

BRIDGE BANCORP INC
Form 10-Q
August 07, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2015

Commission file number 001-34096

BRIDGE BANCORP, INC.

(Exact name of registrant as specified in its charter)

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NEW YORK

(State or other jurisdiction of incorporation or organization)

11-2934195

(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 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 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

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

There were 17,377,007 shares of common stock outstanding as of August 3, 2015.

BRIDGE BANCORP, INC.

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Table of Contents**Item 1. Financial Statements****BRIDGE BANCORP, INC. AND SUBSIDIARIES****Consolidated Balance Sheets (unaudited)**

(In thousands, except share and per share amounts)

	June 30, 2015	December 31, 2014
ASSETS		
Cash and due from banks	\$56,966	\$45,109
Interest earning deposits with banks	19,229	6,621
Total cash and cash equivalents	76,195	51,730
Securities available for sale, at fair value	619,472	587,184
Securities held to maturity (fair value of \$223,148 and \$216,289, respectively)	221,756	214,927
Total securities	841,228	802,111
Securities, restricted	15,079	10,037
Loans held for investments	2,265,276	1,338,327
Allowance for loan losses	(18,818)	(17,637)
Loans, net	2,246,458	1,320,690
Premises and equipment, net	40,025	32,424
Accrued interest receivable	8,582	6,425
Goodwill	94,924	9,450
Other intangible assets	9,635	842
Bank owned life insurance	52,568	30,644
Prepaid pension	5,924	4,927
Other assets	37,487	19,373
Total Assets	\$3,428,105	\$2,288,653
LIABILITIES AND STOCKHOLDERS' EQUITY		
Demand deposits	\$967,612	\$703,130
Savings, NOW and money market deposits	1,481,360	989,287
Certificates of deposit of \$100,000 or more	193,911	83,071
Other time deposits	140,697	58,291
Total deposits	2,783,580	1,833,779
Federal Funds Purchased	70,000	75,000
Federal Home Loan Bank advances	175,175	138,327
Repurchase agreements	26,573	36,263
Junior subordinated debentures	16,002	16,002

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Other liabilities and accrued expenses	22,868	14,164
Total Liabilities	3,094,198	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: 40,000,000 shares; 17,369,600 and 11,651,398 shares issued, respectively;		
17,369,600 and 11,650,405 shares outstanding, respectively	174	117
Surplus	276,980	118,846
Retained earnings	64,381	64,547
Less: Treasury Stock at cost, 0 and 993 shares, respectively	—	(25)
	341,535	183,485
Accumulated other comprehensive loss, net of income tax	(7,628)	(8,367)
Total Stockholders' Equity	333,907	175,118
Total Liabilities and Stockholders' Equity	\$3,428,105	\$2,288,653

See accompanying condensed notes to the Unaudited Consolidated Financial Statements.

Table of Contents**BRIDGE BANCORP, INC. AND SUBSIDIARIES****Consolidated Statements of Income (unaudited)**

(In thousands, except per share amounts)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Interest income:				
Loans (including fee income)	\$18,471	\$14,068	\$34,961	\$27,382
Mortgage-backed securities, CMOs and other asset-backed securities	2,468	2,949	5,035	5,240
U.S. GSE securities	381	698	786	1,505
State and municipal obligations	747	691	1,493	1,392
Corporate Bonds	184	211	369	365
Deposits with banks	11	7	18	15
Other interest and dividend income	118	106	225	189
Total interest income	22,380	18,730	42,887	36,088
Interest expense:				
Savings, NOW and money market deposits	832	801	1,605	1,638
Certificates of deposit of \$100,000 or more	217	209	407	384
Other time deposits	131	121	243	216
Federal funds purchased and repurchase agreements	92	140	238	269
Federal Home Loan Bank advances	339	302	589	547
Junior subordinated debentures	342	342	683	683
Total interest expense	1,953	1,915	3,765	3,737
Net interest income	20,427	16,815	39,122	32,351
Provision for loan losses	700	500	1,500	1,200
Net interest income after provision for loan losses	19,727	16,315	37,622	31,151
Non-interest income:				
Service charges on deposit accounts	863	878	1,716	1,677
Fees for other customer services	788	709	1,386	1,275
Net securities losses	—	(16)	(10)	(1,128)
Title fee income	492	461	955	783
Other operating income	384	260	1,284	487
Total non-interest income	2,527	2,292	5,331	3,094
Non-interest expense:				
Salaries and employee benefits	7,557	6,412	15,080	12,618
Occupancy and equipment	2,257	1,933	4,460	3,548
Technology and communications	823	766	1,613	1,483
Marketing and advertising	850	649	1,423	1,070

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Professional services	565	400	1,086	756
FDIC assessments	308	346	619	634
Acquisition costs and branch restructuring	8,204	300	8,379	4,734
Amortization of core deposit intangible	45	96	93	154
Other operating expenses	1,425	1,222	2,591	2,140
Total non-interest expense	22,034	12,124	35,344	27,137
Income before income taxes	220	6,483	7,609	7,108
Income tax expense (benefit)	(243)	2,165	2,383	2,384
Net income	\$463	\$4,318	\$5,226	\$4,724
Basic earnings per share	\$0.04	\$0.37	\$0.43	\$0.41
Diluted earnings per share	\$0.04	\$0.37	\$0.43	\$0.41

See accompanying condensed notes to the Unaudited Consolidated Financial Statements.

