BRIDGE BANCORP INC
Form 10-Q
May 11, 2015
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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 March 31, 2015

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 11,709,905 shares of common stock outstanding as of May 7, 2015.

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Item 1. Financial Statements

BRIDGE BANCORP, INC. AND SUBSIDIARIES

Consolidated Balance Sheets (unaudited)

(In thousands, except share and per share amounts)

	March 31, 2015	December 31, 2014
ASSETS		
Cash and due from banks	$ 36,996	$ 45,109
Interest earning deposits with banks	11,781	6,621
Total cash and cash equivalents	48,777	51,730
Securities available for sale, at fair value	529,998	587,184
Securities held to maturity (fair value of $215,372 and $216,289, respectively)	211,680	214,927
Total securities	741,678	802,111
Securities, restricted	8,619	10,037
Loans held for investments	1,403,129	1,338,327
Allowance for loan losses	(18,260)	(17,637)
Loans, net	1,384,869	1,320,690
Premises and equipment, net	32,754	32,424
Accrued interest receivable	6,389	6,425
Goodwill	9,450	9,450
Core deposit intangible	794	842
Bank owned life insurance	30,874	30,644
Prepaid pension	4,926	4,927
Other assets	18,179	19,373
Total Assets	$ 2,287,309	$ 2,288,653
LIABILITIES AND STOCKHOLDERS EQUITY		
Demand deposits	$ 640,998	$ 703,130
Savings, NOW and money market deposits	1,059,184	989,287
Certificates of deposit of $100,000 or more	84,398	83,071
Other time deposits	54,829	58,291
Total deposits	1,839,409	1,833,779
Federal Funds Purchased	105,000	75,000
Federal Home Loan Bank advances	106,707	138,327
Repurchase agreements	26,244	36,263
Junior subordinated debentures	16,002	16,002
Other liabilities and accrued expenses	13,796	14,164
Total Liabilities	2,107,158	2,113,535
Commitments and Contingencies		
Stockholders equity:		

Preferred stock, par value $.01 per share (2,000,000 shares authorized; none issued)				
Common stock, par value $.01 per share:				
Authorized: 20,000,000 shares; 11,711,746 and 11,651,398 shares issued, respectively; 11,704,184 and 11,650,405 shares outstanding, respectively		**117**		117
Surplus		**119,370**		118,846
Retained earnings		**66,623**		64,547
Less: Treasury Stock at cost, 7,562 and 993 shares, respectively		**(192)**		(25)
		185,918		183,485
Accumulated other comprehensive loss, net of income taxes		**(5,767)**		(8,367)
Total Stockholders Equity		**180,151**		175,118
Total Liabilities and Stockholders Equity	**$**	**2,287,309**	$	2,288,653

See accompanying condensed notes to the Unaudited Consolidated Financial Statements

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BRIDGE BANCORP, INC. AND SUBSIDIARIES

Consolidated Statements of Income (unaudited)

(In thousands, except per share amounts)

	Three Months Ended March 31,	
	2015	2014
Interest income:		
Loans (including fee income)	**$ 16,490**	$ 13,314
Mortgage-backed securities, CMOs and other asset-backed securities	**2,567**	2,291
U.S. GSE securities	**405**	807
State and municipal obligations	**746**	701
Corporate Bonds	**185**	154
Deposits with banks	**7**	8
Other interest and dividend income	**107**	83
Total interest income	**20,507**	17,358
Interest expense:		
Savings, NOW and money market deposits	**773**	837
Certificates of deposit of $100,000 or more	**190**	175
Other time deposits	**112**	95
Federal funds purchased and repurchase agreements	**146**	129
Federal Home Loan Bank advances	**250**	245
Junior subordinated debentures	**341**	341
Total interest expense	**1,812**	1,822
Net interest income	**18,695**	15,536
Provision for loan losses	**800**	700
Net interest income after provision for loan losses	**17,895**	14,836
Non-interest income:		
Service charges on deposit accounts	**853**	799
Fees for other customer services	**598**	566
Net securities losses	**(10)**	(1,112)
Title fee income	**463**	322
Other operating income	**900**	227
Total non-interest income	**2,804**	802
Non-interest expense:		
Salaries and employee benefits	**7,523**	6,206
Occupancy and equipment	**2,203**	1,615
Technology and communications	**790**	717
Marketing and advertising	**573**	421
Professional services	**521**	356
FDIC assessments	**311**	288
Acquisition costs and branch restructuring	**175**	4,434
Amortization of core deposit intangible	**48**	58
Other operating expenses	**1,166**	918
Total non-interest expense	**13,310**	15,013

Income before income taxes		**7,389**		625
Income tax expense		**2,626**		219
Net income	**$**	**4,763**	$	406
Basic earnings per share	**$**	**0.41**	$	0.04
Diluted earnings per share	**$**	**0.41**	$	0.04

See accompanying condensed notes to the Unaudited Consolidated Financial Statements

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BRIDGE BANCORP, INC. AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income (unaudited)

(In thousands)

	Three Months Ended March 31,	
	2015	2014
Net Income	**$ 4,763**	$ 406
Other comprehensive income:		
Change in unrealized net gains\losses on securities available for sale, net of reclassification and deferred income taxes	**2,966**	3,411
Adjustment to pension liability, net of deferred income taxes	**54**	(4)
Unrealized losses on cash flow hedge, net of deferred income taxes	**(420)**	(91)
Total other comprehensive income	**2,600**	3,316
Comprehensive income	**$ 7,363**	$ 3,722

See accompanying condensed notes to the Unaudited Consolidated Financial Statements.

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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, 2015	**$ 117**	**$ 118,846**	**$ 64,547**	**$ (25)**	**$ (8,367)**	**$ 175,118**
Net income			**4,763**			**4,763**
Shares issued under the dividend reinvestment plan (DRP)		**169**				**169**
Stock awards granted and distributed		**(43)**		**43**		
Vesting of stock awards				**(210)**		**(210)**
Income tax effect of stock plans		**48**				**48**
Share based compensation expense		**350**				**350**
Cash dividend declared, $0.23 per share			**(2,687)**			**(2,687)**
Other comprehensive income, net of deferred income taxes					**2,600**	**2,600**
Balance at March 31, 2015	**$ 117**	**$ 119,370**	**$ 66,623**	**$ (192)**	**$ (5,767)**	**$ 180,151**

	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			406			406
Shares issued under the dividend reinvestment plan (DRP)		151				151
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	(332)		331		
Vesting of stock awards				(147)		(147)
Exercise of stock options		(2)		9		7
Income tax effect of stock plans		30				30
Share based compensation expense		291				291
Cash dividend declared, $0.23 per share			(2,607)			(2,607)
Other comprehensive income, net of deferred income taxes					3,316	3,316
Balance at March 31, 2014	$ 116	$ 117,461	$ 59,240	$ (42)	$ (9,920)	$ 166,855

See accompanying condensed notes to the Unaudited Consolidated Financial Statements.

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BRIDGE BANCORP, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows (unaudited)

(In thousands)

	Three Months Ended March 31,	
	2015	2014
Cash flows from operating activities:		
Net Income	**$ 4,763**	$ 406
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	**800**	700
Depreciation and amortization (accretion)	**(645)**	177
Net amortization on securities	**1,038**	885
Increase in cash surrender value of bank owned life insurance	**(230)**	(69)
Amortization of core deposit intangible	**48**	58
Share based compensation expense	**350**	291
Net securities losses	**10**	1,112
Decrease (increase) in accrued interest receivable	**36**	(759)
Increase in other assets	**(502)**	(3,929)
(Decrease) increase in accrued expenses and other liabilities	**(996)**	1,686
Net cash provided by operating activities	**4,672**	558
Cash flows from investing activities:		
Purchases of securities available for sale	**(37,811)**	(148,637)
Purchases of securities, restricted	**(34,875)**	(80,235)
Purchases of securities held to maturity		(17,962)
Proceeds from sales of securities available for sale	**73,788**	198,763
Redemption of securities, restricted	**36,293**	79,380
Maturities, calls and principal payments of securities available for sale	**25,281**	15,712
Maturities, calls and principal payments of securities held to maturity	**3,052**	3,011
Net increase in loans	**(65,656)**	(35,164)
Proceeds from loan sale	**1,861**	
Proceeds from sales of other real estate owned, net		2,242
Purchase of premises and equipment	**(1,064)**	(1,008)
Net cash acquired in business combination		2,926
Net cash provided by investing activities	**869**	19,028
Cash flows from financing activities:		
Net increase (decrease) in deposits	**5,704**	(33,972)
Net increase in federal funds purchased	**30,000**	2,000
Net (decrease) increase in FHLB advances	**(31,499)**	15,000
Repayment of acquired unsecured debt		(1,450)
Net (decrease) increase in repurchase agreements	**(10,019)**	192
Net proceeds from issuance of common stock	**169**	151
Net proceeds from exercise of stock options		7
Repurchase of surrendered stock from vesting of restricted stock awards	**(210)**	(147)
Excess tax benefit (expense) from share based compensation	**48**	30
Cash dividends paid	**(2,687)**	(2,607)
Other, net		(192)
Net cash used in in financing activities	**(8,494)**	(20,988)

Net decrease in cash and cash equivalents		**(2,953)**		(1,402)
Cash and cash equivalents at beginning of period		**51,730**		45,573
Cash and cash equivalents at end of period	**$**	**48,777**	$	44,171
Supplemental Information-Cash Flows:				
Cash paid for:				
Interest	**$**	**1,842**	$	1,712
Income tax	**$**	**1,260**	$	883
Noncash investing and financing activities:				
Securities which settled in the subsequent period	**$**		$	12,905
Acquisition of noncash assets and liabilities:				
Fair value of assets acquired	**$**		$	209,022
Fair value of liabilities assumed	**$**		$	213,224

See accompanying condensed notes to the Unaudited Consolidated Financial Statements.

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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 Bridge Financial Services, Inc. (Bridge Financial Services), an investment services subsidiary. 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 ended March 31, 2015 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, 2014.

