per share. The TPS mature in 30 years but are callable by the Company at par any time after September 30, 2014.

The Company issued $16.0 million of junior subordinated debentures (the Debentures) to the trust in exchange for ownership of all of the common security of the trust and the proceeds of the preferred securities sold by the trust. In accordance with current accounting guidance, the trust is not consolidated in the Company s financial statements, but rather the Debentures are shown as a liability. The Debentures bear interest at a fixed rate equal to 8.50% and mature on December 31, 2039. Consistent with regulatory requirements, the interest payments may be deferred for up to five years, and are cumulative. The Debentures have the same prepayment provisions as the TPS.

The Debentures are included in Tier I capital (with certain limitations applicable) under current regulatory guidelines and interpretations.

12. DERIVATIVES

The Company utilized interest rate swap agreements as part of its asset liability management strategy to help manage its interest rate risk position. The notional amount of the interest rate swap does not represent amounts exchanged by the parties. The amount exchanged is determined by reference to the notional amount and the other terms of the individual interest rate swap agreements.

Table of Contents

Interest rate swaps with a notional amount totaling $15.0 million and $25.0 million were entered into on June 28, 2012 and July 15, 2013, respectively and were designated as cash flow hedges of certain Federal Home Loan Bank advances. Forward starting interest rate swaps with a notional amount totaling $10.0 million and $25.0 million were entered into on July 15, 2013 and June 27, 2014, respectively and were designated as cash flow hedges of certain repurchase agreements and Federal Home Loan Bank advances. The swaps were determined to be fully effective during the period presented and therefore no amount of ineffectiveness has been included in net income. The aggregate fair value of the swaps is recorded in other assets/(other liabilities) with changes in fair value recorded in other comprehensive income (loss). The amount included in accumulated other comprehensive income (loss) would be reclassified to current earnings if the hedge transactions become probable of not occurring. The Company expects the hedges to remain fully effective during the remaining term of the swaps.

The following table presents summary information about the interest rate swaps designated as a cash flow hedge as of June 30, 2014 and 2013 and December 31, 2013.

(Dollars in thousands)	For the six months ended **June 30, 2014**	For the six months ended June 30, 2013	For the year ended December 31, 2013
Notional amounts	**$ 75,000**	$ 15,000	$ 50,000
Weighted average pay rates	**1.39%**	0.99%	1.39%
Weighted average receive rates	**0.23%**	0.29%	0.24%
Weighted average maturity	**4.36 years**	3.99 years	4.56 years
Unrealized gains (losses)	**$ (740)**	$ 111	$ (164)

Interest expense recorded on this swap transaction totaled $233,000 and $52,000 for the six months ended June 30, 2014 and June 30, 2013, respectively, and is reported as a component of interest expense on FHLB Advances.

Cash Flow Hedge

The following table presents the net gains (losses) recorded, net of tax, in accumulated other comprehensive income and the Consolidated Statements of Income relating to the cash flow derivative instruments for the six months ended June 30, 2014 and June 30, 2013.

		2014	
(In thousands)	**Amount of gain (loss) recognized in OCI (Effective Portion)**	**Amount of gain (loss) reclassified from OCI to interest income**	**Amount of gain (loss) recognized in other non interest income (Ineffective Portion)**
Interest rate contracts	**$ (446)**	**$**	**$**

		2013	
(In thousands)	Amount of gain (loss) recognized in OCI (Effective Portion)	Amount of gain (loss) reclassified from OCI to interest income	Amount of gain (loss) recognized in other non interest income (Ineffective Portion)
Interest rate contracts	$ 67	$	$

The following table reflects the cash flow hedge included in the Consolidated Balance Sheet:

	June 30, 2014		December 31, 2013	
(In thousands)	**Notional Amount**	**Fair Value**	Notional Amount	Fair Value
Included in other assets/(liabilities):				
Interest rate swaps related to FHLB Advances	**$ 40,000**	**$ (358)**	$ 40,000	$ (122)
Forward starting interest rate swap related to repurchase agreements	**$ 10,000**	**$ (324)**	$ 10,000	$ (42)
Forward starting interest rate swap related to FHLB Advances	**$ 25,000**	**$ (58)**	$	$

Table of Contents

13. OTHER COMPREHENSIVE INCOME (LOSS)

Other comprehensive income (loss) components and related income tax effects were as follows:

	Three Months Ended		Six Months Ended	
(In thousands)	**June 30, 2014**	June 30, 2013	**June 30, 2014**	June 30, 2013
Unrealized holding gains (losses) on available for sale securities	**$ 6,913**	$ (13,846)	**$ 11,456**	$ (14,514)
Reclassification adjustment for losses (gains) realized in income	**16**	(310)	**1,128**	(648)
Income tax effect	**(2,750)**	5,620	**(4,994)**	6,019
Net change in unrealized gains (losses) on available for sale securities	**4,179**	(8,536)	**7,590**	(9,143)
Change in post-retirement obligation	**(5)**	81	**(12)**	145
Income tax effect	**2**	(32)	**5**	(57)
Net change in post-retirement obligation	**(3)**	49	**(7)**	88
Change in fair value of derivatives used for cash flow hedges	**(426)**	259	**(576)**	287
Reclassification adjustment for gains realized in income				
Income tax effect	**170**	(103)	**229**	(114)
Net change in unrealized (losses) gains on cash flow hedge	**(256)**	156	**(347)**	173
Total	**$ 3,920**	$ (8,331)	**$ 7,236**	$ (8,882)

The following is a summary of the accumulated other comprehensive income balances, net of income tax:

(In thousands)	Balance as of December 31, 2013	Current Period Change	**Balance as of June 30, 2014**
Unrealized (losses) gains on available for sale securities	$ (11,994)	$ 7,590	**$ (4,404)**
Unrealized losses on pension benefits	(1,143)	(7)	**(1,150)**
Unrealized losses on cash flow hedges	(99)	(347)	**(446)**
Total	$ (13,236)	$ 7,236	**$ (6,000)**

The following represents the reclassifications out of accumulated other comprehensive income for the three and six months ended June 30, 2014 and 2013:

	Three Months Ended	**Six Months Ended**	Affected Line Item

(In thousands)		June 30, 2014		June 30, 2013		June 30, 2014		June 30, 2013	in the Consolidated Statements of Income
Unrealized gains (losses) on available for sale securities:									
Realized (losses) gains on sale of available for sale securities	**$**	**(16)**	$	310	**$**	**(1,128)**	$	648	Net securities (losses) gains
Income tax effect		**6**		(123)		**448**		(257)	Income tax expense
Net of income tax	**$**	**(10)**	$	187	**$**	**(680)**	$	391	
Amortization of defined benefit pension plan and the defined benefit plan component of the SERP:									
Prior service credit (cost)	**$**	**19**	$	19	**$**	**39**	$	38	Salaries and employee benefits
Transition obligation		**(7)**		(7)		**(14)**		(14)	Salaries and employee benefits
Actuarial losses		**(7)**		(85)		**(14)**		(161)	Salaries and employee benefits
	$	**5**	$	(73)	**$**	**11**	$	(137)	
Income tax effect		**(2)**		29		**(4)**		54	Income tax expense
Net of income tax	**$**	**3**	$	(44)	**$**	**7**	$	(83)	
Total reclassifications, net of tax	**$**	**(7)**	$	143	**$**	**(673)**	$	308	

Table of Contents

14. BUSINESS COMBINATIONS

On September 30, 2013, the Company announced a definitive agreement under which the Bank would acquire the First National Bank of New York (FNBNY). The FNBNY transaction closed on February 14, 2014 resulting in the addition of total acquired assets on a fair value basis of $209.9 million, with loans of $87.4 million, investment securities of $103.2 million and deposits of $169.9 million. The transaction expanded our geographic footprint into Nassau County, complements our existing branch network and enhances our asset generation capabilities. The expanded branch network allows us to serve a greater portion of the Long Island and metropolitan marketplace through a network of 26 branches.

Under the terms of the Agreement, the Company acquired FNBNY at a purchase price of $6.1 million and issued an aggregate of 240,598 Bridge Bancorp shares in exchange for all the issued and outstanding stock of FNBNY and recorded goodwill of $8.7 million which is not deductible for tax purposes. The purchase price is subject to certain post-closing adjustments equal to 60 percent of the net recoveries of principal on $6.3 million of certain identified problem loans over a two-year period after the acquisition. Based on current assumptions, the Company has not recorded an estimated liability as of the acquisition date and June 30, 2014 associated with these post-closing adjustments.

The acquisition was accounted for under the acquisition method of accounting in accordance with FASB ASC 805, Business Combinations. Accordingly, the assets acquired and liabilities assumed were recorded at their respective acquisition date fair values, and identifiable intangible assets were recorded at fair value. The operating results of the Company for the six month period ended June 30, 2014 include the operating results of FNBNY since the acquisition date of February 14, 2014.

The following summarizes the preliminary fair value of the assets acquired and liabilities assumed on February 14, 2014:

(In thousands)	As Initially Reported	Measurement Period Adjustments	As Adjusted
Cash and due from banks	$ 1,883	$	$ 1,883
Interest earning deposits with banks	1,044		1,044
Securities	103,192		103,192
Loans	87,390	(7)	87,383
Premises and equipment	1,787		1,787
Core deposit intangible	1,930		1,930
Other assets	12,682	147	12,829
Total Assets Acquired	$ 209,908	$ 140	$ 210,048
Deposits	$ 169,873	$	$ 169,873
Federal Home Loan Bank term advances	39,282		39,282
Unsecured debt	1,450		1,450
Other liabilities and accrued expenses	1,825	117	1,942
Total Liabilities Assumed	$ 212,430	$ 117	$ 212,547
Net Assets Acquired /(Liabilities Assumed)	(2,522)	23	(2,499)
Consideration Paid	6,140		6,140
Goodwill Recorded on Acquisition	$ 8,662	$ (23)	$ 8,639

Considering the closing date of the transaction, the above fair values are preliminary and subject to adjustment as the Company finalizes fair value assessments. In accordance with FASB ASC 805-10 (Subtopic 25-15), the Company has up to one year from date of acquisition to complete this assessment.