Table of Contents**BRIDGE BANCORP, INC. AND SUBSIDIARIES****Consolidated Statements of Comprehensive Income (unaudited)**

(In thousands)

	For the Three Months Ended June 30, 2015		For the Six Months Ended June 30, 2014	
	2015	2014	2015	2014
Net Income	\$463	\$4,318	\$5,226	\$4,724
Other comprehensive (loss) income:				
Change in unrealized net gains (losses) on securities available for sale, net of reclassification and deferred income taxes	(2,167)	4,179	801	7,590
Adjustment to pension liability, net of deferred income taxes	108	(3)	162	(7)
Unrealized gains (losses) on cash flow hedge, net of deferred income taxes	196	(256)	(224)	(347)
Total other comprehensive (loss) income	(1,863)	3,920	739	7,236
Comprehensive (loss) income	\$(1,400)	\$8,238	\$5,965	\$11,960

See accompanying condensed notes to the Unaudited Consolidated Financial Statements.

Table of Contents**BRIDGE BANCORP, INC. AND SUBSIDIARIES****Consolidated Statements of Stockholders' Equity (unaudited)**

(In thousands, except per share amounts)

	Common Stock	Surplus	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive (Loss)	Total
Balance at January 1, 2015	\$ 117	\$118,846	\$ 64,547	\$ (25)	\$ (8,367)	\$175,118
Net income			5,226			5,226
Shares issued under the dividend reinvestment plan ("DRP")		349				349
Shares issued in the acquisition of Community National Bank ("CNB"), net of offering costs (5,647,268 shares)	56	157,143				157,199
Stock awards granted and distributed	1	(212)		211		—
Stock awards forfeited		50		(50)		—
Vesting of stock awards				(212)		(212)
Exercise of stock options		4		76		80
Income tax effect of stock plans		48				48
Share based compensation expense		752				752
Cash dividend declared, \$0.46 per share			(5,392)			(5,392)
Other comprehensive income, net of deferred income taxes					739	739
Balance at June 30, 2015	\$ 174	\$276,980	\$ 64,381	\$ —	\$ (7,628)	\$333,907

	Common Stock	Surplus	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Loss	Total
Balance at January 1, 2014	\$ 113	\$111,377	\$ 61,441	\$ (235)	\$ (13,236)	\$159,460
Net income			4,724			4,724
Shares issued under the dividend reinvestment plan ("DRP")		310				310
Shares issued in the acquisition of FNB NY Bancorp, net of offering costs (240,598 shares)	2	5,946				5,948
Stock awards granted and distributed	1	(432)		431		—
Stock awards forfeited		58		(58)		—
Vesting of stock awards				(147)		(147)
Exercise of stock options		(2)		9		7
Income tax effect of stock plans		30				30
Share based compensation expense		593				593

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Cash dividend declared, \$0.46 per share					(5,287)		(5,287)
Other comprehensive loss, net of deferred income taxes						7,236	7,236
Balance at June 30, 2014	\$ 116	\$117,880	\$ 60,878	\$ —	\$ (6,000	)	\$172,874

See accompanying condensed notes to the Unaudited Consolidated Financial Statements.

Table of Contents**BRIDGE BANCORP, INC. AND SUBSIDIARIES****Consolidated Statements of Cash Flows (unaudited)**

(In thousands)

	Six Months Ended	
	June 30,	
	2015	2014
Cash flows from operating activities:		
Net Income	\$5,226	\$4,724
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	1,500	1,200
Depreciation and (accretion) amortization	(1,647)	294
Net amortization on securities	2,320	1,685
Increase in cash surrender value of bank owned life insurance	(478)	(141)
Amortization of core deposit intangible	93	154
Share based compensation expense	752	593
Net securities losses	10	1,128
Increase in accrued interest receivable	(2,157)	(777)
Increase in other assets	(7,123)	(5,811)
Increase in accrued expenses and other liabilities	2,830	4,820
Net cash provided by operating activities	1,326	7,869
Cash flows from investing activities:		
Purchases of securities available for sale	(90,479)	(208,973)
Purchases of securities, restricted	(190,472)	(266,592)
Purchases of securities held to maturity	(10,175)	(30,936)
Proceeds from sales of securities available for sale	73,788	234,749
Redemption of securities, restricted	190,102	265,536
Maturities, calls and principal payments of securities available for sale	61,736	36,510
Maturities, calls and principal payments of securities held to maturity	10,392	26,763
Net increase in loans	(190,049)	(100,777)
Proceeds from loan sale	1,861	—
Proceeds from sales of other real estate owned, net	—	2,242
Purchase of premises and equipment	(2,668)	(2,321)
Net cash acquired in business combination	24,628	2,926
Net cash used in investing activities	(121,336)	(40,873)
Cash flows from financing activities:		
Net increase in deposits	163,095	42,339
Net (decrease) increase in federal funds purchased	(5,000)	6,000
Net increase (decrease) increase in FHLB advances	1,500	9,000
Repayment of acquired unsecured debt	—	(1,450)
Net (decrease) increase in repurchase agreements	(9,690)	22
Net proceeds from issuance of common stock	349	310