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 certain 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 months ended March 31, 2015 and 2014 is as follows:

(In thousands, except per share data)	Three months ended, March 31, 2015		Three months ended, March 31, 2014	
Net Income	**$**	**4,763**	$	406
Less: Dividends paid on and earnings allocated to participating securities		**(118)**		
Income attributable to common stock	**$**	**4,645**	$	406
Weighted average common shares outstanding, including participating securities		**11,720**		11,513
Less: weighted average participating securities		**(301)**		(263)
Weighted average common shares outstanding		**11,419**		11,250
Basic earnings per common share	**$**	**0.41**	$	0.04
Income attributable to common stock	**$**	**4,645**	$	406
Weighted average common shares outstanding		**11,419**		11,250
Weighted average common equivalent shares outstanding		**1**		1
Weighted average common and equivalent shares outstanding		**11,420**		11,251
Diluted earnings per common share	**$**	**0.41**	$	0.04

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There were 37,739 and 5,131 options outstanding at March 31, 2015 and March 31, 2014, 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 March 31, 2015 and March 31, 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 three months ended March 31, 2015 and March 31, 2014 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 first quarter of 2015 and 2014 was $0 and $1,000, respectively. The intrinsic value of options outstanding and exercisable at March 31, 2015 and March 31, 2014 was $20,000 and $55,000, respectively.

A summary of the status of the Company s stock options as of and for the three months ended March 31, 2015 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, 2015	39,870	$	25.63			
Granted						
Exercised						
Forfeited						
Expired	(2,131)	$	30.60			
Outstanding, March 31, 2015	37,739	$	25.35	1.549 years	$	20
Vested and Exercisable, March 31, 2015	37,739	$	25.35	1.549 years	$	20

Range of Exercise Prices	Number of Options		Exercise Price
	34,739	$	25.25
	3,000	$	26.55

	37,739

During the three months ended March 31, 2015, restricted stock awards of 55,437 shares were granted. Of the 55,437 shares granted, 30,625 shares vest over seven years with a third vesting after years five, six and seven and 24,812 shares vest over five years with a third vesting after years three, four and five. During the three months ended March 31, 2014, restricted stock awards of 73,323 shares were granted. Of the 73,323 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 2,000 shares vest ratably over approximately two years. Compensation expense attributable to restricted stock awards was $302,000 and $251,000 for the three months ended March 31, 2015 and 2014, respectively.

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A summary of the status of the Company s unvested restricted stock as of and for the three months ended March 31, 2015 is as follows:

	Shares		Weighted Average Grant-Date Fair Value
Unvested, January 1, 2015	248,444	$	22.48
Granted	55,437	$	25.71
Vested	(31,627)	$	21.70
Forfeited			
Unvested, March 31, 2015	272,254	$	23.23

Effective for 2015, the Board revised the design of the Long Term Incentive Plan (LTI Plan) for Named Executive Officers (NEOs) to include performance based awards. The LTI Plan includes 60% performance vested awards based on 3-year relative Total Shareholder Return (TSR) to the proxy peer group and 40% time vested awards. The awards are in the form of restricted stock units and cliff vest after five years and require an additional two year holding period before the restricted stock units are delivered in shares of common stock. The Company recorded expense of approximately $14,000 and $0 for the three months ended March 31, 2015 and 2014, respectively.

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 $34,000 and $40,000 for the three months ended March 31, 2015 and 2014, 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 March 31, 2015 and December 31, 2014 and the corresponding amounts of unrealized gains and losses therein:

	March 31, 2015							
(In thousands)		**Amortized Cost**		**Gross Unrealized Gains**		**Gross Unrealized Losses**		**Estimated Fair Value**
Available for sale:								
U.S. GSE securities	**$**	**68,409**	**$**	**25**	**$**	**(544)**	**$**	**67,890**
State and municipal obligations		**62,567**		**458**		**(86)**		**62,939**
U.S. GSE residential mortgage-backed securities		**128,542**		**1,337**		**(33)**		**129,846**
U.S. GSE residential collateralized mortgage obligations		**204,172**		**666**		**(1,600)**		**203,238**
U.S. GSE commercial mortgage-backed securities		**2,999**				**(18)**		**2,981**
U.S. GSE commercial collateralized mortgage obligations		**21,672**		**34**		**(114)**		**21,592**
Other Asset backed securities		**24,241**				**(961)**		**23,280**
Corporate Bonds		**17,954**		**322**		**(44)**		**18,232**

Total available for sale	**530,556**	**2,842**	**(3,400)**	**529,998**
Held to maturity:				
U.S. GSE securities	**11,291**	**187**		**11,478**
State and municipal obligations	**63,829**	**2,072**	**(10)**	**65,891**
U.S. GSE residential mortgage-backed securities	**6,355**		**(21)**	**6,334**
U.S. GSE residential collateralized mortgage obligations	**57,728**	**909**	**(419)**	**58,218**
U.S. GSE commercial mortgage-backed securities	**13,127**	**369**		**13,496**
U.S. GSE commercial collateralized mortgage obligations	**36,387**	**661**	**(148)**	**36,900**
Corporate Bonds	**22,963**	**115**	**(23)**	**23,055**
Total held to maturity	**211,680**	**4,313**	**(621)**	**215,372**
Total securities	**$ 742,236**	**$ 7,155**	**$ (4,021)**	**$ 745,370**

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(In thousands)	December 31, 2014 Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Available for sale:				
U.S. GSE securities	$ 97,560	$ 4	$ (2,139)	$ 95,425
State and municipal obligations	63,583	318	(208)	63,693
U.S. GSE residential mortgage-backed securities	100,931	534	(40)	101,425
U.S. GSE residential collateralized mortgage obligations	261,256	310	(2,967)	258,599
U.S. GSE commercial mortgage-backed securities	3,016		(71)	2,945
U.S. GSE commercial collateralized mortgage obligations	24,179	44	(141)	24,082
Other Asset backed securities	24,190		(1,153)	23,037
Corporate Bonds	17,952	161	(135)	17,978
Total available for sale	592,667	1,371	(6,854)	587,184
Held to maturity:				
U.S. GSE securities	11,283	135	(41)	11,377
State and municipal obligations	64,864	1,658	(98)	66,424
U.S. GSE residential mortgage-backed securities	6,667		(97)	6,570
U.S. GSE residential collateralized mortgage obligations	59,539	507	(862)	59,184
U.S. GSE commercial mortgage-backed securities	13,213	233	(26)	13,420
U.S. GSE commercial collateralized mortgage obligations	36,413	267	(431)	36,249
Corporate Bonds	22,948	139	(22)	23,065
Total held to maturity	214,927	2,939	(1,577)	216,289
Total securities	$ 807,594	$ 4,310	$ (8,431)	$ 803,473

The following table summarizes the amortized cost, fair value and maturities of the available for sale and held to maturity investment securities portfolio at March 31, 2015. 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)	March 31, 2015 Amortized Cost	Fair Value
Maturity		
Available for sale:		
Within one year	$ 11,349	$ 11,392
One to five years	52,385	52,274
Five to ten years	86,485	86,676
Beyond ten years	380,337	379,656
Total	$ 530,556	$ 529,998
Held to maturity:		
Within one year	$ 17,627	$ 17,664
One to five years	35,439	35,726
Five to ten years	55,092	57,403
Beyond ten years	103,522	104,579
Total	$ 211,680	$ 215,372

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Securities with unrealized losses at March 31, 2015 and December 31, 2014, aggregated by category and length of time that individual securities have been in a continuous unrealized loss position, are as follows:

March 31, 2015 (In thousands)	**Less than 12 months**		**Greater than 12 months**	
	Fair Value	**Unrealized losses**	**Fair Value**	**Unrealized losses**
Available for sale:				
U.S. GSE securities	**$ 19,806**	**$ 194**	**$ 29,886**	**$ 350**
State and municipal obligations	**9,496**	**46**	**6,024**	**40**
U.S. GSE residential mortgage-backed securities	**5,185**	**5**	**1,557**	**28**
U.S. GSE residential collateralized mortgage obligations	**37,795**	**197**	**79,948**	**1,403**
U.S. GSE commercial mortgage-backed securities	**2,981**	**18**		
U.S. GSE commercial collateralized mortgage obligations	**3,113**	**56**	**11,264**	**58**
Other Asset backed securities	**23,280**	**961**		
Corporate Bonds	**4,956**	**44**		
Total available for sale	**106,612**	**1,521**	**128,679**	**1,879**
Held to maturity:				
State and municipal obligations	**2,970**	**10**		
U.S. GSE residential mortgage-backed securities	**6,334**	**21**		
U.S. GSE residential collateralized mortgage obligations			**20,545**	**419**
U.S. GSE commercial collateralized mortgage obligations			**3,840**	**148**
Corporate Bonds	**6,981**	**19**	**1,996**	**4**
Total held to maturity	**$ 16,285**	**$ 50**	**$ 26,381**	**$ 571**

December 31, 2014 (In thousands)	Less than 12 months		Greater than 12 months	
	Fair Value	Unrealized losses	Fair Value	Unrealized losses
Available for sale:				
U.S. GSE securities	$ 4,991	$ 8	$ 90,233	$ 2,131
State and municipal obligations	12,330	79	14,592	129
U.S. GSE residential mortgage-backed securities			1,554	40
U.S. GSE residential collateralized mortgage obligations	60,126	349	122,179	2,618
U.S. GSE commercial mortgage-backed securities			2,944	71
U.S. GSE commercial collateralized mortgage obligations	13,830	108	4,636	33
Other Asset backed securities	23,038	1,153		
Corporate Bonds	9,865	135		
Total available for sale	124,180	1,832	236,138	5,022
Held to maturity:				
U.S. GSE securities			7,414	41
State and municipal obligations	11,343	97	202	1
U.S. GSE residential mortgage-backed securities			6,569	97
U.S. GSE residential collateralized mortgage obligations	10,422	46	30,413	816
U.S. GSE commercial mortgage-backed securities			4,188	26
U.S. GSE commercial collateralized mortgage obligations	14,392	73	8,611	358
Corporate Bonds	3,978	22		
Total held to maturity	$ 40,135	$ 238	$ 57,397	$ 1,339

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 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 March 31, 2015, 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 March 31, 2015.