15. RECENT ACCOUNTING PRONOUNCEMENTS

In May 2014, the FASB issued an update (ASU No. 2014-09, Revenue from Contracts with Customers) creating FASB Topic 606, Revenue from Contracts with Customers. The guidance in this update affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards (for example, insurance contracts or lease contracts). The core principle of the guidance 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. The guidance provides steps to follow to achieve the core principle. An entity should disclose sufficient information to enable users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. Qualitative and quantitative information is required about contracts with customers, significant judgments and changes in judgments, and assets recognized from the costs to obtain or fulfill a contract. The amendments in this update become effective for annual periods and interim periods within those annual periods beginning after December 15, 2016. We are currently evaluating the impact of adopting the new guidance on the consolidated financial statements.

In January 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-04, Receivables Trouble Debt Restructurings by Creditors (Subtopic 310-40): Reclassification of Residential Real Estate collateralized consumer Mortgage Loans upon Foreclosure. ASU 2014-04 clarifies that an in substance repossession or foreclosure occurs, and a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, upon either (1) the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure or (2) the borrower conveying all interest in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. Additionally, the amendments in this ASU require interim and annual disclosure of both the amount of foreclosed residential real estate property held by the creditor and the recorded investment in consumer mortgage loans. ASU 2014-04 is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2014. The adoption of ASU 2014-04 is not expected to have a material effect on the Company s consolidated financial statements.

Table of Contents

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

Private Securities Litigation Reform Act Safe Harbor Statement

This report may contain statements relating to the future results of the Company (including certain projections and business trends) that are considered forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995 (the PSLRA). Such forward-looking statements, in addition to historical information, which involve risk and uncertainties, are based on the beliefs, assumptions and expectations of management of the Company. Words such as expects, believes, should, plans, anticipates, will, potential, could, intend, may, project, would, estimated, assumes, likely, and variation of such similar expressions are intended to identify such forward-looking statement Examples of forward-looking statements include, but are not limited to, possible or assumed estimates with respect to the financial condition, expected or anticipated revenue, and results of operations and business of the Company, including earnings growth; revenue growth in retail banking, lending and other areas; origination volume in the consumer, commercial and other lending businesses; current and future capital management programs; non-interest income levels, including fees from the title abstract subsidiary and banking services as well as product sales; tangible capital generation; market share; expense levels; and other business operations and strategies. For this presentation, the Company claims the protection of the safe harbor for forward-looking statements contained in the PSLRA.

Factors that could cause future results to vary from current management expectations include, but are not limited to, changing economic conditions; legislative and regulatory changes, including increases in FDIC insurance rates; monetary and fiscal policies of the federal government; changes in tax policies; rates and regulations of federal, state and local tax authorities; changes in interest rates; deposit flows; the cost of funds; demands for loan products; demand for financial services; competition; changes in the quality and composition of the Bank s loan and investment portfolios; changes in management s business strategies; changes in accounting principles, policies or guidelines, changes in real estate values; expanded regulatory requirements as a result of the Dodd-Frank Act, our ability to integrate the branches and operations we acquire, and the associated internal controls and regulatory functions, into our current operations which could adversely affect operating results; and other risk factors discussed in our Annual Report on Form 10-K for the year ending December 31, 2013 and elsewhere in this report. The forward-looking statements are made as of the date of this report, and the Company assumes no obligation to update the forward-looking statements or to update the reasons why actual results could differ from those projected in the forward-looking statements.

Overview

Who We Are and How We Generate Income

Bridge Bancorp, Inc. (the Company), a New York corporation, is a bank holding company formed in 1989. On a parent-only basis, the Company has had minimal results of operations. The Company is dependent on dividends from its wholly owned subsidiary, The Bridgehampton National Bank (the Bank), its own earnings, additional capital raised, and borrowings as sources of funds. The information in this report reflects principally the financial condition and results of operations of the Bank. The Bank s results of operations are primarily dependent on its net interest income, which is mainly the difference between interest income on loans and investments and interest expense on deposits and borrowings. The Bank also generates non interest income, such as fee income on deposit accounts, merchant credit and debit card processing programs, investment services, income from its title abstract subsidiary, and net gains on sales of securities and loans. The level of its non-interest expenses, such as salaries and benefits, occupancy and equipment costs, other general and administrative expenses, expenses from its title insurance subsidiary, and income tax expense, further affects the Bank s net income. Certain reclassifications have been made to

prior year amounts and the related discussion and analysis to conform to the current year presentation. These reclassifications did not have an impact on net income or total stockholders equity.

Principal Products and Services and Locations of Operations

The Bank operates twenty six branches in the primary market areas of Suffolk and Southern Nassau Counties, Long Island. Federally chartered in 1910, the Bank was founded by local farmers and merchants. For a century, the Bank has maintained its focus on building customer relationships in this market area. The mission of the Company is to grow through the provision of exceptional service to its customers, its employees, and the community. The Company strives to achieve excellence in financial performance and build long term shareholder value. The Bank engages in full service commercial and consumer banking business, including accepting time, savings and demand deposits from the consumers, businesses and local municipalities surrounding its branch offices. These deposits,

Table of Contents

together with funds generated from operations and borrowings, are invested primarily in: (1) commercial real estate loans; (2) home equity loans; (3) construction loans; (4) residential mortgage loans; (5) secured and unsecured commercial and consumer loans; (6) FHLB, FNMA, GNMA and FHLMC and non agency mortgage-backed securities, collateralized mortgage obligations and other asset backed securities; (7) New York State and local municipal obligations; and (8) U.S. government sponsored entity (U.S. GSE) securities. The Bank also offers the CDARS program, providing multi-millions of FDIC insurance on CD deposits to its customers. In addition, the Bank offers merchant credit and debit card processing, automated teller machines, cash management services, lockbox processing, online banking services, remote deposit capture, safe deposit boxes, individual retirement accounts and investment services through Bridge Financial Services, offering a full range of investment products and services through a third party broker dealer. Through its title insurance abstract subsidiary, the Bank acts as a broker for title insurance services. The Bank s customer base is comprised principally of small businesses, municipal relationships and consumer relationships.

Quarterly Highlights

- Net income of $4.3 million and $0.37 per diluted share, including $0.2 million in acquisition costs, net of tax, associated with the FNBNY acquisition as compared to net income of $3.3 million and $0.36 per diluted share for the second quarter of 2013.

- Net interest income increased to $16.8 million for the second quarter of 2014 compared to $12.3 million in 2013.

- Net interest margin was 3.36% for the second quarter of 2014 compared to 3.23% for the 2013 period.

- Total assets of $2.19 billion at June 30, 2014, increased $292.2 million or 15% compared to December 31, 2013 and increased $460.3 million or 27% compared to June 30, 2013. These increases include total assets of FNBNY acquired on February 14, 2014 of $210.0 million.

- Loans held for investment at June 30, 2014 of $1.20 billion increased $187.6 million or 19% over December 31, 2013 and increased $299.9 million or 33% over June 30, 2013. These increases include loans acquired in connection with the FNBNY acquisition.

- Deposits of $1.75 billion at June 30, 2014, increased $212.0 million or 14% over December 31, 2013 and increased $296.0 million or 20% compared to June 30, 2013. These increases include deposits acquired from FNBNY.

- Allowance for loan losses to total loans ratio, which was calculated inclusive of $74 million of FNBNY acquired loans, was 1.39% as of June 30, 2014 compared to 1.58% at December 31, 2013 and 1.68% at June 30, 2013.

- Tier 1 Capital increased by $42.3 million or 30% to $183.0 million as of June 30, 2014, compared to June 30, 2013.

- A cash dividend of $0.23 per share was declared in July 2014 for the second quarter.

Current Environment

On July 21, 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) was signed by the President. The Act permanently raised the current standard maximum deposit insurance amount to $250,000. Section 331(b) of the Dodd-Frank Act required the FDIC to change the definition of the assessment base from which assessment fees are determined. The new definition for the assessment base is the average consolidated total assets of the insured depository institution less the average tangible equity of the insured depository institution. The financial reform legislation, among other things, created a new Consumer Financial Protection Bureau, tightened capital standards and resulted in new regulations that are expected to increase the cost of operations.

In July 2013, the Federal Deposit Insurance Corporation and the other federal bank regulatory agencies issued a final rule that will revise their leverage and risk-based capital requirements and the method for calculating risk-weighted assets to make them consistent with agreements that were reached by the Basel Committee on Banking Supervision and certain provisions of the Dodd-Frank Act. Among other things, the rule establishes a new common equity Tier 1 minimum capital requirement (4.5% of risk-weighted assets), increases the minimum Tier 1 capital to risk-based assets requirement (from 4% to 6% of risk-weighted assets) and assigns a higher risk weight (150%) to exposures that are more than 90 days past due or are on nonaccrual status and to certain commercial real estate facilities that finance the acquisition, development or construction of real property. The final rule also requires unrealized gains and losses on certain available-for-sale securities holdings to be included for purposes of calculating regulatory capital unless a one-time opt-out is exercised. Additional constraints will also be imposed on the inclusion in regulatory capital of mortgage-servicing assets, defined tax assets and minority interests. The rule limits a banking organization s capital distributions and certain discretionary bonus payments if the banking organization does not hold a capital conservation buffer consisting of 2.5% of common equity Tier 1 capital

Table of Contents

to risk-weighted assets in addition to the amount necessary to meet its minimum risk-based capital requirements. The final rule becomes effective for the Bank on January 1, 2015. The capital conservation buffer requirement will be phased in beginning January 1, 2016 and ending January 1, 2019, when the full capital conservation buffer requirement will be effective.