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Net proceeds from exercise of stock options	80	7
Repurchase of surrendered stock from vesting of restricted stock awards	(212)	(147)
Excess tax benefit from share based compensation	48	30
Cash dividends paid	(5,392)	(5,287)
Other, net	(303)	(192)
Net cash provided by financing activities	144,475	50,632
Net increase in cash and cash equivalents	24,465	17,628
Cash and cash equivalents at beginning of period	51,730	45,573
Cash and cash equivalents at end of period	\$76,195	\$63,201
Supplemental Information-Cash Flows:		
Cash paid for:		
Interest	\$3,707	\$3,656
Income tax	\$4,335	\$883
Noncash investing and financing activities:		
Securities which settled in the subsequent period	\$—	\$5,372
Transfers from portfolio loans to OREO	\$—	\$577
Acquisition of noncash assets and liabilities:		
Fair value of assets acquired	\$875,482	\$209,022
Fair value of liabilities assumed	\$828,081	\$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 and six months ended June 30, 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 and six months ended June 30, 2015 and 2014 is as follows:

	Three Months		Six Months	
	Ended, June 30,		Ended, June 30,	
(In thousands, except per share data)	2015	2014	2015	2014
Net Income	\$463	\$4,318	\$5,226	\$4,724
Less: Dividends paid on and earnings allocated to participating securities	(16)	(103)	(131)	(101)
Income attributable to common stock	\$447	\$4,215	\$5,095	\$4,623
Weighted average common shares outstanding, including participating securities	12,488	11,660	12,106	11,587
Less: weighted average participating securities	(305)	(279)	(303)	(271)
Weighted average common shares outstanding	12,183	11,381	11,803	11,316
Basic earnings per common share	\$0.04	\$0.37	\$0.43	\$0.41
Income attributable to common stock	\$447	\$4,215	\$5,095	\$4,623
Weighted average common shares outstanding	12,183	11,381	11,803	11,316
Weighted average common equivalent shares outstanding	3	—	3	—
Weighted average common and equivalent shares outstanding	12,186	11,381	11,806	11,316
Diluted earnings per common share	\$0.04	\$0.37	\$0.43	\$0.41

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There were 34,739 and 42,330 options outstanding at June 30, 2015 and June 30, 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 June 30, 2015 and June 30, 2014 were not included in the computation of diluted earnings per share because the assumed conversion of the trust preferred securities was antidilutive.

3. STOCK BASED COMPENSATION PLANS

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

No new grants of stock options were awarded and no compensation expense was attributable to stock options for the six months ended June 30, 2015 and June 30, 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 six months ended June 30, 2015 and June 30, 2014, was \$3,000 and \$1,000, respectively. The intrinsic value of options outstanding and exercisable at June 30, 2015 and June 30, 2014 was \$50,000 and \$0, respectively.

A summary of the status of the Company's stock options as of and for the six months ended June 30, 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	(3,000)	26.55		
Forfeited	—	—		
Expired	(2,131)	\$ 30.60		

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Outstanding, June 30, 2015	34,739	\$ 25.25	1.413 years	\$ 50
Vested and Exercisable, June 30, 2015	34,739	\$ 25.25	1.413 years	\$ 50

	Number of Options	Exercise Price
Range of Exercise Prices	34,739	\$ 25.25
	34,739	

During the six months ended June 30, 2015 restricted stock awards of 64,987 shares were granted. Of the 64,987 shares granted, 30,625 shares vest over seven years with a third vesting after years five, six and seven, 24,812 shares vest over five years with a third vesting after years three, four and five and the remaining 9,550 shares vest ratably over five years. During the six months ended June 30, 2014, restricted stock awards of 74,823 shares were granted. Of the 74,823 shares granted, 53,425 shares vest over seven years with one third vesting after each of the years five, six and seven; 17,898 shares vest over five years with one third vesting after each of the years three, four and five; and the remaining 3,500 shares vest ratably over approximately two years. Compensation expense attributable to restricted stock awards was \$302,000 and \$604,000 for the three and six months ended June 30, 2015, respectively, and \$263,000 and \$514,000 for the three and six months ended June 30, 2014, respectively.

A summary of the status of the Company's unvested restricted stock as of and for the six months ended June 30, 2015 is as follows:

	Shares	Weighted Average Grant-Date Fair Value
Unvested, January 1, 2015	248,444	\$ 22.48
Granted	64,987	\$ 26.03
Vested	(32,044)	\$ 21.72
Forfeited	(2,019)	\$ 25.12
Unvested, June 30, 2015	279,368	\$ 23.23

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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 expenses of approximately \$22,000 and \$36,000 for the three and six months ended June 30, 2015, 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 \$78,000 and \$112,000 for the three and six months ended June 30, 2015, respectively, and \$39,000 and \$79,000 for the three and six months ended June 30, 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 June 30, 2015 and December 31, 2014 and the corresponding amounts of unrealized gains and losses therein:

(In thousands)	June 30, 2015			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Available for sale:				
U.S. GSE securities	\$68,015	\$ 42	\$ (821)	\$ 67,236
State and municipal obligations	72,454	206	(313)	72,347
U.S. GSE residential mortgage-backed securities	162,236	387	(619)	162,004
U.S. GSE residential collateralized mortgage obligations	235,102	1,069	(2,454)	233,717
U.S. GSE commercial mortgage-backed securities	12,607	20	(48)	12,579
U.S. GSE commercial collateralized mortgage obligations	31,066	6	(158)	30,914
Other Asset backed securities	24,247	—	(1,210)	23,037
Corporate Bonds	17,956	10	(328)	17,638
Total available for sale	623,683	1,740	(5,951)	619,472
Held to maturity:				
U.S. GSE securities	11,298	178	—	11,476
State and municipal obligations	62,255	1,760	(263)	63,752

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U.S. GSE residential mortgage-backed securities	8,413	—	(106)	8,307
U.S. GSE residential collateralized mortgage obligations	60,031	573	(758)	59,846
U.S. GSE commercial mortgage-backed securities	23,244	172	(329	)	23,087
U.S. GSE commercial collateralized mortgage obligations	33,536	314	(235	)	33,615
Corporate Bonds	22,979	94	(8	)	23,065
Total held to maturity	221,756	3,091	(1,699)	223,148
Total securities	\$845,439	\$ 4,831	\$ (7,650)	\$ 842,620

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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 June 30, 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)	June 30, 2015	
	Amortized Cost	Fair Value
Maturity		
Available for sale:		
Within one year	\$6,643	\$6,660
One to five years	72,672	72,428
Five to ten years	100,252	99,298
Beyond ten years	444,116	441,086
Total	\$623,683	\$619,472
Held to maturity:		
Within one year	\$18,314	\$18,347
One to five years	33,688	33,948
Five to ten years	62,646	63,953

Beyond ten years	107,108	106,900
Total	\$221,756	\$223,148

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Securities with unrealized losses at June 30, 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:

June 30, 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	\$ 32,667	\$ 331	\$ 29,748	\$ 490
State and municipal obligations	41,013	285	5,492	28
U.S. GSE residential mortgage-backed securities	73,581	565	1,520	54
U.S. GSE residential collateralized mortgage obligations	62,629	485	75,427	1,969
U.S. GSE commercial mortgage-backed securities	2,732	48	—	—
U.S. GSE commercial collateralized mortgage obligations	13,753	93	10,295	65
Other Asset backed securities	23,038	1,210	—	—
Corporate Bonds	9,697	303	4,975	25
Total available for sale	259,110	3,320	127,457	2,631
Held to maturity:				
U.S. GSE securities	—	—	—	—
State and municipal obligations	15,488	263	—	—
U.S. GSE residential mortgage-backed securities	8,307	106	—	—
U.S. GSE residential collateralized mortgage obligations	14,844	159	19,821	599
U.S. GSE commercial mortgage-backed securities	14,035	329	—	—
U.S. GSE commercial collateralized mortgage obligations	4,946	36	3,790	199
Corporate Bonds	6,994	6	1,997	2
Total held to maturity	\$ 64,614	\$ 899	\$ 25,608	\$ 800
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

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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

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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 June 30, 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 June 30, 2015.

There were no proceeds from sales of securities with no gross gains or gross losses realized for the three months ended June 30, 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 six months ended June 30, 2015. There were \$36.0 million of proceeds from sales of securities with gross gains of approximately \$0.4 million and gross losses of approximately \$0.4 million realized for the three months ended June 30, 2014. There were \$234.7 million of proceeds from sales of securities with gross gains of approximately \$0.7 million and gross losses of approximately \$1.8 million realized for the six months ended June 30, 2014. Proceeds from calls of securities were \$10.3 million and \$2.2 million for the three months ended June 30, 2015 and 2014, respectively. Proceeds from calls of securities were \$10.5 million and \$2.5 million for the six months ended June 30, 2015 and 2014, respectively.

Securities having a fair value of approximately \$520.2 million and \$451.1 million at June 30, 2015 and December 31, 2014, respectively, were pledged to secure public deposits and Federal Home Loan Bank and Federal Reserve Bank overnight borrowings. The Bank did not hold any trading securities during the six months ended June 30, 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 \$15.1 million and \$10.0 million in FHLB, ACBB and FRB stock at June 30, 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.

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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 June 30, 2015 Using: Significant		
	Quoted Prices In Active Markets for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
(In thousands)	Carrying Value		
Financial Assets:			
Available for sale securities:			
U.S. GSE securities	\$67,236	\$ 67,236	
State and municipal obligations	72,347	72,347	
U.S. GSE residential mortgage-backed securities	162,004	162,004	
U.S. GSE residential collateralized mortgage obligations	233,717	233,717	
U.S. GSE commercial mortgage-backed securities	12,579	12,579	
U.S. GSE commercial collateralized mortgage obligations	30,914	30,914	
Other Asset backed securities	23,037	23,037	
Corporate Bonds	17,638	17,638	
Total available for sale	\$619,472	\$ 619,472	
Financial Liabilities:			
Derivatives	\$(1,332)	\$ (1,332)	

	Fair Value Measurements at December 31, 2014 Using: Significant		
	Quoted Prices In Active Markets for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	Carrying		
		Inputs	Inputs