There were $73.8 million of proceeds from sales of securities with gross gains of approximately $0.5 million and gross losses of approximately $0.5 million realized for the three months ended March 31, 2015. There were $198.8 million of proceeds from sales of securities with gross gains of approximately $0.3 million and gross losses of $1.4 million realized for the three months ended March 31, 2014. Proceeds from calls of securities were $0.2 million and $0.3 million for the three months ended March 31, 2015 and 2014, respectively.

Securities having a fair value of approximately $433.0 million and $451.1 million at March 31, 2015 and December 31, 2014, respectively, were pledged to secure public deposits and Federal Home Loan Bank and Federal Reserve Bank overnight borrowings. The Company did not hold any trading securities during the three months ended March 31, 2015 or the year ended December 31, 2014.

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 $8.6 million and $10.0 million in FHLB, ACBB and FRB stock at March 31, 2015 and December 31, 2014. 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.

Assets and liabilities measured on a recurring basis:

		Fair Value Measurements at March 31, 2015 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	**$ 67,890**		**$ 67,890**	
State and municipal obligations	**62,939**		**62,939**	
U.S. GSE residential mortgage-backed securities	**129,846**		**129,846**	
U.S. GSE residential collateralized mortgage obligations	**203,238**		**203,238**	
U.S. GSE commercial mortgage-backed securities	**2,981**		**2,981**	
U.S. GSE commercial collateralized mortgage obligations	**21,592**		**21,592**	
Other Asset backed securities	**23,280**		**23,280**	
Corporate Bonds	**18,232**		**18,232**	
Total available for sale	**$ 529,998**		**$ 529,998**	
Financial Liabilities:				
Derivatives	**$ (1,624)**		**$ (1,624)**	

		Fair Value Measurements at December 31, 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	$ 95,425		$ 95,425	
State and municipal obligations	63,693		63,693	
U.S. GSE residential mortgage-backed securities	101,425		101,425	
U.S. GSE residential collateralized mortgage obligations	258,599		258,599	
U.S. GSE commercial mortgage-backed securities	2,945		2,945	
U.S. GSE commercial collateralized mortgage obligations	24,082		24,082	
Other Asset backed securities	23,037		23,037	
Corporate Bonds	17,978		17,978	
Total available for sale	$ 587,184		$ 587,184	
Financial Liabilities:				
Derivatives	$ (943)		$ (943)	

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

		Fair Value Measurements at March 31, 2015 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	**$ 617**			**$ 617**

		Fair Value Measurements at December 31, 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	$ 558			$ 558

Impaired loans with allocated allowance for loan losses at March 31, 2015 had a carrying amount of $0.6 million, which is made up of the outstanding balance of $1.0 million, net of a valuation allowance of $0.4 million. An additional provision for loan losses of $0.2 was necessary for the three months ended March 31, 2015. Impaired loans with allocated allowance for loan losses at December 31, 2014, had a carrying amount of $0.5 million, which is made up of the outstanding balance of $0.7 million, net of a valuation allowance of $0.2 million. This resulted in an additional provision for loan losses of $0.2 million at December 31, 2014.

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 utilized to estimate the fair value of loans do not necessarily represent an exit price and therefore, while permissible for presentation purposes 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. Adjustments to fair value are made only when the analysis indicates a probable decline in collateral values. Adjustments made in the appraisal process are not deemed material to the overall consolidated financial statements given the level of impaired loans measured at fair value on a nonrecurring basis.

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 March 31, 2015 and December 31, 2014.

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.

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The estimated fair values and recorded carrying amounts of the Company s financial instruments at March 31, 2015 and December 31, 2014 are as follows:

		Fair Value Measurements at March 31, 2015 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	**$ 36,996**	**$ 36,996**	**$**	**$**	**$ 36,996**
Interest bearing deposits with banks	**11,781**		**11,781**		**11,781**
Securities available for sale	**529,998**		**529,998**		**529,998**
Securities restricted	**8,619**	**n/a**	**n/a**	**n/a**	**n/a**
Securities held to maturity	**211,680**		**215,372**		**215,372**
Loans, net	**1,384,869**			**1,386,838**	**1,386,838**
Accrued interest receivable	**6,389**		**2,568**	**3,821**	**6,389**
Financial liabilities:					
Certificates of deposit	**139,227**		**140,224**		**140,224**
Demand and other deposits	**1,700,182**	**1,700,182**			**1,700,182**
Federal funds purchased	**105,000**	**105,000**			**105,000**
Federal Home Loan Bank term advances	**106,707**	**28,997**	**78,749**		**107,746**
Repurchase agreements	**26,244**		**26,753**		**26,753**
Junior Subordinated Debentures	**16,002**			**17,052**	**17,052**
Derivatives	**1,624**		**1,624**		**1,624**
Accrued interest payable	**279**	**94**	**185**		**279**

		Fair Value Measurements at December 31, 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	$ 45,109	$ 45,109	$	$	$ 45,109
Interest bearing deposits with banks	6,621		6,621		6,621
Securities available for sale	587,184		587,184		587,184
Securities restricted	10,037	n/a	n/a	n/a	n/a
Securities held to maturity	214,927		216,289		216,289
Loans, net	1,320,690			1,317,625	1,317,625
Accrued interest receivable	6,425		2,721	3,704	6,425
Financial liabilities:					
Certificates of deposit	141,362		142,264		142,264
Demand and other deposits	1,692,417	1,692,417			1,692,417
Federal funds purchased	75,000	75,000			75,000
Federal Home Loan Bank term advances	138,327	98,070	40,165		138,235

Repurchase agreements	36,263		36,991		36,991
Junior Subordinated Debentures	16,002			16,528	16,528
Derivatives	943		943		943
Accrued interest payable	308	77	231		308

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6. LOANS

The following table sets forth the major classifications of loans:

(In thousands)		March 31, 2015		December 31, 2014
Commercial real estate mortgage loans	**$**	**625,155**	$	595,397
Multi-family mortgage loans		**246,485**		218,985
Residential real estate mortgage loans		**157,204**		156,156
Commercial, financial, and agricultural loans		**297,625**		291,743
Real estate-construction and land loans		**63,377**		63,556
Installment/consumer loans		**10,783**		10,124
Total loans		**1,400,629**		1,335,961
Net deferred loan costs and fees		**2,500**		2,366
		1,403,129		1,338,327
Allowance for loan losses		**(18,260)**		(17,637)
Net loans	**$**	**1,384,869**	$	1,320,690

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 $89.7 million of acquired loans recorded at their fair value. There were approximately $52.1 million of acquired FNBNY loans remaining as of March 31, 2015.

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 Nassau and Suffolk Counties located on Long Island 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.

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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 will 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 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.

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The following table represents loans by class categorized by internally assigned risk grades as of March 31, 2015 and December 31, 2014:

March 31, 2015	**Pass**	**Special Mention**	**Grades: Substandard**	**Doubtful**	**Total**
(In thousands)					
Commercial real estate:					
Owner occupied	**$ 249,262**	**$ 5,729**	**$ 5,930**	**$**	**$ 260,921**
Non-owner occupied	**358,908**	**1,334**	**3,992**		**364,234**
Multi-Family	**246,384**	**16**	**85**		**246,485**
Residential real estate:					
Residential mortgage	**88,177**		**936**		**89,113**
Home equity	**66,353**	**359**	**1,379**		**68,091**
Commercial:					
Secured	**91,425**	**419**	**2,429**		**94,273**
Unsecured	**198,053**	**3,690**	**1,609**		**203,352**
Real estate construction and land loans	**63,012**		**365**		**63,377**
Installment/consumer loans	**10,581**	**100**	**102**		**10,783**
Total loans	**$ 1,372,155**	**$ 11,647**	**$ 16,827**	**$**	**$ 1,400,629**

December 31, 2014	Pass	Special Mention	Grades: Substandard	Doubtful	Total
(In thousands)					
Commercial real estate:					
Owner occupied	$ 243,512	$ 7,133	$ 5,963	$	$ 256,608
Non-owner occupied	334,790	171	3,828		338,789
Multi-Family	217,855	202	928		218,985
Residential real estate:					
Residential mortgage	88,405		1,613		90,018
Home equity	64,994	212	932		66,138
Commercial:					
Secured	91,007	621	2,339		93,967
Unsecured	191,942	4,168	1,666		197,776
Real estate construction and land loans	63,190		366		63,556
Installment/consumer loans	9,921	100	103		10,124
Total loans	$ 1,305,616	$ 12,607	$ 17,738	$	$ 1,335,961

At March 31, 2015 there were $0.2 million and $1.1 million, respectively, of acquired FNBNY loans included in the special mention and substandard grades. At December 31, 2014 there were $0.3 million and $1.5 million, respectively, of acquired FNBNY loans included in the special mention and substandard grades.