Since April 2010 the Federal Reserve has maintained the federal funds target rate between 0 and 25 basis points as an effort to foster employment. In June 2013, the FOMC announced it would continue purchasing agency mortgage-backed securities and longer term Treasury securities until certain improvements in the economy are achieved. These actions have resulted in a prolonged low interest rate environment reducing yields on interest earning assets and compressing the Company s net interest margin. The FOMC anticipates maintaining the federal funds target rate until the outlook for employment and inflation are in line with the Committee s long term objectives.

Growth and service strategies have the potential to offset the compression on net interest margin with volume as the customer base grows through expanding the Bank s footprint, while maintaining and developing existing relationships. Since 2008, the Bank has opened nine new branches, including the most recent branch openings in March 2013 in Rocky Point, New York, and in May 2013 in Shelter Island, New York. Most of the recent branch openings move the Bank geographically westward and demonstrate its commitment to traditional growth through branch expansion. In May 2011, the Bank acquired Hampton State Bank (HSB) which increased the Bank s presence in an existing market with a branch located in the Village of Southampton. After careful consideration, management decided to close its existing branch on County Road 39 in Southampton, New York, effective in April 2013. Management has demonstrated its ability to successfully integrate the former HSB customers and achieve expected cost savings while continuing to execute its business strategy. Management will continue to seek opportunities to expand its reach into other contiguous markets by network expansion, or through the addition of professionals with established customer relationships.

Challenges and Opportunities

As noted earlier, on February 14, 2014, the Company acquired FNBNY. This acquisition increases the Company s scale and continues the westward expansion into three new markets including Melville (Suffolk County), and two branches in Nassau County; Massapequa and Merrick. To support this acquisition and future growth, the Company completed a public offering on October 8, 2013, with $37.5 million in net proceeds. While these proceeds provided capital to support the acquisition, the additional common shares outstanding negatively impacted earnings per share during the first and second quarter of 2014 and fourth quarter of 2013, respectively.

The Bank continues to face challenges associated with a fragile economic recovery, ever increasing regulations, and the current historically low interest rate environment. Over time, increases in rates should provide some relief to net interest margin compression as new loans are funded and securities are reinvested at higher rates. However, in the short term, the fair value of our available for sale securities declines when rates increase, resulting in net unrealized losses and a reduction in stockholders equity. Strategies for managing for the eventuality of higher rates have a cost. Extending liability maturities or shortening the tenor of assets increases interest expense and reduces interest income. An additional method for managing in a higher rate environment is to grow stable core deposits, requiring continued investment in people, technology and branches. Over time, the costs of these strategies should provide long term benefits.

New regulations required under Dodd-Frank continue to be issued and in July 2013, the regulatory agencies issued final capital rules under Basel III which become effective for our Company in January 2015. The final rules, while more favorable to community banks, require that all banks maintain higher levels of capital. Management believes the Bank s current capital levels will meet these new requirements. These factors taken

together present formidable challenges to the banking industry.

The key to delivering on the Company s mission is combining its expanding branch network, improving technology, and experienced professionals with the critical element of local decision making. The successful expansion of the franchise s geographic reach continues to deliver the desired results: increasing core deposits and loans, and generating higher levels of revenue and income.

Corporate objectives for 2014 include: successful integration of the operations of FNBNY; leveraging our expanding branch network to build customer relationships and grow loans and deposits; focusing on opportunities and processes that continue to enhance the customer experience at the Bank; improving operational efficiencies and prudent management of non-interest expense; and maximizing non-interest income through Bridge Abstract as well as other lines of business. Management believes there remain opportunities to grow the franchise and continued investments to generate core funding, quality loans and new sources of revenue, remain keys to continue creating long term shareholder value. Management remains committed to branch based banking and during 2014, the Company expects to open two new branches, one in Bay Shore, New York, and one in Smithtown, New York. In addition, the Bank has filed an application with the OCC to open a branch in Port Jefferson. During the first quarter of 2014, we completed the acquisition of FNBNY and converted their core systems in mid-February 2014. This adds three branches in new markets; Melville, in Suffolk County and Massapequa and Merrick, our first two branches in Nassau County, along with a loan production office in

Table of Contents

Manhattan. Additionally, the Bank also opened a loan production office in Riverhead, New York. The ability to attract, retain, train and cultivate employees at all levels of the Company remains significant to meeting corporate objectives. The Company has made great progress toward the achievement of these objectives, and avoided many of the problems facing other financial institutions as a result of maintaining discipline in its underwriting, expansion strategies, investing and general business practices. The Company has capitalized on opportunities presented by the market and diligently seeks opportunities for growth and to strengthen the franchise. The Company recognizes the potential risks of the current economic environment and will monitor the impact of market events as we consider growth initiatives and evaluate loans and investments. Management and the Board have built a solid foundation for growth and the Company is positioned to adapt to anticipated changes in the industry resulting from new regulations and legislative initiatives.

Critical Accounting Policies

Allowance for Loan Losses

Management considers the accounting policy on the allowance for loan losses to be the most critical and requires complex management judgment as discussed below. The judgments made regarding the allowance for loan losses can have a material effect on the results of operations of the Company.

The allowance for loan losses is established and maintained through a provision for loan losses based on probable incurred losses inherent in the Bank s loan portfolio. Management evaluates the adequacy of the allowance on a quarterly basis. The allowance is comprised of both individual valuation allowances and loan pool valuation allowances.

The Bank monitors its entire loan portfolio on a regular basis, with consideration given to detailed analysis of classified loans, repayment patterns, probable incurred losses, past loss experience, current economic conditions, and various types of concentrations of credit. Additions to the allowance are charged to expense and realized losses, net of recoveries, are charged to the allowance.

Individual valuation allowances are established in connection with specific loan reviews and the asset classification process including the procedures for impairment testing under FASB Accounting Standard Codification (ASC) No. 310, Receivables. Such valuation, which includes a review of loans for which full collectibility in accordance with contractual terms is not reasonably assured, considers the estimated fair value of the underlying collateral less the costs to sell, if any, or the present value of expected future cash flows, or the loan s observable market value. Any shortfall that exists from this analysis results in a specific allowance for the loan. Pursuant to our policy, loan losses must be charged-off in the period the loans, or portions thereof, are deemed uncollectible. Assumptions and judgments by management, in conjunction with outside sources, are used to determine whether full collectibility of a loan is not reasonably assured. These assumptions and judgments are also used to determine the estimates of the fair value of the underlying collateral or the present value of expected future cash flows or the loan s observable market value. Individual valuation allowances could differ materially as a result of changes in these assumptions and judgments. Individual loan analyses are periodically performed on specific loans considered impaired. The results of the individual valuation allowances are aggregated and included in the overall allowance for loan losses.

Loan pool valuation allowances represent loss allowances that have been established to recognize the inherent risks associated with our lending activities, but which, unlike individual allowances, have not been allocated to particular problem assets. Pool evaluations are broken down into loans with homogenous characteristics by loan type and include commercial real estate mortgages, multi-family mortgage loans, home equity loans, residential real estate mortgages, commercial and industrial loans, real estate construction and land loans and consumer loans. The determination of the adequacy of the valuation allowance is a process that takes into consideration a variety of factors. The Bank has developed a range of valuation allowances necessary to adequately provide for probable incurred losses inherent in each pool of loans. We consider our own charge-off history along with the growth in the portfolio as well as the Bank s credit administration and asset management philosophies and procedures when determining the allowances for each pool. In addition, we evaluate and consider the credit s risk rating which includes management s evaluation of: cash flow, collateral, guarantor support, financial disclosures, industry trends and strength of borrowers management, the impact that economic and market conditions may have on the portfolio as well as known and inherent risks in the portfolio. Finally, we evaluate and consider the allowance ratios and coverage percentages of both peer group and regulatory agency data. These evaluations are inherently subjective because, even though they are based on objective data, it is management s interpretation of that data that determines the amount of the appropriate allowance. If the evaluations prove to be incorrect, the allowance for loan losses may not be sufficient to cover losses inherent in the loan portfolio, resulting in additions to the allowance for loan losses.

For purchased credit impaired loans, a valuation allowance is established when it is probable that the Bank will be unable to collect all the cash flows expected at acquisition plus additional cash flows expected to be collected arising from changes in estimate after acquisition. A specific allowance is established when subsequent evaluations of expected cash flows from purchased credit impaired loans reflect a decrease in those estimates.

Table of Contents

The Bank uses assumptions and methodologies that are relevant to estimating the level of impairment and probable losses in the loan portfolio. To the extent that the data supporting such assumptions has limitations, management s judgment and experience play a key role in recording the allowance estimates. Additions to the allowance for loan losses are made by provisions charged to earnings. Furthermore, an improvement in the expected cash flows related to purchased credit impaired loans would result in a reduction of the required specific allowance with a corresponding credit to the provision.

The Credit Risk Management Committee is comprised of Bank management. The adequacy of the allowance is analyzed quarterly, with any adjustment to a level deemed appropriate by the Credit Risk Management Committee, based on its risk assessment of the entire portfolio. Each quarter, members of the Credit Risk Management Committee meet with the Credit Risk Committee of the Board to review credit risk trends and the adequacy of the allowance for loan losses. Based on the Credit Risk Management Committee s review of the classified loans and the overall allowance levels as they relate to the loan portfolio at June 30, 2014, management believes the allowance for loan losses has been established at levels sufficient to cover the probable incurred losses in the Bank s loan portfolio. Future additions or reductions to the allowance may be necessary based on changes in economic, market or other conditions. Changes in estimates could result in a material change in the allowance. In addition, various regulatory agencies, as an integral part of the examination process, periodically review the allowance for loan losses. Such agencies may require the Bank to recognize adjustments to the allowance based on their judgments of the information available to them at the time of their examination.