(In thousands)	Value	Identical Assets (Level 1) (Level 2)	(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 June 30, 2014 Using: Significant		
		Quoted Prices In Active Markets for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
(In thousands)	Carrying Value			
Impaired loans	\$ 354			\$ 354

		Fair Value Measurements at December 31, 2013 Using: Significant		
		Quoted Prices In Active Markets for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
(In thousands)	Carrying Value			
Impaired loans	\$ 558			\$ 558

Impaired loans with allocated allowance for loan losses at June 30, 2015, had a carrying amount of \$0.4 million, which is made up of the outstanding balance of \$0.6 million, net of a valuation allowance of \$0.2 million. No additional provision for loan losses was necessary for the six months ended June 30, 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

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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 June 30, 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 Bank's financial instruments at June 30, 2015 and December 31, 2014 are as follows:

	Carrying Amount	Fair Value Measurements at June 30, 2015 Using: Significant			Total
		Quoted Prices In Active Markets for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
(In thousands)					
Financial assets:					
Cash and due from banks	\$56,966	\$56,966	\$ —	\$ —	\$56,966
Interest bearing deposits with banks	19,229	—	19,229	—	19,229
Securities available for sale	619,472	—	619,472	—	619,472
Securities restricted	15,079	n/a	n/a	n/a	n/a
Securities held to maturity	221,756	—	223,148	—	223,148
Loans, net	2,246,458	—	—	2,237,911	2,237,911
Accrued interest receivable	8,582	—	2,662	5,920	8,582
Financial liabilities:					
Certificates of deposit	334,608		336,410	—	336,410
Demand and other deposits	2,448,972	2,448,972	—	—	2,448,972
Federal funds purchased	70,000	70,000	—	—	70,000
Federal Home Loan Bank term advances	175,175	61,993	115,103	—	177,096
Repurchase agreements	26,573	—	27,001	—	27,001
Junior Subordinated Debentures	16,002	—	—	16,250	16,250
Derivatives	1,332	—	1,332	—	1,332
Accrued interest payable	365	93	272	—	365

	Carrying Amount	Fair Value Measurements at December 31, 2014 Using: Significant			Total
		Quoted Prices In Active Markets for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
(In thousands)					
Financial assets:					

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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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The following table sets forth the major classifications of loans:

	June 30, 2015	December 31, 2014
(In thousands)		
Commercial real estate mortgage loans	\$ 1,006,333	\$ 595,397
Multi-family mortgage loans	298,370	218,985
Residential real estate mortgage loans	378,451	156,156
Commercial, financial, and agricultural loans	482,183	291,743
Real estate-construction and land loans	82,792	63,556
Installment/consumer loans	14,526	10,124
Total loans	2,262,655	1,335,961
Net deferred loan costs and fees	2,621	2,366
	2,265,276	1,338,327
Allowance for loan losses	(18,818)	(17,637)
Net loans	\$ 2,246,458	\$ 1,320,690

On June 19, 2015, the Company completed the acquisition of Community National Bank (“CNB”) resulting in the addition of \$736.3 million of acquired loans recorded at their fair value. There were approximately \$734.3 million of acquired CNB loans remaining as of June 30, 2015.

On February 14, 2014, the Company completed the acquisition of FNB NY Bancorp, Inc. and its wholly owned subsidiary First National Bank of New York (collectively “FNB NY”) resulting in the addition of \$89.7 million of acquired loans recorded at their fair value. There were approximately \$48.2 million of acquired FNB NY loans remaining as of June 30, 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

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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.

Commercial, Industrial and Agricultural Loans

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

Real Estate Construction and Land Loans

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

Installment and Consumer Loans

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

Credit Quality Indicators

The Company categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt including repayment patterns, probable incurred losses, past loss experience, current economic

conditions, and various types of concentrations of credit. Assigned risk rating grades are continuously updated as new information is obtained. Loans risk rated special mention, substandard and doubtful are reviewed on a quarterly basis. The Company uses the following definitions for risk rating grades:

Pass: Loans classified as pass include current loans performing in accordance with contractual terms, pools of homogenous residential real estate and installment/consumer loans that are not individually risk rated and loans which 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 June 30, 2015 and December 31, 2014:

June 30, 2015	Grades:				
	Pass	Special Mention	Substandard	Doubtful	Total
(In thousands)					
Commercial real estate:					
Owner occupied	\$445,106	\$ 4,526	\$ 3,900	\$ —	\$453,532
Non-owner occupied	548,380	1,313	3,108	—	552,801
Multi-Family	298,341	3	26	—	298,370
Residential real estate:					
Residential mortgage	307,368	—	858	—	308,226
Home equity	68,317	522	1,386	—	70,225
Commercial:					
Secured	118,107	176	2,196	—	120,479
Unsecured	354,686	3,817	3,201	—	361,704
Real estate construction and land loans	82,792	—	—	—	82,792
Installment/consumer loans	14,425	—	101	—	14,526
Total loans	\$2,237,522	\$ 10,357	\$ 14,776	\$ —	\$2,262,655

December 31, 2014	Grades:				
	Pass	Special Mention	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

Table of Contents**Past Due and Nonaccrual Loans**

The following table represents the aging of the recorded investment in past due loans as of June 30, 2015 and December 31, 2014 by class of loans, as defined by ASC 310-10:

June 30, 2015	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
(In thousands)							
Commercial real estate:							
Owner occupied	\$—	\$ 397	\$ 890	\$ 564	\$ 1,851	\$451,681	453,532
Non-owner occupied	174	—	—	—	174	552,627	552,801
Multi-Family	677	—	—	—	677	297,693	298,370
Residential real estate:							
Residential mortgages	433	—	—	66	499	307,727	308,226
Home equity	466	—	151	1,296	1,913	68,312	70,225
Commercial and Industrial:							
Secured	50	—	201	—	251	120,228	120,479
Unsecured	362	—	—	45	407	361,297	361,704
Real estate construction and land loans	—	—	—	—	—	82,792	82,792
Installment/consumer loans	4	—	—	2	6	14,520	14,526
Total loans	\$2,166	\$ 397	\$ 1,242	\$ 1,973	\$ 5,778	\$2,256,877	\$2,262,655
December 31, 2014	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
(In thousands)							
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 mortgages	—	—	—	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
	—	—	—	—	—	63,556	63,556

Real estate construction and land
loans

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 June 30, 2015 there were \$1.1 million of CNB acquired loans 30-59 days past due and \$0.4 million 60-89 days past due and no FNBNY past due loans at June 30, 2015 and December 31, 2014, respectively. All loans 90 days or more past due that are still accruing interest represent purchased credit impaired loans acquired from CNB, 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.

Impaired Loans

As of June 30, 2015 and December 31, 2014, the Company had impaired loans as defined by FASB ASC No. 310, “Receivables” of \$3.7 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

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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 June 30, 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 six months and three months ended June 30, 2015 and 2014:

	June 30, 2015			Three Months Ended June 30, 2015		Six Months Ended June 30, 2015	
	Recorded Investment	Unpaid Principal Balance	Related Allocated Allowance	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
(In thousands)							
With no related allowance recorded:							
Commercial real estate:							
Owner occupied	\$713	\$ 1,194	\$ —	\$ 721	\$ 2	\$ 729	\$ 5
Non-owner occupied	940	940	—	942	16	945	31
Residential real estate:							
Residential mortgages	66	74	—	67	—	68	—
Home equity	1,145	1,375	—	1,163	—	870	—
Commercial:							
Secured	112	112	—	113	2	80	2
Unsecured	98	98	—	101	4	107	4
Total with no related allowance recorded	3,074	3,793	—	3,107	24	2,799	42
With an allowance recorded:							
Commercial real estate - Non-owner occupied	320	320	88	321	4	321	7
Residential real estate - Home equity	150	150	150	150	—	100	—
Commercial-Unsecured	126	126	4	129	2	134	5
Total with an allowance recorded:	596	596	242	600	6	555	12
Total:							
Commercial real estate:							
Owner occupied	713	1,194	—	721	2	729	5
Non-owner occupied	1,260	1,260	88	1,263	20	1,266	38
Residential real estate:							
Residential mortgages	66	74	—	67	—	68	—
Home equity	1,295	1,525	150	1,313	—	970	—

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Commercial:

Secured	112	112	—	113	2	80	2
Unsecured	224	224	4	230	6	241	9
Total	\$3,670	\$ 4,389	\$ 242	\$ 3,707	\$ 30	\$ 3,354	\$ 54

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	December 31, 2014			Three Months Ended June 30, 2014		Six Months Ended June 30, 2014	
	Recorded Investment	Unpaid Principal Balance	Related Allocated Allowance	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
(In thousands)							
With no related allowance recorded:							
Commercial real estate:							
Owner occupied	\$3,562	\$ 3,707	\$ —	\$ 3,957	\$ 28	\$ 4,061	\$ 56
Non-owner occupied	1,251	1,568	—	965	16	967	32
Residential real estate:							
Residential mortgages	143	231	—	834	—	981	—
Home equity	169	377	—	576	—	584	—
Commercial:							
Secured	345	345	—	358	6	359	13
Unsecured	—	—	—	162	3	167	6
Total with no related allowance recorded	5,470	6,228	—	6,852	53	7,119	107
With an allowance recorded:							
Commercial real estate - Non-owner occupied	323	323	23	—	—	—	—
Residential real estate - Residential mortgage	—	—	—	152	—	152	—
Residential real estate - Home equity	72	89	72	202	—	203	—
Commercial-Unsecured	337	339	79	—	—	—	—
Total with an allowance recorded:	732	751	174	354	—	355	—
Total:							
Commercial real estate:							
Owner occupied	3,562	3,707	—	3,957	28	4,061	56
Non-owner occupied	1,574	1,891	23	965	16	967	32
Residential real estate:							
Residential mortgages	143	231	—	986	—	1,133	—
Home equity	241	466	72	778	—	787	—
Commercial:							
Secured	345	345	—	358	6	359	13
Unsecured	337	339	79	162	3	167	6
Total	\$6,202	\$ 6,979	\$ 174	\$ 7,206	\$ 53	\$ 7,474	\$ 107

The Bank had no other real estate owned at June 30, 2015 and December 31, 2014, respectively.