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Past Due and Nonaccrual Loans

The following table represents the aging of the recorded investment in past due loans as of March 31, 2015 and December 31, 2014 by class of loans, as defined by ASC 310-10:

March 31, 2015 (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	$	$	$ 182	$ 582	$ 764	$ 260,157	$ 260,921
Non-owner occupied						364,234	364,234
Multi-Family						246,485	246,485
Residential real estate:							
Residential mortgages	1			140	141	88,972	89,113
Home equity	269	275	143	1,127	1,814	66,277	68,091
Commercial and Industrial:							
Secured	44			330	374	93,899	94,273
Unsecured				160	160	203,192	203,352
Real estate construction and land loans						63,377	63,377
Installment/consumer loans	22			3	25	10,758	10,783
Total loans	$ 336	$ 275	$ 325	$ 2,342	$ 3,278	$ 1,397,351	$ 1,400,629

December 31, 2014 (In thousands)	30-59 Days Past Due	60-89 Days Past Due	≥90Days 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	$	$ 184	$	$ 595	$ 779	$ 255,829	$ 256,608
Non-owner occupied	181		10	10	201	338,588	338,789
Multi-Family						218,985	218,985
Residential real estate:							
Residential mortgage				143	143	89,875	90,018
Home equity	919		134	374	1,427	64,711	66,138
Commercial and Industrial:							
Secured						93,967	93,967
Unsecured	25			222	247	197,529	197,776
Real estate construction and land loans						63,556	63,556
Installment/consumer loans	1			3	4	10,120	10,124

Total loans	**$**	**1,126**	**$**	**184**	**$**	**144**	**$**	**1,347**	**$**	**2,801**	**$**	**1,333,160**	**$**	**1,335,961**

At March 31, 2015 there were $0.2 million of FNBNY acquired loans 30-59 days past due. There were no FNBNY acquired loans 30-59 days past due at December 31, 2014. All loans 90 days or more past due that are still accruing interest represent loans acquired from FNBNY and Hamptons State Bank (HSB) which 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.

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Impaired Loans

As of March 31, 2015 and December 31, 2014, the Company had impaired loans as defined by FASB ASC No. 310, Receivables of $7.1 million and $6.2 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.

For individually impaired loans, the following tables set forth by class of loans at March 31, 2015 and December 31, 2014 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 three months ended March 31, 2015 and 2014:

	March 31, 2015			Three Month Ended March 31, 2015	
(In thousands)	Recorded Investment	Unpaid Principal Balance	Related Allocated Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Commercial real estate:					
Owner occupied	**$ 3,848**	**$ 4,318**	**$**	**3,854**	**$ 28**
Non-owner occupied	**946**	**946**		**947**	**15**
Residential real estate:					
Residential mortgage	**140**	**230**		**141**	
Home equity	**977**	**1,199**		**309**	
Commercial:					
Secured	**114**	**114**		**48**	**1**
Unsecured					
Total with no related allowance recorded	**$ 6,025**	**$ 6,807**	**$**	**$ 5,299**	**$ 44**
With an allowance recorded:					
Commercial real estate - Non-owner occupied	**$ 321**	**$ 321**	**$ 21**	**$ 322**	**$ 4**
Residential real estate - Home equity	**150**	**150**	**150**	**50**	
Commercial - Secured	**330**	**330**	**253**	**330**	
Commercial - Unsecured	**244**	**248**	**4**	**252**	**3**
Total with an allowance recorded:	**$ 1,045**	**$ 1,049**	**$ 428**	**$ 954**	**$ 7**
Total:					
Commercial real estate:					
Owner occupied	**$ 3,848**	**$ 4,318**	**$**	**$ 3,854**	**$ 28**
Non-owner occupied	**1,267**	**1,267**	**21**	**1,269**	**19**

Residential real estate:					
Residential mortgage	**140**	**230**		**141**	
Home equity	**1,127**	**1,349**	**150**	**359**	
Commercial:					
Secured	**444**	**444**	**253**	**378**	**1**
Unsecured	**244**	**248**	**4**	**252**	**3**
Total	**$ 7,070**	**$ 7,856**	**$ 428**	**$ 6,253**	**$ 51**

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		December 31, 2014		Three Months Ended March 31, 2014	
December 31, 2014	**Recorded Investment**	**Unpaid Principal Balance**	**Related Allocated Allowance**	**Average Recorded Investment**	**Interest Income Recognized**
(In thousands)					
With no related allowance recorded:					
Commercial real estate:					
Owner occupied	$ 3,562	$ 3,707	$	4,301	$ 29
Non-owner occupied	1,251	1,568		916	15
Residential real estate:					
Residential mortgage	143	231		1,128	
Home equity	169	377		593	
Commercial:					
Secured	345	345		348	6
Unsecured				172	3
Total with no related allowance recorded	$ 5,470	$ 6,228	$	$ 7,458	$ 53
With an allowance recorded:					
Commercial real estate- Owner occupied				720	
Commercial real estate- Non owner occupied	323	323	23		
Residential real estate - Residential mortgage				152	
Residential real estate - Home equity	72	89	72	204	
Commercial- Unsecured	337	339	79		
Total with an allowance recorded:	$ 732	$ 751	$ 174	$ 1,076	$
Total:					
Commercial real estate:					
Owner occupied	$ 3,562	$ 3,707	$	$ 5,021	$ 29
Non-owner occupied	1,574	1,891	23	916	15
Residential real estate:					
Residential mortgage	143	231		1,280	
Home equity	241	466	72	797	
Commercial:					
Secured	345	345		348	6
Unsecured	337	339	79	172	3
Total	$ 6,202	$ 6,979	$ 174	$ 8,534	$ 53

The Bank had no other real estate owned at March 31, 2015 and December 31, 2014, respectively.

Troubled Debt Restructurings

The terms of certain loans were modified and are considered troubled debt restructurings (TDR). 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 three months ended March 31, 2015, the Bank modified two loans as TDRs totaling $0.1 million. There were no loans modified as TDRs for the three months ended March 31, 2014. During the quarters ending March 31, 2015 and 2014, there were no charge offs relating to TDRs and there were no loans modified as TDRs for which there was a payment default within twelve months following the modification. A loan is considered to be in payment default once it is 30 days contractually past due under the modified terms.

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As of March 31, 2015 and December 31, 2014, the Company had $0.8 million and $0.5 million, respectively of nonaccrual TDR loans and $4.8 million and $5.0 million, respectively of performing TDRs. At March 31, 2015 and December 31, 2014, total nonaccrual TDR loans are secured with collateral that has an appraised value of $1.9 million and $0.9 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 March 31, 2015 that did not meet the definition of a TDR. These loans have a total recorded investment as of March 31, 2015 of $6.2 million. The modification of these loans involved a modification of the terms of loans to borrowers who were not experiencing financial difficulties.

Acquired 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 acquired as part of the FNBNY acquisition had contractually required principal and interest payments receivable of $40.3 million; expected cash flows of $28.4 million; and a fair value (initial carrying amount) of $21.8 million. The difference between the contractually required principal and interest payments receivable and the expected cash flows ($11.9 million) represented the non-accretable difference. The difference between the expected cash flows and fair value ($6.6) million represented the initial accretable yield. At March 31, 2015, the contractually required principal and interest payments receivable of the purchased credit impaired loans was $20.8 million with a remaining non-accretable difference of $3.7 million.

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The following table summarizes the activity in the accretable yield for the purchased credit impaired loans:

(In thousands)		Three Months Ended March 31, 2015
Balance at beginning of period	$	8,432
Accretion		(1,252)
Reclassification from non-accretable difference during the period		380
Accretable discount at end of period	$	7,560

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 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.

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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 entire loan portfolio at March 31, 2015, 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 March 31, 2015 and December 31, 2014. Additionally, the following tables represent the changes in the allowance for loan losses for the three month period ended March 31, 2015 and 2014, and the twelve month period ended December 31, 2014, 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.

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(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
	Three Months Ended March 31, 2015						
Allowance for Loan Losses:							
Beginning balance	$ 6,994	$ 2,670	$ 2,208	$ 4,526	$ 1,104	$ 135	$ 17,637
Charge-offs				(200)		(2)	(202)
Recoveries				20	1	4	25
Provision	(4)	310	(71)	559	1	5	800
Ending Balance	$ 6,990	$ 2,980	$ 2,137	$ 4,905	$ 1,106	$ 142	$ 18,260
Ending balance: individually evaluated for impairment	$ 21	$	$ 150	$ 257	$	$	$ 428
Ending balance: collectively evaluated for impairment	$ 6,969	$ 2,980	$ 1,987	$ 4,648	$ 1,106	$ 142	$ 17,832
Ending balance: loan acquired with deteriorated credit quality	$	$	$	$	$	$	$
Loans	$ 625,155	$ 246,485	$ 157,204	$ 297,625	$ 63,377	$ 10,783	$ 1,400,629
Ending balance: individually evaluated for impairment	$ 5,115	$	$ 1,267	$ 688	$	$	$ 7,070
Ending balance: collectively evaluated for impairment	$ 614,935	$ 246,485	$ 154,718	$ 293,144	$ 63,377	$ 10,783	$ 1,383,442
Ending balance: loans acquired with deteriorated credit quality(1)	$ 5,105	$	$ 1,219	$ 3,793	$	$	$ 10,117

(1) Includes PCI loans acquired on February 14, 2014 from FNBNY and on May 27, 2011 from HSB.

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(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
	Year Ended December 31, 2014						
Allowance for Loan Losses:							
Beginning balance	$ 6,279	$ 1,597	$ 2,712	$ 4,006	$ 1,206	$ 201	$ 16,001
Charge-offs	(461)		(257)	(104)		(2)	(824)
Recoveries			170	87		3	260
Provision	1,176	1,073	(417)	537	(102)	(67)	2,200
Ending Balance	$ 6,994	$ 2,670	$ 2,208	$ 4,526	$ 1,104	$ 135	$ 17,637
Ending balance: individually evaluated for impairment	$ 23	$	$ 72	$ 79	$	$	$ 174
Ending balance: collectively evaluated for impairment	$ 6,971	$ 2,670	$ 2,136	$ 4,447	$ 1,104	$ 135	$ 17,463
Ending balance: loan acquired with deteriorated credit quality	$	$	$	$	$	$	$
Loans	$ 595,397	$ 218,985	$ 156,156	$ 291,743	$ 63,556	$ 10,124	$ 1,335,961
Ending balance: individually evaluated for impairment	$ 5,136	$	$ 383	$ 682	$	$	$ 6,201
Ending balance: collectively evaluated for impairment	$ 582,946	$ 218,985	$ 154,897	$ 286,368	$ 63,556	$ 10,124	$ 1,316,876
Ending balance: loans acquired with deteriorated credit quality(1)	$ 7,315	$	$ 876	$ 4,693	$	$	$ 12,884

(1) Includes loans acquired on February 14, 2014 from FNBNY and on May 27, 2011 from HSB.