Net Income

Net income for the three months ended June 30, 2014 was $4.3 million and $0.37 per diluted share as compared to $3.3 million and $0.36 per diluted share for the same period in 2013. The increase in net income reflects growth in net interest income, a decrease in provision for loan losses, partially offset by lower non interest income and increased operating expenses. Changes for the three months ended June 30, 2014 compared to June 30, 2013 include: (i) a $4.5 million or 36.6% increase in net interest income as a result of growth in interest earning assets primarily related to loans and investments; (ii) a $0.1 million or 16.7% decrease in the provision for loan losses; (iii) a $0.2 million or 7.1% decrease in total non interest income primarily as a result of decreased net securities gains of $0.3 million; and (iv) a $2.8 million or 29.6% increase in total non interest expense primarily related to an increase of $1.1 million in salary and employee benefits, due to the acquisition of FNBNY and the new Internet banking platform. Additionally there was an increase in occupancy and equipment of $0.5 million, acquisition costs of $0.3 million, and other operating expenses of $0.3 million. The effective income tax rate was 33.4% for the quarter ended June 30, 2014 and compared to 32.5% for the same period last year.

Net income for the six months ended June 30, 2014 was $4.7 million and $0.41 per diluted share and included (i) $3.1 million in acquisition costs, net of tax, associated with the FNBNY acquisition and branch restructuring charges related to a branch relocation and; (ii) $0.7 million of losses, net of tax, on the sales of securities resulting from repositioning of the securities portfolio to mitigate interest rate risk as compared to $6.4 million and $0.70 per diluted share for the same period in 2013. Other changes for the six months ended June 30, 2014 compared to June 30, 2013 include: (i) a $8.1 million or 33.5% increase in net interest income as a result of growth in interest earning assets primarily related to loans and investments; (ii) a $0.1 million or 4.3% increase in the provision for loan losses; (iii) a $1.5 million or 32.3% decrease in total non-interest income related to higher securities losses of $1.8 million, partially offset by a $0.2 million increase in other income and a $0.1 million increase in title fee income. The effective income tax rate was 33.5% for the six months ended June 30, 2014 compared to 32.2% for the same period last year.

Analysis of Net Interest Income

Net interest income, the primary contributor to earnings, represents the difference between income on interest earning assets and expenses on interest bearing liabilities. Net interest income depends upon the volume of interest earning assets and interest bearing liabilities and the interest rates earned or paid on them.

The following tables set forth certain information relating to the Company s average consolidated balance sheets and its consolidated statements of income for the periods indicated and reflect the average yield on assets and average cost of liabilities for the periods indicated. Such yields and costs are derived by dividing income or expense by the average balance of assets or liabilities, respectively, for the periods shown. Average balances are derived from daily average balances and include nonaccrual loans. The yields and costs include fees, which are considered adjustments to yields. Interest on nonaccrual loans has been included only to the extent reflected in the consolidated statements of income. For purposes of this table, the average balances for investments in debt and equity securities exclude unrealized appreciation/depreciation due to the application of FASB ASC 320, *Investments - Debt and Equity Securities.*

Table of Contents

	Three months ended June 30,									
	2014					2013				
(In thousands)		**Average Balance**		**Interest**	**Average Yield/ Cost**		Average Balance		Interest	Average Yield/ Cost
Interest earning assets:										
Loans, net (1)(2)	**$**	**1,156,025**	**$**	**14,070**	**4.88%**	$	864,353	$	11,190	5.19%
Mortgage-backed securities, CMOs and other asset-backed securities		**547,236**		**2,948**	**2.16**		373,957		1,469	1.58
Tax exempt securities (2)		**98,521**		**791**	**3.22**		124,134		848	2.74
Taxable securities		**228,201**		**1,192**	**2.10**		194,437		897	1.85
Deposits with banks		**11,364**		**7**	**0.25**		11,076		8	0.29
Total interest earning assets		**2,041,347**		**19,008**	**3.73**		1,567,957		14,412	3.69
Non interest earning assets:										
Cash and due from banks		**40,922**					38,786			
Other assets		**86,597**					51,125			
Total assets	**$**	**2,168,866**				$	1,657,868			
Interest bearing liabilities:										
Savings, NOW and money market deposits	**$**	**998,553**	**$**	**801**	**0.32%**	$	815,145	$	859	0.42%
Certificates of deposit of $100,000 or more		**103,948**		**209**	**0.81**		119,615		341	1.14
Other time deposits		**64,639**		**121**	**0.75**		38,693		86	0.89
Federal funds purchased and repurchase agreements		**74,738**		**140**	**0.75**		62,541		126	0.81
Federal Home Loan Bank advances		**163,880**		**302**	**0.74**		23,260		48	0.83
Junior Subordinated Debentures		**16,002**		**342**	**8.57**		16,002		342	8.57
Total interest bearing liabilities		**1,421,760**		**1,915**	**0.54**		1,075,256		1,802	0.67
Non interest bearing liabilities:										
Demand deposits		**556,655**					454,283			
Other liabilities		**14,478**					6,923			
Total liabilities		**1,992,893**					1,536,462			
Stockholders equity		**175,973**					121,406			
Total liabilities and stockholders equity	**$**	**2,168,866**				$	1,657,868			
Net interest income/interest rate spread (3)				**17,093**	**3.19%**				12,610	3.02%
Net interest earning assets/net interest margin (4)	**$**	**619,587**			**3.36%**	$	492,701			3.23%
Ratio of interest earning assets to interest bearing liabilities					**143.58%**					145.82%
Less: Tax equivalent adjustment				**(278)**					(304)	
Net interest income			**$**	**16,815**				$	12,306	

(1) Amounts are net of deferred origination costs/ (fees) and the allowance for loan loss.

(2) The above table is presented on a tax equivalent basis.

(3)

Net interest rate spread represents the difference between the yield on average interest earning assets and the cost of average interest bearing liabilities.

(4) Net interest margin represents net interest income divided by average interest earning assets.

Table of Contents

	Six months ended June 30,					
	2014			2013		
(In thousands)	**Average Balance**	**Interest**	**Average Yield/ Cost**	Average Balance	Interest	Average Yield/ Cost
Interest earning assets:						
Loans, net (1) (2)	**$ 1,110,494**	**$ 27,386**	**4.97%**	$ 837,505	$ 21,858	5.26%
Mortgage-backed securities, CMOs and other asset-backed securities	**498,902**	**5,240**	**2.12**	361,693	2,912	1.62
Tax exempt securities (2)	**101,751**	**1,649**	**3.27**	131,287	1,779	2.73
Taxable securities	**226,013**	**2,377**	**2.12**	199,939	1,906	1.92
Deposits with banks	**11,498**	**15**	**0.26**	9,682	13	0.27
Total interest earning assets	**1,948,658**	**36,667**	**3.79**	1,540,106	28,468	3.73
Non interest earning assets:						
Cash and due from banks	**38,634**			31,078		
Other assets	**78,448**			49,026		
Total assets	**$ 2,065,740**			$ 1,620,210		
Interest bearing liabilities:						
Savings, NOW and money market deposits	**$ 971,228**	**$ 1,638**	**0.34%**	$ 795,623	$ 1,743	0.44%
Certificates of deposit of $100,000 or more	**94,187**	**384**	**0.82**	118,934	670	1.14
Other time deposits	**58,452**	**216**	**0.75**	38,974	171	0.88
Federal funds purchased and repurchase agreements	**69,196**	**269**	**0.78**	60,012	250	0.84
Federal Home Loan Bank advances	**123,974**	**547**	**0.89**	19,153	88	0.93
Junior Subordinated Debentures	**16,002**	**683**	**8.61**	16,002	683	8.61
Total interest bearing liabilities	**1,333,039**	**3,737**	**0.57**	1,048,698	3,605	0.69
Non interest bearing liabilities:						
Demand deposits	**545,188**			445,205		
Other liabilities	**12,213**			6,661		
Total liabilities	**1,890,440**			1,500,564		
Stockholders equity	**175,300**			119,646		
Total liabilities and stockholders equity	**$ 2,065,740**			$ 1,620,210		
Net interest income/interest rate spread (3)		**32,930**	**3.22%**		24,863	3.04%
Net interest earning assets/net interest margin (4)	**$ 615,619**		**3.41%**	$ 491,408		3.26%
Ratio of interest earning assets to interest bearing liabilities			**146.18%**			146.86%
Less: Tax equivalent adjustment		**(579)**			(629)	
Net interest income		**$ 32,351**			$ 24,234	

(1) Amounts are net of deferred origination costs/ (fees) and the allowance for loan loss.
(2) The above table is presented on a tax equivalent basis.
(3)

Net interest rate spread represents the difference between the yield on average interest earning assets and the cost of average interest bearing liabilities.

(4) Net interest margin represents net interest income divided by average interest earning assets.

Table of Contents

Rate/Volume Analysis

Net interest income can be analyzed in terms of the impact of changes in rates and volumes. The following table illustrates the extent to which changes in interest rates and in the volume of average interest earning assets and interest bearing liabilities have affected the Bank s interest income and interest expense during the periods indicated. Information is provided in each category with respect to (i) changes attributable to changes in volume (changes in volume multiplied by prior rate); (ii) changes attributable to changes in rates (changes in rates multiplied by prior volume); and (iii) the net changes. For purposes of this table, changes which are not due solely to volume or rate changes have been allocated to these categories based on the respective percentage changes in average volume and rate. Due to the numerous simultaneous volume and rate changes during the periods analyzed, it is not possible to precisely allocate changes between volume and rates. In addition, average earning assets include nonaccrual loans.