Troubled Debt Restructurings

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

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

During the six months ended June 30, 2015, the Bank modified two commercial loans as TDRs with pre and post modification balances totaling \$0.1 million. During the six months ended June 30, 2014 there were no loans modified as TDRs. There were no loans modified as TDRs during the three months ended June 30, 2015 or June 30, 2014.

There were no charge offs relating to TDRs during the six months ended June 30, 2015 or June 30, 2014. There were no loans modified as TDRs for which there was a payment default within twelve months following the modification for the six months ended June 30, 2015 and June 30, 2014, respectively. A loan is considered to be in payment default once it is 30 days contractually past due under the modified terms.

As of June 30, 2015 and December 31, 2014, the Company had \$0.4 million and \$0.5 million, respectively of nonaccrual TDR loans and \$1.7 million and \$5.0 million, respectively of performing TDRs. At June 30, 2015 and December 31, 2014, total nonaccrual TDR loans are secured with collateral that has an appraised value of \$1.9 million and \$2.3 million, respectively. Furthermore, the Bank has no commitment to lend additional funds to these debtors.

The terms of certain other loans were modified during the quarter ended June 30, 2015 that did not meet the definition of a TDR. These loans have a total recorded investment as of June 30, 2015 of \$7.7 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

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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 FNB NY 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 June 30, 2015, the contractually required principal and interest payments receivable of the purchased credit impaired loans was \$17.8 million with a remaining non-accretable difference of \$2.0 million.

At the acquisition date, the purchased credit impaired loans acquired as part of the CNB acquisition had contractually required principal and interest payments receivable of \$8.2 million; expected cash flows of \$3.0 million; and a fair value (initial carrying amount) of \$2.7 million. The difference between the contractually required principal and interest payments receivable and the expected cash flows (\$5.2 million) represented the non-accretable difference. The difference between the expected cash flows and fair value (\$0.3) million represented the initial accretable yield. At June 30, 2015, the contractually required principal and interest payments receivable of the purchased credit impaired loans was \$8.2 million with a remaining non-accretable difference of \$5.2 million. Considering the closing date of the transaction, the amounts presented are preliminary and subject to adjustment as fair value assessments are finalized. Refer to Note 14. "Business Combinations," for details related to the CNB acquisition.

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

(In thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Balance at beginning of period	\$7,560	\$6,866	\$8,432	\$—
Accretable discount arising from acquisition of PCI loans	259	—	259	6,866
Accretion	(1,406)	(200)	(2,658)	(488)
Reclassification from (to) nonaccretable difference during the period	1,117	948	1,497	1,307
Other	—	—	—	(71)
Accretable discount at end of period	\$7,530	\$7,614	\$7,530	\$7,614

7. ALLOWANCE FOR LOAN LOSSES

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

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

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

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

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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 and management's judgment and experience play a key role in recording the allowance estimates. Additions to the allowance for loan losses are made by provisions charged to earnings. Furthermore, an improvement in the expected cash flows related to purchased credit impaired loans would result in a reduction of the required specific allowance with a corresponding credit to the provision.

The Credit Risk Management Committee is comprised of Bank management. The adequacy of the allowance is analyzed quarterly, with any adjustment to a level deemed appropriate by the Credit Risk Management Committee, based on its risk assessment of the entire portfolio. Each quarter, members of the Credit Risk Management Committee meet with the Credit Risk Committee of the Board to review credit risk trends and the adequacy of the allowance for loan losses. Based on the Credit Risk Management Committee's review of the classified loans and the overall allowance levels as they relate to the loan portfolio at June 30, 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 June 30, 2015 and December 31, 2014. Additionally, the following tables represent the changes in the allowance for loan losses for the three and six month periods ended June 30, 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.

	For the Three Months Ended June 30, 2015						
(In thousands)	Commercial Real Estate	Multi-Family	Residential Real Estate Mortgage	Commercial and Financial	Real Estate Construction and Land	Installment/ Consumer Loans	Total

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	Mortgage Loans		Loans	Agricultural Loans			
Allowance for Loan Losses:							
Beginning balance	\$6,990	\$2,980	\$ 2,137	\$ 4,905	\$ 1,106	\$ 142	\$18,260
Charge-offs	—	—	—	(330)	—	—	(330)
Recoveries	—	—	77	110	—	1	188
Provision	176	35	(225)	588	130	(4)	700
Ending Balance	\$7,166	\$3,015	\$ 1,989	\$ 5,273	\$ 1,236	\$ 139	\$18,818

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	For the Six Months Ended June 30, 2015						
	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
(In thousands)							
Allowance for Loan Losses:							
Beginning balance	\$6,994	\$2,670	\$2,208	\$4,526	\$1,104	\$135	\$17,637
Charge-offs	—	—	—	(530)	—	(2)	(532)
Recoveries	—	—	78	130	—	5	213
Provision	172	345	(297)	1,147	132	1	1,500
Ending Balance	\$7,166	\$3,015	\$1,989	\$5,273	\$1,236	\$139	\$18,818
Ending balance: individually evaluated for impairment	\$88	\$—	\$150	\$4	\$—	\$—	\$242
Ending balance: collectively evaluated for impairment	\$7,144	\$3,015	\$1,773	\$5,269	\$1,236	\$139	\$18,576
Ending balance: loan acquired with deteriorated credit quality	\$—	\$—	\$—	\$—	\$—	\$—	\$—
Loans	\$1,006,333	\$298,370	\$378,451	\$482,183	\$82,792	\$14,526	\$2,262,655
Ending balance: individually evaluated for impairment	\$1,973	\$—	\$1,361	\$336	\$—	\$—	\$3,670
Ending balance: collectively evaluated for impairment	\$999,943	\$298,370	\$375,863	\$475,650	\$82,792	\$14,526	\$2,247,144
Ending balance: loans acquired with deteriorated credit quality ⁽¹⁾	\$4,417	\$—	\$1,227	\$6,197	\$—	\$—	\$11,841

⁽¹⁾ Includes loans acquired on June 19, 2015 from CNB, on February 14, 2014 from FNBNY and on May 27, 2011 from HSB.