(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
	Three Months Ended March 31, 2014						
Allowance for Loan Losses:							

Beginning balance	$ 6,279	$ 1,597	$ 2,712	$ 4,006	$ 1,206	$ 201	$ 16,001
Charge-offs	(267)			(85)			(352)
Recoveries			10	9		1	20
Provision	609	(3)	(119)	340	(103)	(24)	700
Ending Balance	$ 6,621	$ 1,594	$ 2,603	$ 4,270	$ 1,103	$ 178	$ 16,369

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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 three months ended March 31, 2015. In accordance with the SERP, a retired executive received a distribution from the Plan totaling $28,000 during the three months ended March 31, 2015.

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/(recovery):

	Three Months Ended March 31,			
	Pension Benefits		SERP Benefits	
(In thousands)	**2015**	2014	**2015**	2014
Service cost	**$ 280**	$ 224	**$ 42**	$ 33
Interest cost	**174**	158	**22**	22
Expected return on plan assets	**(453)**	(402)		
Amortization of net loss	**93**	7	**8**	
Amortization of unrecognized prior service cost	**(20)**	(20)		
Amortization of unrecognized transition obligation			**7**	7
Net periodic benefit cost/(recovery)	**$ 74**	$ (33)	**$ 79**	$ 62

9. SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE

At March 31, 2015, March 31, 2014 and December 31, 2014, securities sold under agreements to repurchase totaled $26.2 million, $11.6 million, and $36.3 million, respectively, and were secured by U.S. GSE, residential mortgage-backed securities and residential collateralized mortgage obligations with a carrying amount of $29.2 million, $16.6 million and $40.3 million, respectively.

Securities sold under agreements to repurchase are financing arrangements with $1.2 million maturing during the second quarter of 2015 and $25.0 million maturing during the fourth 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:

	Three Months Ended		Year Ended
(Dollars in thousands)	**March 31, 2015**	March 31, 2014	December 31, 2014
Average daily balance	**$ 32,122**	$ 11,704	$ 14,185
Average interest rate	**1.01%**	3.19%	2.71%
Maximum month-end balance	**$ 36,230**	$ 12,045	$ 36,879
Weighted average interest rate	**1.01%**	3.14%	2.67%

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10. FEDERAL HOME LOAN BANK ADVANCES

The following table sets forth the contractual maturities and weighted average interest rates of FHLB advances over the next four years and the period thereafter at March 31, 2015 and December 31, 2014:

Contractual Maturity	**March 31, 2015**		
(Dollars in thousands)		**Amount**	**Weighted Average Rate**
Overnight	**$**	**29,000**	**0.34%**
2015		**50,000**	**0.39%**
2016		**11,677**	**0.69%**
2017			
2018		**16,030**	**1.00%**
		77,707	**0.56%**
	$	**106,707**	**0.50%**

Contractual Maturity	December 31, 2014		
(Dollars in thousands)		Amount	Weighted Average Rate
Overnight	$	69,000	0.32%
2015		41,508	0.37%
2016		11,703	0.69%
2017			
2018		16,116	1.00%
		69,327	0.57%
	$	138,327	0.44%

Each advance is payable at its maturity date, with a prepayment penalty for fixed rate advances. The advances were collateralized by $430.2 million and $385.2 million of residential and commercial mortgage loans under a blanket lien arrangement at March 31, 2015 and December 31, 2014, respectively. Based on this collateral and the Company s holdings of FHLB stock, the Company is eligible to borrow up to a total of $686.2 million at March 31, 2015.

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.

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12. DERIVATIVES

Cash Flow Hedges of Interest Rate Risk

The Company utilizes 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.

Interest rate swaps with notional amounts totaling $75.0 million as of March 31, 2015 and December 31, 2014 were designated as cash flow hedges of certain Federal Home Loan Bank advances. The swaps were determined to be fully effective during the periods 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 should the hedges no longer be considered effective. 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 cash flow hedges as of March 31, 2015 and 2014 and December 31, 2014:

	Three Months Ended		Year Ended
(Dollars in thousands)	**March 31, 2015**	March 31, 2014	December 31, 2014
Notional amounts	**$ 75,000**	$ 50,000	$ 75,000
Weighted average pay rates	**1.66%**	1.39%	1.39%
Weighted average receive rates	**0.26%**	0.24%	0.24%
Weighted average maturity	**3.61 years**	4.31 years	3.86 years
Unrealized losses	**$ (1,624)**	$ (314)	$ (943)

Interest expense recorded on these swap transactions totaled $134,000 and $115,000 for the three months ended March 31, 2015 and 2014, respectively, and is reported as a component of interest expense on FHLB Advances.

The following table presents the net gains (losses) recorded, net of income tax, in accumulated other comprehensive income and the Consolidated Statements of Income relating to the cash flow derivative instruments for the three months ended March 31, 2015 and March 31, 2014:

	2015		
	Amount of gain (loss) recognized	**Amount of gain (loss) reclassified**	**Amount of gain (loss) recognized in other**

(In thousands)	**in OCI (Effective Portion)**		**from OCI to interest income**	**Non-interest income (Ineffective Portion)**
Interest rate contracts	**$**	**(989)**	**$**	**$**

(In thousands)	Amount of gain (loss) recognized in OCI (Effective Portion)		2014 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	$	(190)	$	$

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

	March 31, 2015				December 31, 2014			
(In thousands)		**Notional Amount**		**Fair Value**		Notional Amount		Fair Value
Included in other assets (liabilities):								
Interest rate swaps related to FHLB Advances	**$**	**50,000**	**$**	**(1,117)**	$	40,000	$	(248)
Forward starting interest rate swap related to repurchase agreements						10,000		(445)
Forward starting interest rate swap related to FHLB advances		**25,000**		**(507)**		25,000		(250)

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Non-Designated Hedges

Derivatives not designated as hedges may be used to manage the Company s exposure to interest rate movements or to provide service to customers but do not meet the requirements for hedge accounting under U.S. GAAP. The Company executes interest rate swaps with commercial lending customers to facilitate their respective risk management strategies. These interest rate swaps with customers are simultaneously offset by interest rate swaps that the Company executes with a third party in order to minimize the net risk exposure resulting from such transactions.

As of March 31, 2015 and December 31, 2014, the combined notional amounts of interest-rate swap agreements total $37.1 million and $11.2 million, respectively. These interest-rate swap agreements do not qualify for hedge accounting treatment, and therefore changes in fair value are reported in current period earnings.

The following table presents summary information about these interest rate swaps:

	Three Months Ended		Year Ended
(Dollars in thousands)	**March 31, 2015**	March 31, 2014	December 31, 2014
Notional amounts	**$ 37,125**	$	$ 11,175
Weighted average pay rates	**3.28%**		3.28%
Weighted average receive rates	**3.28%**		3.28%
Weighted average maturity	**16.81 years**		9.64 years
Fair value of combined interest rate swaps	**$**	$	$

13. OTHER COMPREHENSIVE INCOME (LOSS)

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

	Three Months Ended	
(In thousands)	**March 31, 2015**	March 31, 2014
Unrealized holding gains on available for sale securities	**$ 4,915**	**$ 4,543**
Reclassification adjustment for losses realized in income	**10**	**1,112**
Income tax effect	**(1,959)**	**(2,244)**
Net change in unrealized gains on available for sale securities	**2,966**	**3,411**
Reclassification adjustment for amortization realized in income	**88**	**(7)**
Income tax effect	**(34)**	**3**
Net change in post-retirement obligation	**54**	**(4)**
Change in fair value of derivatives used for cash flow hedges	**(681)**	**(150)**
Reclassification adjustment for gains realized in income		

Income tax effect		**261**		**59**
Net change in unrealized losses on cash flow hedge		**(420)**		**(91)**
Total	**$**	**2,600**	**$**	**3,316**

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

(In thousands)		Balance as of December 31, 2014		Current Period Change		Balance as of March 31, 2015
Unrealized (losses) gains on available for sale securities	$	(3,307)	$	2,966	$	(341)
Unrealized (losses) gains on pension benefits		(4,491)		54		(4,437)
Unrealized losses on cash flow hedges		(569)		(420)		(989)
Total	$	(8,367)	$	2,600	$	(5,767)

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The following represents the reclassifications out of accumulated other comprehensive income for the three months ended March 31, 2015 and 2014:

(In thousands)	Three Months Ended March 31, 2015	March 31, 2014	Affected Line Item in the Consolidated Statements of Income
Unrealized (losses) on available for sale securities:			
Realized losses on sale of available for sale securities	**$ (10)**	$ (1,112)	Net securities losses
Income tax effect	**4**	441	Income tax expense
Net of income tax	**$ (6)**	$ (671)	
Amortization of defined benefit pension plan and the defined benefit plan component of the SERP:			
Prior service credit	**$ 20**	$ 20	Salaries and employee benefits
Transition obligation	**(7)**	(7)	Salaries and employee benefits
Actuarial losses	**(101)**	(7)	Salaries and employee benefits
	$ (88)	$ 6	
Income tax effect	**34**	(2)	Income tax expense
Net of income tax	**$ (54)**	$ 4	
Total reclassifications, net of income taxes	**$ (60)**	$ (667)	

14. RECENT ACCOUNTING PRONOUNCEMENTS

In April 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2015-03, Interest Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs. ASU 2015-03 simplifies presentation of debt issuance costs. The amendments in this update require that debt issuance costs be presented in the balance sheet as a direct deduction from the carrying amount of debt liability, consistent with debt discounts or premiums. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in this Update. ASU 2015-03 is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2015. The adoption of ASU 2015-03 is not expected to have a material effect on the Company s consolidated financial statements.