	Three months ended June 30, 2014 Over 2013 Changes Due To			Six months ended June 30, 2014 Over 2013 Changes Due To		
(In thousands)	Volume	Rate	Net Change	Volume	Rate	Net Change
Interest income on interest earning assets:						
Loans, net (1) (2)	$ 7,000	$ (4,120)	$ 2,880	$ 8,883	$ (3,355)	$ 5,528
Mortgage-backed securities, CMOs and other asset-backed securities	825	654	1,479	1,284	1,044	2,328
Tax exempt securities (2)	(675)	618	(57)	(824)	694	(130)
Taxable securities	166	129	295	262	209	471
Deposits with banks	1	(2)	(1)	3	(1)	2
Total interest earning assets	7,317	(2,721)	4,596	9,608	(1,409)	8,199
Interest expense on interest bearing liabilities:						
Savings, NOW and money market deposits	764	(822)	(58)	732	(837)	(105)
Certificates of deposit of $100,000 or more	(41)	(91)	(132)	(87)	(199)	(286)
Other time deposits	116	(81)	35	113	(68)	45
Federal funds purchased and repurchase agreements	65	(51)	14	62	(43)	19
Federal Home Loan Bank advances	331	(77)	254	474	(15)	459
Junior subordinated debentures						
Total interest bearing liabilities	1,235	(1,122)	113	1,294	(1,162)	132
Net interest income	$ 6,082	$ (1,599)	$ 4,483	$ 8,314	$ (247)	$ 8,067

(1) Amounts are net of deferred origination costs/ (fees) and the allowance for loan loss.

(2) The above table is presented on a tax equivalent basis.

Analysis of Net Interest Income for the Three Months ended June 30, 2014 and June 30, 2013

Net interest income was $16.8 million for the three months ended June 30, 2014 compared to $12.3 million for the same period in 2013, an increase of $4.5 million or 36.6%. Net interest margin increased to 3.36% for the quarter ended June 30, 2014, compared to 3.23% for the quarter ended June 30, 2013 as a result of higher yielding investments and lower cost of interest bearing liabilities. The total average interest earning assets increased $473.4 million or 30.2%, yielding 3.73% and the overall funding cost was 0.39%, including demand deposits. The yield on interest earning assets increased approximately 4 basis points from 3.69% to 3.73%. The cost of interest bearing liabilities decreased approximately 13 basis points during the second quarter of 2014 compared to 2013. The increase in average total deposits of $296.1 million and average total borrowings of $152.8 million funded higher yielding securities, which grew $181.4 million, and average net loans increased $291.7 million from the comparable 2013 quarter.

For the three months ended June 30, 2014, average net loans grew by $291.7 million or 33.7% to $1.16 billion as compared to $864.4 million for the same period in 2013, driven by growth in commercial real estate mortgage loans, commercial, financial and agricultural loans, and multi-family mortgage loans. The Bank remains committed to growing loans with prudent underwriting, sensible pricing and limited credit and extension risk.

For the three months ended June 30, 2014, average total securities increased by $181.4 million or 26.2% to $874.0 million as compared to $692.5 million for the three months ended June 30, 2013. There were no federal funds sold for the three months ended June 30, 2014 and 2013. The average interest earning cash increased by $0.3 million to $11.4 million for the three months ended June 30, 2014 as compared to $11.1 million for the same period in 2013.

Average total interest bearing liabilities were $1.4 billion for the three months ended June 30, 2014 compared to $1.1 billion for the same period in 2013. The Bank grew deposits as a result of the acquisition of FNBNY, opening two new branches during 2013 as well as building new relationships in existing markets. The Bank continues to reduce interest rates on deposit products through prudent management of deposit pricing. The reduction in deposit rates, resulted in a decrease in the cost of interest bearing liabilities to 0.54% for the three months ended June 30, 2014 from 0.67% for the same period in 2013. Since the Company s interest bearing liabilities generally reprice or mature more quickly than its interest earning assets, an increase in short term interest rates would initially result in a decrease in net interest income. Additionally, the large percentages of deposits in money market accounts reprice at short term market rates making the balance sheet more liability sensitive.

For the three months ended June 30, 2014, average total deposits increased by $296.1 million or 20.7% to $1.7 billion from $1.4 billion from the same period in 2013. Components of this increase include an increase in average balances in savings, NOW and money market accounts of $183.4 million or 22.5% to $998.6 million for the three months ended June 30, 2014 compared to $815.1 million for the same period last year. Average balances in certificates of deposit of $100,000 or more and other time deposits increased $10.3 million or 6.5% to $168.6 million for 2014 as compared to $158.3 million for the same period last year. Average balances in demand deposits increased $102.4 million or 22.5% to $556.7 million for 2014 as compared to $454.3 million for the same period last year. Average public fund deposits comprised 18.2% of total average deposits during the three months ended June 30, 2014 and 18.0% of total average deposits for the same period in 2013. Average federal funds purchased and repurchase agreements increased $12.2 million or 19.5% to $74.7 million for the three months ended June 30, 2014 compared to $62.5 million for the same period in the prior year. Average FHLB advances increased $140.6 million to $163.9 million for the three months ended June 30, 2014 compared to $23.3 million for the same period 2013.

Total interest income increased $4.6 million or 32.8% to $18.7 million, net of the tax equivalent adjustment on tax exempt securities interest income, for the three months ended June 30, 2014 from $14.1 million for the same period in 2013. Interest income on loans increased $2.9 million or 25.8% to $14.1 million for the three months ended June 30, 2014 from $11.2 million for the same period in 2013. The yield on average loans was 4.88% for 2014 as compared to 5.19 % in 2013.

Interest income on investments in mortgage-backed, taxable and tax exempt securities increased $1.7 million to $4.6 million for the three months ended June 30, 2014 compared to $2.9 million for the same period in 2013. Interest income on securities included net amortization of premium of $0.8 million and a tax equivalent adjustment of $0.3 million in the second quarter of 2014 compared to net amortization of premium of $1.5 million and tax equivalent adjustment of $0.3 million for the same period in 2013. The tax adjusted average yield on total securities was 2.26% for 2014 as compared to 1.86% in 2013.

Interest expense was $1.9 million for the three months ended June 30, 2014 compared to $1.8 million for the same period in 2013.

Analysis of Net Interest Income for the Six Months ended June 30, 2014 and June 30, 2013

Net interest income was $32.4 million for the six months ended June 30, 2014 compared to $24.2 million for the same period in 2013, an increase of $8.1 million or 33.5%. Net interest margin increased to 3.41% for the six months ended June 30, 2014, compared to 3.26% for the six months ended June 30, 2013 as a result of higher yielding investments and lower cost of interest bearing liabilities. The total average interest earning assets increased $408.6 million or 26.5%, yielding 3.79% and the overall funding cost was 0.40%, including demand deposits. The yield on interest earning assets increased approximately 6 basis points from 3.73% to 3.79%. The cost of interest bearing liabilities decreased approximately 12 basis points during the six months ended June 30, 2014 compared to the same period in 2013. The increase in average total

deposits of $270.3 million and average total borrowings of $114.0 million funded higher yielding securities, which grew $133.7 million, and average net loans increased $273.0 million from the comparable 2013 quarter.

For the six months ended June 30, 2014, average net loans grew by $273.0 million or 32.6% to $1.11 billion as compared to $837.5 million for the same period in 2013, driven by growth in commercial real estate mortgage loans, commercial, financial and agricultural loans, multi-family mortgage loans and loans acquired in the FNBNY acquisition. The Bank remains committed to growing loans with prudent underwriting, sensible pricing and limited credit and extension risk.

For the six months ended June 30, 2014, average total securities increased by $133.7 million or 19.3% to $826.7 million as compared to $692.9 million for the six months ended June 30, 2013. There were no federal funds sold for the six months ended June 30, 2014 and 2013. Average interest earning cash increased by $1.8 million to $11.5 million for the six months ended June 30, 2014 as compared to $9.7 million for the same period in 2013.

Average total interest bearing liabilities were $1.3 billion for the six months ended June 30, 2014 compared to $1.0 billion for the same period in 2013. The Bank grew deposits as a result of the acquisition of FNBNY, opening two new branches during 2013 as well as building new relationships in existing markets. The Bank continues to reduce interest rates on deposit products through

Table of Contents

prudent management of deposit pricing. The reduction in deposit rates and the lower average balance of higher cost CDs, resulted in a decrease in the cost of interest bearing liabilities to 0.57% for the six months ended June 30, 2014 from 0.69% for the same period in 2013. Since the Company s interest bearing liabilities generally reprice or mature more quickly than its interest earning assets, an increase in short term interest rates would initially result in a decrease in net interest income. Additionally, the large percentages of deposits in money market accounts reprice at short term market rates making the balance sheet more liability sensitive.

For the six months ended June 30, 2014, average total deposits increased by $270.3 million or 19.3% to $1.7 billion from $1.4 billion from the same period in 2013. Components of this increase include an increase in average balances in savings, NOW and money market accounts of $175.6 million or 22.1% to $971.2 million for the six months ended June 30, 2014 compared to $795.6 million for the same period last year. Average balances in certificates of deposit of $100,000 or more and other time deposits decreased $5.3 million or 3.3% to $152.6 million for 2014 as compared to $157.9 million for the same period last year. Average balances in demand deposits increased $100.0 million or 22.5% to $545.2 million for 2014 as compared to $445.2 million for the same period last year. Average public fund deposits comprised 19.3% of total average deposits during the six months ended June 30, 2014 and 18.9% of total average deposits for the same period in 2013. Average federal funds purchased and repurchase agreements increased $9.2 million or 15.3% to $69.2 million for the six months ended June 30, 2014 compared to $60.0 million for the same period in the prior year. Average FHLB advances increased $104.8 million to $124.0 million for the six months ended June 30, 2014 compared to $19.2 million for the same period 2013.

Total interest income increased $8.2 million or 29.6% to $36.1 million, net of the tax equivalent adjustment on tax exempt securities interest income, for the six months ended June 30, 2014 from $27.8 million for the same period in 2013. Interest income on loans increased $5.5 million or 25.3% to $27.4 million for the six months ended June 30, 2014 from $21.9 million for the same period in 2013. The yield on average loans was 4.97% for 2014 as compared to 5.26 % in 2013.