In January 2015, the FASB issued ASU No. 2015-01, Income Statement Extraordinary and Unusual Items (Subtopic 225-20): Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items. ASU 2015-01 simplifies the income statement presentation requirements in subtopic 225-20 by eliminating the concept of extraordinary items. Extraordinary items are events and transactions that are distinguished by their unusual nature and by the infrequency of their occurrence. Eliminating the extraordinary classification simplifies income statement presentation by altogether removing the concept of extraordinary items from consideration. The amendments in this update become effective for annual periods and interim periods within those periods beginning after December 15, 2015. The adoption of ASU 2015-01 is not expected to have a material effect on the Company s consolidated financial statements.

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.

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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; our ability to successfully integrate acquired entities; 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, which could adversely affect operating results; and other factors discussed in our Annual Report on Form 10-K for the year ended December 31, 2014 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 nine branches in the primary market areas of Suffolk and 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 its 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, together with funds generated from operations and borrowings, are invested primarily in: (1) commercial real estate loans; (2) multifamily mortgage loans (3) home equity loans; (4) construction loans; (5) residential mortgage loans; (6) secured and unsecured commercial and consumer loans; (7) FHLB, FNMA, GNMA and FHLMC and non-agency mortgage-backed securities, collateralized mortgage obligations and other asset backed securities; (8) New York State and local municipal obligations; and (9) 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.

Significant Events

Acquisition of Community National Bank

On December 14, 2014, the Company, the Bank and Community National Bank (CNB) entered into an Agreement and Plan of Merger (the merger agreement) pursuant to which Bridge Bancorp will acquire, in an all stock merger, CNB through the merger of CNB with and into The Bridgehampton National Bank. CNB currently operates 11 branches in Nassau, Suffolk, Queens and Manhattan Counties with total assets of $940 million, including $776 million in loans, funded by deposits of $825 million. The combined institution will have approximately $3.2 billion in assets, $2.7 billion in deposits and 40 branches serving Long Island and the greater New York metropolitan area. Under the terms of the merger agreement, each outstanding share of CNB common stock will be converted into the right to receive 0.79 of a share of the Company s common stock. Based on the Company s closing stock price on December 12, 2014 of $25.35, the transaction implies a per share value of $20.03 and an aggregate estimated value of $141

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million. The proposed merger is subject to customary closing conditions, including the receipt of regulatory approvals and approval by the stockholders of the Company and CNB. The merger is currently expected to be completed in the second quarter of 2015.

Acquisition of FNBNY

On February 14, 2014, the Company acquired FNBNY Bancorp and its wholly owned subsidiary, the First National Bank of New York (collectively FNBNY) at a purchase price of $6.1 million and issued an aggregate of 240,598 Company shares in exchange for all the issued and outstanding stock of FNBNY. 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. As of February 14, 2015, there have been no net recoveries on these loans. At acquisition, FNBNY had total acquired assets on a fair value basis of $211.9 million, with loans of $89.7 million, investment securities of $103.2 million and deposits of $169.9 million. With three full-service branches, including the Company s first two branches in Nassau County located in Merrick and Massapequa, and one in western Suffolk County located in Melville, the transaction expanded our geographic footprint into Nassau County, complemented our existing branch network and enhanced our asset generation capabilities. The expanded branch network allows us to serve a greater portion of the Long Island and metropolitan marketplace.

Quarterly Highlights

- Net income for the first quarter of 2015 was $4.8 million and $0.41 per diluted share, compared to $0.4 million and $0.04 per diluted share for the first quarter of 2014. The results for the 2014 period included (i) $2.9 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.

- Net interest income increased to $18.7 million for the first quarter of 2015 compared to $15.5 million in 2014.

- Net interest margin was 3.63% for the first quarter of 2015 compared to 3.46% for the 2014 period.

- Loans held for investment at March 31, 2015 of $1.40 billion increased $64.8 million or 4.8% over December 31, 2014 and increased $267.4 million or 23.5% over March 31, 2014.

- Total assets of $2.29 billion at March 31, 2015, decreased $1.3 million compared to December 31, 2014 and increased $174.4 million or 8.3% compared to March 31, 2014.

- Deposits of $1.84 billion at March 31, 2015, increased $5.6 million over December 31, 2014 and increased $164.5 million or 9.8% compared to March 31, 2014 levels.

- Allowance for loan losses to total loans ratio, which was calculated excluding $52 million of FNBNY acquired loans, was 1.35% as of March 31, 2015 compared to 1.39% at December 31, 2014 and 1.56% at March 31, 2014.

- All capital ratios exceed the fully phased in requirements of Basel III.

- A cash dividend of $0.23 per share was declared in April 2015 for the first quarter.

Current Environment

The Bank continues to operate in a highly regulated environment with many new regulations issued and remaining to be issued under the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) enacted on July 21, 2010. 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.

Additionally, the Federal Deposit Insurance Corporation and the other federal bank regulatory agencies issued a final rule In July 2013 that revised 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 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 to risk-weighted assets in addition to the amount necessary to meet its minimum risk-based capital requirements. The final rule became 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. The final rules, while more favorable to community banks, require that all banks maintain higher levels of capital. Taken together, these factors present formidable challenges to the banking industry. Management believes that, as of March 31, 2015, the Company and the Bank would meet all capital adequacy requirements under the Basel III Capital Rules on a fully phased-in basis if such requirements were currently 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 Federal Open Market Committee (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. In October 2014, the FOMC concluded its asset purchase plan but continues its existing policy of reinvesting principal payments from its holdings of agency debt and agency mortgage-backed securities and rolling over maturing Treasury securities at auction. 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 2010, the Bank has opened ten new branches, including the most recent branch openings in September 2014 in Bay Shore, New York, November 2014 in Port Jefferson, New York and December 2014 in Smithtown, New York. Most of the recent branch openings move the Bank geographically westward and demonstrate its commitment to traditional growth through branch expansion. The Bank has also grown through acquisitions including the May 2011 acquisition of Hampton State Bank and February 2014 acquisition of FNBNY. 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 provide capital to support the acquisition, the additional common shares outstanding negatively impacted earnings per share during the fourth quarter of 2013 and first half of 2014 until the benefits of the acquisition were realized. Management recognizes the challenges associated with acquisitions and leveraged the experience gained in the acquisition of Hamptons State Bank in 2011, to successfully integrate the operations of FNBNY.

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.

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 2015 include: successful integration of the operations of CNB; 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

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opportunities to grow its franchise and continued investments to generate core funding, quality loans and new sources of revenue, remain keys to continue creating long term shareholder value. 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.

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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 March 31, 2015, 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 March 31, 2015 was $4.8 million and $0.41 per diluted share as compared to $0.4 million and $0.04 per diluted share for the same period in 2014. Changes in net income for the three months ended March 31, 2015 compared to March 31, 2014 include: (i) a $3.2 million or 20.3% 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 14.3% increase in the provision for loan losses; (iii) a $2.0 million or 249.6% increase in non-interest income related to a $1.1 million decrease in net securities losses and $0.9 million in service charges and customer fees, title fee income, and other non-interest income; (iv) a decrease in non-interest expenses of $1.7 million related to $4.3 million in lower acquisition and branch restructuring costs, partially offset by $2.6 million in costs related to additional staffing and new facilities associated with the FNBNY acquisition and three new branches, as well as, continued investments in technology; and (v) a $2.4 million increase in income taxes associated with higher pre-tax income. The effective income tax rate was 35.5% for the quarter ended March 31, 2015 compared to 35.0% 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 table sets forth certain information relating to the Company s average consolidated balance sheets and its consolidated statements of income for the years indicated and reflect the average yield on assets and average cost of liabilities for the years indicated. Such yields and costs are derived by dividing income or expense by the average balance of assets or liabilities, respectively, for the years 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.*

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(In thousands)	Three Months Ended March 31, 2015 Average Balance	2015 Interest	2015 Average Yield/ Cost	2014 Average Balance	2014 Interest	2014 Average Yield/ Cost
Interest earning assets:						
Loans, net (1)(2)	**$ 1,349,992**	**$ 16,493**	**4.95%**	$ 1,064,457	$ 13,316	5.07%
Mortgage-backed securities, CMOs and other asset-backed securities	**493,502**	**2,567**	**2.11**	450,030	2,292	2.07
Taxable securities	**189,295**	**1,017**	**2.18**	105,017	858	3.31
Tax exempt securities (2)	**71,672**	**654**	**3.70**	223,800	1,185	2.15
Deposits with banks	**12,699**	**7**	**0.22**	11,634	8	0.28
Total interest earning assets	**2,117,160**	**20,738**	**3.97**	1,854,938	17,659	3.86
Non interest earning assets:						
Cash and due from banks	**45,694**			36,320		
Other assets	**101,774**			70,210		
Total assets	**$ 2,264,628**			$ 1,961,468		
Interest bearing liabilities:						
Savings, NOW and money market deposits	**$ 1,056,512**	**$ 773**	**0.30%**	$ 943,598	$ 837	0.36%
Certificates of deposit of $100,000 or more	**83,579**	**190**	**0.92**	84,318	175	0.84
Other time deposits	**56,862**	**112**	**0.80**	52,196	95	0.74
Federal funds purchased and repurchase agreements	**121,188**	**146**	**0.49**	63,593	129	0.82
Federal Home Loan Bank advances	**85,686**	**250**	**1.18**	83,624	245	1.19
Junior Subordinated Debentures	**16,002**	**341**	**8.64**	16,002	341	8.64
Total interest bearing liabilities	**1,419,829**	**1,812**	**0.52**	1,243,331	1,822	0.59
Non-interest bearing liabilities:						
Demand deposits	**650,635**			533,595		
Other liabilities	**14,380**			9,922		
Total liabilities	**2,084,844**			1,786,848		
Stockholders equity	**179,784**			174,620		
Total liabilities and stockholders equity	**$ 2,264,628**			$ 1,961,468		
Net interest income/interest rate spread (3)		**18,926**	**3.45%**		15,837	3.27%
Net interest earning assets/net interest margin (4)	**$ 697,331**		**3.63%**	$ 611,607		3.46%
Ratio of interest earning assets to interest bearing liabilities			**149.11%**			149.19%
Less: Tax equivalent adjustment		**(231)**			(301)	
Net interest income		**$ 18,695**			$ 15,536	

(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.

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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 that 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 March 31, 2015 Over 2014 Changes Due To		
(In thousands)	Volume	Rate	Net Change
Interest income on interest earning assets:			
Loans, net (1)	$ 5,267	$ (2,090)	$ 3,177
Mortgage-backed securities, CMOs and other asset-backed securities	229	46	275
Taxable securities	1,777	(1,618)	159
Tax exempt securities (2)	(3,625)	3,094	(531)
Deposits with banks	4	(5)	(1)
Total interest earning assets	3,652	(573)	3,079
Interest expense on interest bearing liabilities:			
Savings, NOW and money market deposits	446	(510)	(64)
Certificates of deposit of $100,000 or more	(10)	25	15
Other time deposits	9	8	17
Federal funds purchased and repurchase agreements	302	(285)	17
Federal Home Loan Bank Advances	23	(18)	5
Junior subordinated debentures			
Total interest bearing liabilities	770	(780)	(10)
Net interest income	$ 2,882	$ 207	$ 3,089

(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 March 31, 2015 and March 31, 2014

Net interest income was $18.7 million for the three months ended March 31, 2015 compared to $15.5 million for the same period in 2014, an increase of $3.2 million or 20.3%. Net interest margin increased to 3.63% for the quarter ended March 31, 2015, compared to 3.46% for the quarter ended March 31, 2014 as a result of a shift in asset mix from lower yielding securities to higher yielding loans. The higher margin also

reflects $0.8 million associated with greater than expected cash flows from the sale of certain acquired credit impaired loans. The total average interest earning assets increased $262.2 million or 14.1%, yielding 3.97% and the overall funding cost was 0.35%, including demand deposits. The yield on interest earning assets increased approximately 11 basis points from 3.86% to 3.97%. The cost of interest bearing liabilities decreased approximately 7 basis points during the first quarter of 2015 compared to 2014. The increase in average total deposits of $233.9 million funded higher yielding loans, which grew $285.5 million from the comparable 2014 quarter.

For the three months ended March 31, 2015, average net loans grew by $285.5 million or 26.8% to $1.35 billion as compared to $1.06 billion for the same period in 2014, 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 March 31, 2015, average total securities decreased by $24.4 million or 3.1% to $754.5 million as compared to $778.8 million for the three months ended March 31, 2014. There were no federal funds sold for the three months ended

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March 31, 2015 and 2014. The average interest earning cash increased by $1.1 million to $12.7 million for the three months ended March 31, 2015 as compared to $11.6 million for the same period in 2014.

Average total interest bearing liabilities were $1.4 billion for the three months ended March 31, 2015 compared to $1.2 billion for the same period in 2014. The Bank continues to reduce interest rates on deposit products through prudent management of deposit pricing. The reduction in savings, NOW and money market deposit rates and lower borrowing rates resulted in a decrease in the cost of interest bearing liabilities to 0.52% for the three months ended March 31, 2015 from 0.59% for the same period in 2014. 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 March 31, 2015, average total deposits increased by $233.9 million or 14.5% to $1.8 billion from $1.6 billion from the same period in 2014. Components of this increase include an increase in average balances in savings, NOW and money market accounts of $112.9 million or 12.0% to $1.1 billion for the three months ended March 31, 2015 compared to $943.6 million for the same period last year. Average balances in certificates of deposit of $100,000 or more and other time deposits decreased $0.7 million to $83.6 million for 2015 as compared to $84.3 million for the same period last year. Average balances in demand deposits increased $117.0 million or 21.9% to $650.6 million for 2015 as compared to $533.6 million for the same period last year. Average public fund deposits comprised 19.5% of total average deposits during the three months ended March 31, 2015 and 20.5% of total average deposits for the same period in 2014. Average federal funds purchased and repurchase agreements increased $57.6 million or 90.6% to $121.2 million for the three months ended March 31, 2015 compared to $63.6 million for the same period in the prior year. Average FHLB advances increased $2.1 million or 2.5% to $85.7 million for the three months ended March 31, 2015 compared to $83.6 million for the same period 2014.

Total interest income increased $3.1 million or 18.1% to $20.5 million, net of the tax equivalent adjustment on tax exempt securities interest income, for the three months ended March 31, 2015 from $17.4 million for the same period in 2014. Interest income on loans increased $3.2 million or 23.9% to $16.5 million for the three months ended March 31, 2015 from $13.3 million for the same period in 2014. The yield on average loans was 4.95% for 2015 as compared to 5.07% in 2014.

Interest income on investments in mortgage-backed, taxable and tax exempt securities decreased $0.1 million to $4.2 million for the three months ended March 31, 2015 compared to $4.3 million for the same period in 2014. Interest income on securities included net amortization of premium of $1.0 million and a tax equivalent adjustment of $0.2 million in the 2015 compared to net amortization of premium of $0.9 million and tax equivalent adjustment of $0.3 million for the same period in 2014. The tax adjusted average yield on total securities was 2.28% for 2015 as compared to 2.26% in 2014.

Interest expense was $1.8 million for the three months ended March 31, 2015 and 2014.

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 areas of Nassau and Suffolk Counties, 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 $0.8 million was recorded during the three months ended March 31, 2015 compared to a provision for loan loss of $0.7 million that was recorded during the same period in 2014. Net charge-offs were $0.2 million for the quarter ended March 31, 2015 compared to $0.6 million for the year ended December 31, 2014 and $0.3 million for the quarter ended March 31, 2014. The ratio of allowance for loan losses to nonaccrual loans was 780%, 1466% and 431%, at March 31, 2015, December 31, 2014, and March 31, 2014, respectively. The allowance for loan losses increased to $18.3 million at March 31, 2015 as compared to $17.6 million at December 31, 2014 and $16.4 million at March 31, 2014. As a percentage of total loans the allowance was 1.30% at March 31, 2015 compared to 1.32% at December 31, 2014 and 1.44% at March 31, 2014. 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 Nassau and Suffolk Counties.

Loans of approximately $28.5 million or 2.0% of total loans at March 31, 2015 were categorized as classified loans compared to $30.3 million or 2.3% at December 31, 2014 and $52.4 million or 4.6% at March 31, 2014. Classified loans include loans with credit

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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 March 31, 2015, classified loans included $1.3 million of acquired FNBNY loans.

At March 31, 2015, approximately $17.1 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 $17.1 million of CRE loans, $16.3 million were current and $0.8 million were past due. In addition, all but $2.1 million of the CRE loans have personal guarantees. At March 31, 2015, approximately $2.7 million of classified loans were residential real estate loans with $1.1 million current and $1.6 million past due. Commercial, financial, and agricultural loans represented $8.1 million of classified loans, with $0.5 million past due and $7.6 million current. 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.

CRE loans, including multi-family loans, represented $871.6 million or 62.2% of the total loan portfolio at March 31, 2015 compared to $814.4 million or 61.0% at December 31, 2014 and $666.1 million or 58.7% at March 31, 2014. 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 began to decline. 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 2015.

As of March 31, 2015 and December 31, 2014, the Company had impaired loans as defined by FASB ASC No. 310, Receivables of $7.1 million and $6.2 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 0.17% of total loans at March 31, 2015 and $1.2 million or 0.09% of total loans at December 31, 2014. Approximately $0.8 million of the nonaccrual loans at March 31, 2015 and $0.5 million at December 31, 2014, represent troubled debt restructured loans.

The Bank had no other real estate owned at March 31, 2015, December 31, 2014 and March 31, 2014.

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

(Dollars in thousands)	Three Months Ended March 31, 2015	Year Ended December 31, 2014
Allowance for loan losses balance at beginning of period	$ 17,637	$ 16,001
Charge-offs:		
Commercial real estate mortgage loans		461
Multi-family mortgage loans		
Residential real estate mortgage loans		257
Commercial, financial and agricultural loans	200	104
Real estate construction and land loans		
Installment/consumer loans	2	2
Total	202	824
Recoveries:		
Commercial real estate mortgage loans		
Multi-family mortgage loans		
Residential real estate mortgage loans	1	170
Commercial, financial and agricultural loans	20	87
Real estate construction and land loans		
Installment/consumer loans	4	3
Total	25	260
Net charge-offs	(177)	(564)
Provision for loan losses charged to operations	800	2,200
Balance at end of period	$ 18,260	$ 17,637

Allocation of Allowance for Loan Losses

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

	March 31, 2015		December 31, 2014	
(Dollars in thousands)	Amount	Percentage of Loans to Total Loans	Amount	Percentage of Loans to Total Loans
Commercial real estate mortgage loans	$ 6,990	44.6%	$ 6,994	44.5%
Multi-family loans	2,980	17.6	2,670	16.4
Residential real estate mortgage loans	2,137	11.2	2,208	11.7
Commercial, financial & agricultural loans	4,905	21.3	4,526	21.8
Real estate construction and land loans	1,106	4.5	1,104	4.8
Installment/consumer loans	142	0.8	135	0.8
Total	$ 18,260	100.0%	$ 17,637	100.0%

Non-Interest Income

Total non-interest income increased $2.0 million to $2.8 million for the three months ended March 31, 2015 compared to $0.8 million for the same period in 2014. The increase reflects $0.7 million in higher levels of other non-interest income associated with swap fee income, BOLI, and gain on sale of loans, $0.1 million increases in both title revenue and service charges and fees in addition to a $1.1 million decrease in net securities losses compared to the prior year.

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Non-Interest Expense

Total non-interest expense decreased $1.7 million or 11.3% to $13.3 million during the three months ended March 31, 2015 compared to $15.0 million over the same period in 2014. The decrease in non-interest expense is primarily attributed to $4.3 million in acquisition costs that were incurred in the 2014 period, partially offset by a $1.3 million increase in salaries and benefits to $7.5 million as of March 31, 2015 as compared to $6.2 million for the same period in 2014. Occupancy and equipment expense increased $0.6 million to $2.2 million as of March 31, 2015 as compared to $1.6 million for the same period last year. These increases reflect additional staffing and new facilities associated with the FNBNY acquisition and three new branches, as well as, continued investments in technology. Marketing, professional services and other operating expenses each increased $0.2 million as of March 31, 2015 as compared to the same period in 2014.