Interest income on investments in mortgage-backed, taxable and tax exempt securities increased $2.7 million to $8.7 million for the six months ended June 30, 2014 compared to $6.0 million for the same period in 2013. Interest income on securities included net amortization of premium of $1.7 million and a tax equivalent adjustment of $0.6 million in the 2014 compared to net amortization of premium of $3.0 million and tax equivalent adjustment of $0.6 million for the same period in 2013. The tax adjusted average yield on total securities was 2.26% for 2014 as compared to 1.92% in 2013.

Interest expense was $3.7 million for the six months ended June 30, 2014 compared to $3.6 million for the same period in 2013.

Provision and Allowance for Loan Losses

The Bank s loan portfolio consists primarily of real estate loans secured by commercial and residential real estate properties located in the Bank s principal lending area of Suffolk County which is located on the eastern portion of Long Island. The interest rates charged by the Bank on loans are affected primarily by the demand for such loans, the supply of money available for lending purposes, the rates offered by its competitors, the Bank s relationship with the customer, and the related credit risks of the transaction. These factors are affected by general and economic conditions including, but not limited to, monetary policies of the federal government, including the Federal Reserve Board, legislative policies and governmental budgetary matters

Based on our continuing review of the overall loan portfolio, the current asset quality of the portfolio, the growth in the loan portfolio, and the net charge-offs, a provision for loan losses of $0.5 million and $1.2 million was recorded during the three and six months ended June 30, 2014 compared to a provision for loan loss of $0.6 million and $1.2 million that was recorded during the same period in 2013. Net charge-offs were $0.2 million for the quarter ended June 30, 2014 compared to $0.8 million for the year ended December 31, 2013 and $0.4 million for the quarter ended June 30, 2013. The ratio of allowance for loan losses to nonaccrual loans was 717% and 419% at June 30, 2014 and December 31, 2013, respectively. The allowance for loan losses increased to $16.7 million at June 30, 2014 as compared to $16.0 million at December 31, 2013 and $15.1 million at June 30, 2013. As a percentage of total loans, (excluding $74 million of FNBNY acquired loans), the allowance was 1.48% at June 30, 2014 compared to 1.58% at December 31, 2013 and 1.68% at June 30, 2013. In accordance with current accounting guidance, the acquired FNBNY loans were recorded at fair value, effectively netting estimated future losses against the loan balances. Management continues to carefully monitor the loan portfolio as well as real estate trends in Suffolk County and eastern Long Island.

Loans of approximately $44.5 million or 3.7% of total loans at June 30, 2014 were categorized as classified loans compared to $46.6 million or 4.6% at December 31, 2013 and $51.2 million or 5.7% at June 30, 2013. Classified loans include loans with credit quality indicators with the internally assigned grades of special mention, substandard and doubtful. These loans are categorized as classified loans as management has information that indicates the borrower may not be able to comply with the present repayment terms. These loans are subject to increased management attention and their classification is reviewed on at least a quarterly basis. At June 30, 2014, classified loans included $6.3 million of acquired FNBNY loans.

Table of Contents

At June 30, 2014, approximately $29.9 million of classified loans were commercial real estate (CRE) loans, including multi-family loans and were well secured with real estate as collateral. Of the $29.9 million of CRE loans, $27.9 million were current and $2.0 million were past due. In addition, all but $2.1 million of the CRE loans have personal guarantees. At June 30, 2014, approximately $5.2 million of classified loans were residential real estate loans with $3.2 million current and $2.0 million past due. Commercial, financial, and agricultural loans represented $8.7 million of classified loans with $8.4 million current and $0.3 million past due. Approximately $0.4 million of classified loans represented real estate construction and land loans, which were all current. All real estate construction and land loans are well secured with collateral. The remaining $0.2 million in classified loans are consumer loans that are unsecured and demonstrate sufficient cash flow to pay the loans. There were no multi-family loans that were categorized as classified loans as of December 31, 2013.

CRE loans, including multi-family loans, represented $719.9 million or 60.1% of the total loan portfolio at June 30, 2014 compared to $592.4 million or 58.6% at December 31, 2013 and $485.8 million or 54.0% at June 30, 2013. The Bank s underwriting standards for CRE loans requires an evaluation of the cash flow of the property, the overall cash flow of the borrower and related guarantors as well as the value of the real estate securing the loan. In addition, the Bank s underwriting standards for CRE loans are consistent with regulatory requirements with original loan to value ratios generally less than or equal to 75%. The Bank considers charge-off history, delinquency trends, cash flow analysis, and the impact of the local economy on commercial real estate values when evaluating the appropriate level of the allowance for loan losses. Real estate values in our geographic markets increased significantly from 2000 through 2007. Commencing in 2008, following the financial crisis and significant downturn in the economy, real estate values declined. This decline continued into 2009 and stabilized in 2010. The estimated decline in residential and commercial real estate values during this period ranged from 15-20% from the 2007 levels, depending on the nature and location of the real estate. Real estate values began to improve in 2012 and have continued into 2014.

As of June 30, 2014 and December 31, 2013, the Company had impaired loans as defined by FASB ASC No. 310, Receivables of $7.0 million and $8.9 million, respectively. For a loan to be considered impaired, management determines after review whether it is probable that the Bank will not be able to collect all amounts due according to the contractual terms of the loan agreement. Management applies its normal loan review procedures in making these judgments. Impaired loans include individually classified nonaccrual loans and troubled debt restructured (TDR) loans. For impaired loans, the Bank evaluates the impairment of the loan in accordance with FASB ASC 310-10-35-22. Impairment is determined based on the present value of expected future cash flows discounted at the loan s effective interest rate. For loans that are collateral dependent, the fair value of the collateral is used to determine the fair value of the loan. The fair value of the collateral is determined based upon recent appraised values. The fair value of the collateral or present value of expected cash flows is compared to the carrying value to determine if any write-down or specific loan loss allowance allocation is required. These methods of fair value measurement for impaired loans are considered level 3 within the fair value hierarchy described in FASB ASC 820-10-50-5.

Nonaccrual loans were $2.3 million or 0.19% of total loans at June 30, 2014 and $3.8 million or 0.38% of total loans at December 31, 2013. Approximately $1.0 million of the nonaccrual loans at June 30, 2014 and $2.0 million at December 31, 2013, represent troubled debt restructured loans.

The Bank had $0.6 million other real estate owned at June 30, 2014 and $2.2 million at December 31, 2013 and $0.3 million at June 30, 2013, respectively.

Table of Contents

The following table sets forth changes in the allowance for loan losses:

(Dollars in thousands)	For the Six Months Ended June 30, 2014	For the Year Ended December 31, 2013
Allowance for loan losses balance at beginning of period	**$ 16,001**	$ 14,439
Charge-offs:		
Commercial real estate mortgage loans	**410**	
Multi-family mortgage loans		
Residential real estate mortgage loans	**50**	420
Commercial, financial and agricultural loans	**98**	420
Real estate construction and land loans		23
Installment/consumer loans	**1**	53
Total	**559**	916
Recoveries:		
Commercial real estate mortgage loans		
Multi-family mortgage loans		
Residential real estate mortgage loans	**20**	34
Commercial, financial and agricultural loans	**17**	87
Real estate construction and land loans		2
Installment/consumer loans	**1**	5
Total	**38**	128
Net charge-offs	**(521)**	(788)
Provision for loan losses charged to operations	**1,200**	2,350
Balance at end of period	**$ 16,680**	$ 16,001
Ratio of annualized net charge-offs during the period to average loans outstanding	**(0.09)%**	(0.09)%

The following table sets forth the allocation of the total allowance for loan losses by loan type:

	June 30, 2014		December 31, 2013	
(Dollars in thousands)	**Amount**	**Percentage of Loans to Total Loans**	Amount	Percentage of Loans to Total Loans
Commercial real estate mortgage loans	**$ 6,675**	**45.6%**	$ 6,279	47.9%
Multi-family loans	**2,097**	**14.4**	1,597	10.6
Residential real estate mortgage loans	**2,525**	**13.4**	2,712	15.2
Commercial, financial & agricultural loans	**4,190**	**21.8**	4,006	20.7
Real estate construction and land loans	**1,035**	**3.9**	1,206	4.7
Installment/consumer loans	**158**	**0.9**	201	0.9
Total	**$ 16,680**	**100.0%**	$ 16,001	100.0%

Table of Contents

Non Interest Income

Total non-interest income decreased $0.2 million or 7.1% to $2.3 million for the three months ended June 30, 2014 compared to $2.5 million for the same period in 2013. The decrease was primarily related to an increase in net securities losses of $0.3 million, and was offset by an increase in other operating income of $0.1 million primarily associated with Bank Owned Life Insurance (BOLI) compared to the prior year.

Total non-interest income decreased $1.5 million or 32.3% to $3.1 million for the six months ended June 30, 2014 compared to $4.6 million for the same period in 2013. The decrease was primarily the result of net securities losses of $1.1 million compared to net securities gains in 2013 of $0.6 million, and was offset by an increase in other operating income of $0.2 million primarily associated with BOLI compared to the prior year.

Non Interest Expense

Total non-interest expense increased $2.7 million or 29.6% to $12.1 million during the three months ended June 30, 2014 compared to $9.4 million over the same period in 2013. The increase in non-interest expense is primarily attributed to an increase in salaries and benefits of $1.1 million. This increase reflects additional staff associated with the FNBNY acquisition, additional positions to support the Company s expanding infrastructure, new branches and a larger loan portfolio. Occupancy and equipment increased $0.5 million to $1.9 million compared to $1.4 million in June 2013. Additionally, there was $0.3 million of FNBNY acquisition costs, $0.3 million in higher costs associated with technology and communication and marketing and advertising and an increase of $0.3 million in other operating expenses.

Total non-interest expense increased $8.8 million or 48.6% to $27.1 million during the six months ended June 30, 2014 compared to $18.3 million over the same period in 2013. The increase in non-interest expense is primarily attributed to $4.7 million of FNBNY acquisition costs and a branch restructuring charge related to a branch relocation. Additionally, salaries and employee benefits increased $1.9 million or 17.7% to $12.6 million for the six months ended June 30, 2014 from $10.7 million for the same period in 2013. The increase reflects additional staff associated with the FNBNY acquisition, additional positions to support the Company s expanding infrastructure, new branches and a larger loan portfolio. Occupancy and equipment expense increased $0.9 million to $3.5 million as of June 30, 2014 as compared to $2.6 million for the same period last year. Technology and communications increased $0.3 million as of June 30, 2014 to $1.5 million as compared to $1.2 million for the same period last year. Other operating expenses increased $0.3 million for the six months ended June 30, 2014 to $2.1 million as compared to $1.8 million for the six months ended June 30, 2013.

Income Taxes

The provision for income taxes increased $0.6 million or 38.2% to $2.2 million for the three months ended June 30, 2014 compared to $1.6 million for the three months ended June 30, 2013 primarily due to higher pretax income. The effective tax rate was 33.4% for the three months ended June 30, 2014 and 32.5% for the three months ended June 30, 2013.

The provision for income taxes decreased $0.6 million or 21.3% to $2.4 million for the six months ended June 30, 2014 compared to $3.0 million for the six months ended June 30, 2013 primarily due to lower pretax income. The effective tax rate for the six months ended June 30, 2014 increased to 33.5% from 32.2% for the same period last year. The increase in the effective rate was a result of certain non-deductible acquisition costs and a lower percentage of interest income from tax exempt securities.

Financial Condition

Total assets grew $460.3 million to $2.19 billion, a 26.6% increase over the June 30, 2013 level of $1.73 billion, and increased 15.4% over the December 31, 2013 level of $1.90 billion. This increase reflects strong organic growth in new and existing markets as well as $210 million in acquired assets from FNBNY on February 14, 2014.

Cash and due from banks increased $8.4 million and interest earning deposits with banks increased $9.2 million compared to December 31, 2013. Total securities increased $57.6 million or 7.4% to $834.1 million and net loans increased $186.9 million or 18.7% to $1.18 billion compared to December 31, 2013 levels. The ability to grow the loan portfolio, while minimizing interest rate risk sensitivity and maintaining credit quality, remains a strong focus of management. Goodwill and Other Intangible assets increased $10.4 million compared to December 31, 2013. Goodwill of $8.6 million and $1.9 million core deposit intangible was recorded in connection with the FNBNY acquisition. Total deposits increased $212.0 million to $1.75 billion at June 30, 2014 compared to $1.54 billion at December 31, 2013. Deposit growth includes deposits acquired from FNBNY. Demand deposits decreased $16.4 million to $566.5 million as of June 30, 2014 compared to $582.9 million at December 31, 2013. Savings, NOW and money market deposits increased $161.6 million to $1.02 billion at June 30, 2014 from $855.2 million at December 31, 2013. Certificates of deposit of

Table of Contents

$100,000 or more increased $40.5 million to $104.9 million at June 30, 2014, from $64.4 million at December 31, 2013. Other time deposits increased $26.3 million to $62.8 million at June 30, 2014, from $36.5 million at December 31, 2013.

Federal funds purchased were $70.0 million as of June 30, 2014 compared to $64.0 million at December 31, 2013. Federal Home Loan Bank advances were $146.1 million as of June 30, 2014, inclusive of advances acquired from FNBNY, and $98.0 million for December 31, 2013. Repurchase agreements were $11.4 million at June 30, 2014 and December 31, 2013. Junior subordinated debentures remained at $16.0 million as of June 30, 2014 compared to December 31, 2013. Other liabilities and accrued expenses increased $12.8 million to $21.6 million as of June 30, 2014 from $8.8 million as of December 31, 2013. Stockholders equity was $172.9 million at June 30, 2014, an increase of $13.4 million or 8.4% from December 31, 2013, reflecting net income of $4.7 million and $0.5 million related to stock based compensation plans, the issuance of $5.9 million in common equity in connection with the acquisition of FNBNY, a decrease in the unrealized loss on available for sale securities of $7.6 million, partially offset by $5.3 million paid in dividends. In July 2014, the Company declared a quarterly dividend of $0.23 per share and continues its long term trend of uninterrupted dividends.

Liquidity

The objective of liquidity management is to ensure the sufficiency of funds available to respond to the needs of depositors and borrowers, and to take advantage of unanticipated earnings enhancement opportunities for Company growth. Liquidity management addresses the ability of the Company to meet financial obligations that arise in the normal course of business. Liquidity is primarily needed to meet customer borrowing commitments, deposit withdrawals either on demand or contractual maturity, to repay other borrowings as they mature, to fund current and planned expenditures and to make new loans and investments as opportunities arise. The Holding Company s principal sources of liquidity included cash and cash equivalents of $6.2 million as of June 30, 2014, and dividends from the Bank. Cash available for distribution of dividends to shareholders of the Company is primarily derived from dividends paid by the Bank to the Company. For the six months ended June 30, 2014, the Bank did not pay a cash dividend to the Company. Prior regulatory approval is required if the total of all dividends declared by the Bank in any calendar year exceeds the total of the Bank s net income of that year combined with its retained net income of the preceding two years. As of July 1, 2014, the Bank has $33.0 million of retained net income available for dividends to the Company. In the event that the Company subsequently expands its current operations, in addition to dividends from the Bank, it will need to rely on its own earnings, additional capital raised and other borrowings to meet liquidity needs.

The Bank s most liquid assets are cash and cash equivalents, securities available for sale and securities held to maturity due within one year. The levels of these assets are dependent upon the Bank s operating, financing, lending and investing activities during any given period. Other sources of liquidity include loan and investment securities principal repayments and maturities, lines of credit with other financial institutions including the Federal Home Loan Bank and Federal Reserve Bank, growth in core deposits and sources of wholesale funding such as brokered certificates of deposit. While scheduled loan amortization, maturing securities and short term investments are a relatively predictable source of funds, deposit flows and loan and mortgage-backed securities prepayments are greatly influenced by general interest rates, economic conditions and competition. The Bank adjusts its liquidity levels as appropriate to meet funding needs such as seasonal deposit outflows, loans, and asset and liability management objectives. Historically, the Bank has relied on its deposit base, drawn through its full-service branches that serve its market area and local municipal deposits, as its principal source of funding. The Bank seeks to retain existing deposits and loans and maintain customer relationships by offering quality service and competitive interest rates to its customers, while managing the overall cost of funds needed to finance its strategies.

The Bank s Asset/Liability and Funds Management Policy allows for wholesale borrowings of up to 25% of total assets. At June 30, 2014, the Bank had aggregate lines of credit of $295.0 million with unaffiliated correspondent banks to provide short term credit for liquidity

requirements. Of these aggregate lines of credit, $275.0 million is available on an unsecured basis. As of June 30, 2014, the Bank had $70.0 million in overnight borrowings outstanding under these lines. The Bank also has the ability, as a member of the Federal Home Loan Bank (FHLB) system, to borrow against unencumbered residential and commercial mortgages owned by the Bank. The Bank also has a master repurchase agreement with the FHLB, which increases its borrowing capacity. As of June 30, 2014, the Bank had $72.0 million outstanding in FHLB overnight borrowings and an additional $74.1 million outstanding in FHLB term borrowings. The Bank had $10.0 million of securities sold under agreements to repurchase outstanding as of June 30, 2014 with brokers and $1.4 million outstanding with customers. As of December 31, 2013, the Bank had $10.0 million of securities sold under agreements to repurchase outstanding with brokers and $1.4 million outstanding with customers. In addition, the Bank has approved broker relationships for the purpose of issuing brokered deposits. As of June 30, 2014, the Bank had $11.0 million outstanding in brokered certificates of deposits and $3.0 million outstanding in brokered money market accounts. As of December 31, 2013 the Bank had did not have any brokered deposits.

Management continually monitors the liquidity position and believes that sufficient liquidity exists to meet all of our operating requirements. Based on the objectives determined by the Asset and Liability Committee, the Bank s liquidity levels may be affected by the use of short term and wholesale borrowings, and the amount of public funds in the deposit mix. The Asset and Liability

Table of Contents

Committee is comprised of members of senior management and the Board. Excess short-term liquidity is invested in overnight federal funds sold or in an interest earning account at the Federal Reserve.

Capital Resources

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

Quantitative measures established by regulation to ensure capital adequacy require the Company and the Bank to maintain minimum amounts and ratios (set forth in the following table) of total and Tier 1 capital (as defined in the regulations) to risk weighted assets (as defined), and of Tier 1 capital (as defined) to average assets (as defined). Management believes as of June 30, 2014, the Company and the Bank met all capital adequacy requirements.

The Company has the ability to issue additional common stock and/or preferred stock should the need arise.