Income Taxes

The provision for income taxes increased $2.4 million to $2.6 million for the three months ended March 31, 2015 compared to $0.2 million for the three months ended March 31, 2014 primarily due to higher pretax income. The effective tax rate for the three months ended March 31, 2015 increased to 35.5% from 35.0% 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 increased $174.4 million or 8.3% to $2.29 billion over the March 31, 2014 level of $2.11 billion, and decreased $1.3 million compared to December 31, 2014. Total asset growth reflects strong organic growth in new and existing markets. Cash and due from banks decreased $8.1 million and interest earning deposits with banks increased $5.2 million compared to December 31, 2014. Total securities decreased $60.4 million or 7.5% to $741.7 million and net loans increased $64.2 million or 4.9% to $1.38 billion compared to December 31, 2014 levels. The ability to grow the loan portfolio, while minimizing interest rate risk sensitivity and maintaining credit quality, remains a strong focus of management. Total deposits increased $5.0 million to $1.839 billion at March 31, 2015 compared to $1.834 billion at December 31, 2014. Demand deposits decreased $62.1 million to $641.0 million as of March 31, 2015 compared to $703.1 million at December 31, 2014. Savings, NOW and money market deposits increased $69.9 million to $1.10 billion at March 31, 2015 from $989.3 million at December 31, 2014. Certificates of deposit of $100,000 or more increased $1.3 million to $84.4 million at March 31, 2015, from $83.1 million at December 31, 2014. Other time deposits decreased $3.5 million to $54.8 million at March 31, 2015, from $58.3 million at December 31, 2014.

Federal funds purchased were $105.0 million as of March 31, 2015 compared to $75.0 million at December 31, 2014. Federal Home Loan Bank advances were $106.7 million as of March 31, 2015 and $138.3 million for December 31, 2014. Repurchase agreements decreased $10.0 million to $26.2 million at March 31, 2015 compared to $36.2 million as of December 31, 2014. Junior subordinated debentures remained at $16.0 million as of March 31, 2015 compared to December 31, 2014. Other liabilities and accrued expenses decreased $0.4 million to $13.8 million as of March 31, 2015 from $14.2 million as of December 31, 2014. Stockholders equity was $180.2 million at March 31, 2015, an increase of $5.1 million or 2.9% from December 31, 2014, reflecting net income of $4.8 million and $0.3 million related to stock based compensation plans, a decrease in the unrealized loss on available for sale securities of $3.0 million, partially offset by $2.7 million paid in dividends. In April 2015, 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 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 $0.6 million as of March 31, 2015, 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 three months ended March 31, 2015, the Bank paid a $3.0 million 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 April 1, 2015, the Bank has $30.8 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.

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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 March 31, 2015, 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 March 31, 2015, the Bank had $105.0 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 March 31, 2015, the Bank had $29.0 million outstanding in FHLB overnight borrowings and an additional $76.5 million outstanding in FHLB term borrowings. The Bank had $25.0 million of securities sold under agreements to repurchase outstanding as of March 31, 2015 with brokers and $1.2 million outstanding with customers. As of December 31, 2014, the Bank had $35.0 million of securities sold under agreements to repurchase outstanding with brokers and $1.3 million outstanding with customers. In addition, the Bank has an approved broker relationship for the purpose of issuing brokered deposits. As of March 31, 2015 and December 31, 2014 the Bank had $11.0 million and $8.3 million, respectively, of 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 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 March 31, 2015, 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.

On January 1, 2015, the Basel III Capital Rules became effective and include transition provisions through January 1, 2019. These rules provide for the following minimum capital to risk-weighted assets ratios as of January 1, 2015: a) 4.5% based upon common equity tier 1 capital (CET1); b) 6.0% based upon tier 1 capital; and c) 8.0% based upon total regulatory capital. A minimum leverage ratio (tier 1 capital as a percentage of total average assets) of 4.0% is also required under the Basel III Capital Rules.

When fully phased in, the Basel III Capital Rules will additionally require institutions to retain a capital conservation buffer, composed of CET1, of 2.5% above these required minimum capital ratio levels. The implementation of the capital conservation buffer will begin on January 1, 2016 at 0.625% and increase by 0.625% each subsequent January 1, until it reaches 2.5% on January 1, 2019. When the capital conservation buffer is fully phased in on January 1, 2019, the Company and the Bank will effectively have the following minimum capital to risk-weighted assets ratios: a) 7.0% based upon CET1; b) 8.5% based upon tier 1 capital; and c) 10.5% based upon total regulatory capital.

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The Company and the Bank made the one-time, permanent election to continue to exclude the effects of accumulated other comprehensive income or loss items included in stockholders equity for the purposes of determining the regulatory capital ratios.

The following table presents actual capital levels and minimum required levels for the Company and the Bank at March 31, 2015 (under Basel III rules) and December 31, 2014.

			Basel III Transitional			
	Actual		Minimum Capital Adequacy Requirement		Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions	
As of March 31, 2015	**Amount**	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
(Dollars in thousands)						
Common Equity Tier 1 Capital to Risk Weighted Assets:						
Consolidated	**$ 176,275**	**10.6%**	**$ 74,644**	**4.5%**	**n/a**	**n/a**
Bank	**191,360**	**11.5%**	**74,632**	**4.5%**	**$ 107,802**	**6.5%**
Total Capital to Risk Weighted Assets:						
Consolidated	**210,711**	**12.7%**	**132,701**	**8.0%**	**n/a**	**n/a**
Bank	**209,796**	**12.7%**	**132,680**	**8.0%**	**165,850**	**10.0%**
Tier 1 Capital to Risk Weighted Assets:						
Consolidated	**192,275**	**11.6%**	**99,526**	**6.0%**	**n/a**	**n/a**
Bank	**191,360**	**11.5%**	**99,510**	**6.0%**	**132,680**	**8.0%**
Tier 1 Capital to Average Assets:						
Consolidated	**192,275**	**8.5%**	**90,373**	**4.0%**	**n/a**	**n/a**
Bank	**191,360**	**8.5%**	**90,369**	**4.0%**	**112,961**	**5.0%**

			Basel I			
	Actual		Minimum Capital Adequacy Requirement		Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions	
As of December 31, 2014	Amount	Ratio	Amount	Ratio	Amount	Ratio
(Dollars in thousands)						
Common Equity Tier 1 Capital to Risk Weighted Assets:						
Consolidated	n/a	n/a	n/a	n/a	n/a	n/a
Bank	n/a	n/a	n/a	n/a	n/a	n/a
Total Capital to Risk Weighted Assets:						
Consolidated	$ 207,340	13.0%	$ 127,445	8.0%	n/a	n/a
Bank	206,633	13.0%	127,427	8.0%	$ 159,284	10.0%
Tier 1 Capital to Risk Weighted Assets:						
Consolidated	189,527	11.9%	63,722	4.0%	n/a	n/a
Bank	188,820	11.9%	63,714	4.0%	95,571	6.0%
Tier 1 Capital to Average Assets:						
Consolidated	189,527	8.4%	90,614	4.0%	n/a	n/a
Bank	188,820	8.3%	90,617	4.0%	113,271	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.

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Recent Regulatory and Accounting Developments

Refer to Note 14. 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.

At March 31, 2015, $677.2 million or 91.3% 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 sheet. 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.

In addition to the above scenarios, the Company considers other, non-parallel rate shifts that would also exert pressure on earnings. The current low interest rate environment presents the possibility for a flattening of the yield curve. This could happen if the FOMC began to raise short-term interest rates without there being a corresponding rise in long-term rates. This would have the effect of raising short-term borrowings costs without allowing longer term assets to reprice higher.

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The following reflects the Company s net interest income sensitivity analysis at March 31, 2015:

Change in Interest Rates in Basis Points (Dollars in thousands)	Potential Change in Net Interest Income $ Change		% Change
200	$	(3,735)	(5.23)%
100	$	(1,772)	(2.48)%
Static			
(100)	$	(461)	(0.65)%

As noted in the table above, a 200 basis point increase in interest rates is projected to decrease net interest income over the next twelve months by 5.23 percent. Our balance sheet sensitivity to such a move in interest rates at March 31, 2015 decreased as compared to March 31, 2014 (which was a decrease of 7.10 percent in net interest income over a 12 month period). This decrease is due to several factors which reflect our strategy to lessen our exposure to rising rates. Over the intervening year, the effective duration (a measure of price sensitivity to interest rates) of the bond portfolio decreased from 4.16 to 3.21. Additionally, the bank has increased its use of swaps to extend liabilities.

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. 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 March 31, 2015. 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 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

From time to time the Company and its subsidiaries are subject to various legal actions arising in the normal course of business. In the opinion of management, the resolution of these legal actions is not expected to have a material adverse effect on the Company s consolidated financial condition or results of operations.

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, 2014.

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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 March 31, 2015, filed on May 11, 2015, formatted in XBRL: (i) Consolidated Balance Sheets as of March 31, 2015 and December 31, 2014, (ii) Consolidated Statements of Income for the Three Months Ended March 31, 2015 and 2014, (iii) Consolidated Statements of Comprehensive Income for the Three Months Ended March 31, 2015 and 2014, (iv) Consolidated Statement of Stockholders Equity for the Three Months Ended March 31, 2015 and 2014, (v) Consolidated Statements of Cash Flows for the Three Months Ended March 31, 2015 and 2014, 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

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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
May 11, 2015	/s/ Kevin M. O Connor Kevin M. O Connor President and Chief Executive Officer
May 11, 2015	/s/ Howard H. Nolan Howard H. Nolan Senior Executive Vice President, Chief Financial Officer