At June 30, 2014 and December 31, 2013, actual capital levels and minimum required levels for the Company and the Bank were as follows:

Bridge Bancorp, Inc. (Consolidated)

As of June 30,		**2014**						
(Dollars in thousands)								
	Actual			**For Capital Adequacy Purposes**			**To Be Well Capitalized Under Prompt Corrective Action Provisions**	
		Amount	**Ratio**		**Amount**	**Ratio**	**Amount**	**Ratio**
Total Capital (to risk weighted assets)	**$**	**199,871**	**13.6%**	**$**	**117,215**	**8.0%**	**n/a**	**n/a**
Tier 1 Capital (to risk weighted assets)		**183,015**	**12.5%**		**58,607**	**4.0%**	**n/a**	**n/a**
Tier 1 Capital (to average assets)		**183,015**	**8.5%**		**86,287**	**4.0%**	**n/a**	**n/a**

As of December 31,	2013

(Dollars in thousands)	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total Capital (to risk weighted assets)	$ 202,039	16.3%	$ 99,108	8.0%	n/a	n/a
Tier 1 Capital (to risk weighted assets)	186,547	15.1%	49,554	4.0%	n/a	n/a
Tier 1 Capital (to average assets)	186,547	10.3%	72,476	4.0%	n/a	n/a

Table of Contents

Bridgehampton National Bank

As of June 30, (Dollars in thousands)	2014					
	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total Capital (to risk weighted assets)	**$ 193,631**	**13.2%**	**$ 117,199**	**8.0%**	**$ 146,499**	**10.0%**
Tier 1 Capital (to risk weighted assets)	**176,775**	**12.1%**	**58,600**	**4.0%**	**87,899**	**6.0%**
Tier 1 Capital (to average assets)	**176,775**	**8.2%**	**86,286**	**4.0%**	**107,857**	**5.0%**

As of December 31, (Dollars in thousands)	2013					
	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total Capital (to risk weighted assets)	$ 164,494	13.3%	$ 99,084	8.0%	$ 123,855	10.0%
Tier 1 Capital (to risk weighted assets)	149,005	12.0%	49,542	4.0%	74,313	6.0%
Tier 1 Capital (to average assets)	149,005	8.2%	72,464	4.0%	90,580	5.0%

Impact of Inflation and Changing Prices

The Unaudited Consolidated Financial Statements and notes thereto have been prepared in accordance with U.S. generally accepted accounting principles, which require the measurement of financial position and operating results in terms of historical dollars without considering changes in the relative purchasing power of money over time due to inflation. The primary effect of inflation on the operations of the Company is reflected in increased operating costs. Unlike most industrial companies, virtually all of the assets and liabilities of a financial institution are monetary in nature. As a result, changes in interest rates have a more significant effect on the performance of a financial institution than do the effects of changes in the general rate of inflation and changes in prices. Changes in interest rates could adversely affect our results of operations and financial condition. Interest rates do not necessarily move in the same direction, or in the same magnitude, as the prices of goods and services. Interest rates are highly sensitive to many factors, which are beyond the control of the Company, including the influence of domestic and foreign economic conditions and the monetary and fiscal policies of the United States government and federal agencies, particularly the Federal Reserve Bank.

Recent Regulatory and Accounting Developments

Refer to Note 15. Recent Accounting Pronouncements, of the Condensed Notes to the Consolidated Financial Statements for details related to recent regulatory and accounting developments.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Asset/Liability Management

Management considers interest rate risk to be the most significant market risk for the Company. Market risk is the risk of loss from adverse changes in market prices and rates. Interest rate risk is the exposure to adverse changes in the net income of the Company as a result of changes in interest rates.

The Company s primary earnings source is net interest income, which is affected by changes in the level of interest rates, the relationship between rates, the impact of interest rate fluctuations on asset prepayments, the level and composition of deposits and liabilities, and the credit quality of earning assets. The Company s objectives in its asset and liability management are to maintain a strong, stable net interest margin, to utilize its capital effectively without taking undue risks, to maintain adequate liquidity, and to reduce vulnerability of its operations to changes in interest rates.

The Company s Asset and Liability Committee evaluates periodically, but at least four times a year, the impact of changes in market interest rates on assets and liabilities, net interest margin, capital and liquidity. Risk assessments are governed by policies and limits established by senior management, which are reviewed and approved by the full Board of Directors at least annually. The economic environment continually presents uncertainties as to future interest rate trends. The Asset and Liability Committee regularly utilizes a model that projects net interest income based on increasing or decreasing interest rates, in order to be better able to respond to changes in interest rates

Table of Contents

At June 30, 2014, $748.8 million or 88.6% of the Company s securities had fixed interest rates. Changes in interest rates affect the value of the Company s interest earning assets and in particular its securities portfolio. Generally, the value of securities fluctuates inversely with changes in interest rates. Increases in interest rates could result in decreases in the market value of interest earning assets, which could adversely affect the Company s stockholders equity and its results of operations if sold. The Company is also subject to reinvestment risk associated with changes in interest rates. Changes in market interest rates also could affect the type (fixed-rate or adjustable-rate) and amount of loans originated by the Company and the average life of loans and securities, which can impact the yields earned on the Company s loans and securities. In periods of decreasing interest rates, the average life of loans and securities held by the Company may be shortened to the extent increased prepayment activity occurs during such periods which, in turn, may result in the investment of funds from such prepayments in lower yielding assets. Under these circumstances the Company is subject to reinvestment risk to the extent that it is unable to reinvest the cash received from such prepayments at rates that are comparable to the rates on existing loans and securities. Additionally, increases in interest rates may result in decreasing loan prepayments with respect to fixed rate loans (and therefore an increase in the average life of such loans), may result in a decrease in loan demand, and make it more difficult for borrowers to repay adjustable rate loans.

The Company utilizes the results of a detailed and dynamic simulation model to quantify the estimated exposure to net interest income to sustained interest rate changes. Management routinely monitors simulated net interest income sensitivity over a rolling two-year horizon. The simulation model captures the seasonality of the Company s deposit flows and the impact of changing interest rates on the interest income received and the interest expense paid on all assets and liabilities reflected on the Company s consolidated balance sheets. This sensitivity analysis is compared to the asset and liability policy limits that specify a maximum tolerance level for net interest income exposure over a one-year horizon given a 100 and 200 basis point upward shift in interest rates and a 100 basis point downward shift in interest rates. A parallel and pro-rata shift in rates over a twelve-month period is assumed.

The following reflects the Company s net interest income sensitivity analysis at June 30, 2014:

Change in Interest Rates in Basis Points (Dollars in thousands)	June 30, 2014 Potential Change in Net Interest Income		
		$ Change	**% Change**
200	**$**	**(4,168)**	**(6.21)%**
100	**$**	**(2,133)**	**(3.18)%**
Static			
(100)	**$**	**180**	**0.27%**

The preceding sensitivity analysis does not represent a Company forecast and should not be relied upon as being indicative of expected operating results. These hypothetical estimates are based upon numerous assumptions including, but not limited to, the nature and timing of interest rate levels and yield curve shapes, prepayments on loans and securities, deposit decay rates, pricing decisions on loans and deposits, and reinvestment and replacement of asset and liability cash flows. While assumptions are developed based upon perceived current economic and local market conditions, the Company cannot make any assurances as to the predictive nature of these assumptions including how customer preferences or competitor influences may change.

Also, as market conditions vary from those assumed in the sensitivity analysis, actual results will also differ due to prepayment and refinancing levels likely deviating from those assumed, the varying impact of interest rate change caps or floors on adjustable rate assets, the potential effect of changing debt service levels on customers with adjustable rate loans, depositor early withdrawals, prepayment penalties and product preference changes and other internal and external variables. Furthermore, the sensitivity analysis does not reflect actions that management

might take in responding to, or anticipating changes in interest rates and market conditions. Management considers interest rate risk to be the most significant market risk for the Company. Market risk is the risk of loss from adverse changes in market prices and rates. Interest rate risk is the exposure to adverse changes in the net income of the Company as a result of changes in interest rates.

Item 4. Controls and Procedures

An evaluation was performed under the supervision and with the participation of the Company s management, including the Principal Executive Officer and Principal Financial Officer, of the effectiveness of the design and operation of the Company s disclosure controls and procedures (as defined in Rule 13a-15(e) promulgated under the Securities and Exchange Act of 1934, as amended) as of June 30, 2014. Based on that evaluation, the Company s Principal Executive Officer and Principal Financial Officer concluded that the Company s disclosure controls and procedures were effective as of the end of the period covered by this quarterly report. There

Table of Contents

has been no change in the Company s internal control over financial reporting during the quarter that has materially affected, or is reasonably likely to materially affect, the Company s internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

None.

Item 1A. Risk Factors

There have been no material changes to the factors disclosed in Item 1A., Risk Factors, in the Company s Annual Report on Form 10-K for the year ended December 31, 2013.

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

(a) Not applicable.

(b) Not applicable.

(c) Not applicable.

Item 3. Defaults upon Senior Securities

Not applicable.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

Not applicable.

Item 6. Exhibits and Reports on Form 8-K

31.1	Certification of Principal Executive Officer pursuant to Rule 13a-14(a)
31.2	Certification of Principal Financial Officer pursuant to Rule 13a-14(a)
32.1	Certification of Chief Executive Officer and Chief Financial Officer pursuant to Rule 13a-14(b) and 18 U.S.C. Section 1350
101	The following financial statements from Bridge Bancorp, Inc. s Quarterly Report on Form 10-Q for the Quarter Ended June 30, 2014, filed on August 8, 2014 formatted in XBRL: (i) Consolidated Balance Sheets as of June 30, 2014 and December 31, 2013, (ii) Consolidated Statements of Income for the Three and Six Months Ended June 30, 2014 and 2013, (iii) Consolidated Statements of Comprehensive Income for the Three and Six Months Ended June 30, 2014 and 2013, (iv) Consolidated Statements of Stockholders Equity for the Six Months Ended June 30, 2014 and 2013, (v) Consolidated Statements of Cash Flows for the Six Months Ended June 30, 2014 and 2013, and (vi) the Condensed Notes to Consolidated Financial Statements.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB	XBRL Taxonomy Extension Labels Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definitions Linkbase Document

Table of Contents

SIGNATURES

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

	BRIDGE BANCORP, INC. Registrant
August 8, 2014	/s/ Kevin M. O Connor Kevin M. O Connor President and Chief Executive Officer
August 8, 2014	/s/ Howard H. Nolan Howard H. Nolan Senior Executive Vice President, Chief Financial Officer