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	Year Ended December 31, 2014						
	Commercial Real Estate Mortgage Loans	Multi- Family	Residential Real Estate Mortgage Loans	Commercial, Real Estate Financial and Agricultural Loans	Real Estate Construction and Land Loans	Installment/ Consumer Loans	Total
(In thousands)							
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 FNB NY and on May 27, 2011 from HSB.

For the Three Months Ended June 30, 2014

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

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	Commercial Real Estate Mortgage Loans	Multi-Family Loans	Residential Real Estate Mortgage Loans	Commercial, Financial and Agricultural Loans	Real Estate Construction and Land Loans	Installment/ Consumer Loans	Total
(In thousands)							
Allowance for Loan Losses:							
Beginning balance	\$6,279	\$ 1,597	\$ 2,712	\$ 4,006	\$ 1,206	\$ 201	\$16,001
Charge-offs	(410)	—	(50)	(98)	—	(1)	(559)
Recoveries	—	—	20	17	—	1	38
Provision	806	500	(157)	265	(171)	(43)	1,200
Ending Balance	\$6,675	\$ 2,097	\$ 2,525	\$ 4,190	\$ 1,035	\$ 158	\$16,680

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 \$1.0 million of contributions made to the pension plan during the six months ended June 30, 2015. There were no contributions to the SERP during the six months ended June 30, 2015. In accordance with the SERP, a retired executive received a distribution from the Plan totaling \$56,000 during the six months ended June 30, 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 and other amounts recognized in Other Comprehensive Income:

(In thousands)	Three Months Ended June 30,				Six Months Ended June 30,			
	Pension Benefits		SERP Benefits		Pension Benefits		SERP Benefits	
	2015	2014	2015	2014	2015	2014	2015	2014
Service cost	\$ 283	\$ 227	\$ 42	\$ 33	\$ 562	\$ 451	\$ 83	\$ 66
Interest cost	176	160	23	22	351	318	45	44
Expected return on plan assets	(458)	(406)	—	—	(912)	(808)	—	—
Amortization of net loss	94	7	8	—	187	14	16	—
Amortization of unrecognized prior service cost	(19)	(19)	—	—	(38)	(39)	—	—
Amortization of unrecognized transition obligation	—	—	7	7	—	—	14	14
Net periodic benefit cost (credit)	\$ 76	\$ (31)	\$ 80	\$ 62	\$ 150	\$ (64)	\$ 158	\$ 124

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At June 30, 2015, June 30, 2014 and December 31, 2014, securities sold under agreements to repurchase totaled \$26.6 million, \$11.4 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 \$29.1 million, \$15.4 million and \$40.3 million, respectively.

Securities sold under agreements to repurchase are financing arrangements with \$1.6 million maturing during the third 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:

(Dollars in thousands)	For the six months ended		For the year ended	
	June 30, 2015	June 30, 2014	December 31, 2014	
Average daily balance	\$ 29,213	\$ 11,594	\$ 14,185	
Average interest rate	0.74 %	3.22 %	2.71 %	%
Maximum month-end balance	\$ 36,230	\$ 12,045	\$ 36,879	
Weighted average interest rate	0.74 %	3.17 %	2.67 %	%

The primary risk associated with these secured borrowings is the requirement to pledge a market value based balance of collateral in excess of the borrowed amount. The excess collateral pledged represents an unsecured exposure to the lending counterparty. As the market value of the collateral changes, both through changes in discount rates and spreads as well as related cash flows, additional collateral may need to be pledged. In accordance with our policies, eligible counterparties are defined and monitored to minimize our exposure.

10. FEDERAL HOME LOAN BANK ADVANCES

The following table sets forth the contractual maturities and weighted average interest rates of FHLB advances for each of the next five years and the period thereafter at June 30, 2015 and December 31, 2014:

Contractual Maturity	June 30, 2015	
	Amount	Weighted Average Rate
(Dollars in thousands)		

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Overnight	\$62,000	0.34	%
2015	50,000	0.39	%
2016	14,659	0.61	%
2017	19,168	0.74	%
2018	25,955	1.03	%
2019	3,393	1.10	%
	113,175	0.64	%
	\$ 175,175	0.55	%

December 31, 2014

Contractual Maturity	Amount	Weighted	
(Dollars in thousands)		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 \$440.4 million and \$385.2 million of residential and commercial mortgage loans under a blanket lien arrangement at June 30, 2015 and December 31, 2014, respectively. The Company is eligible to borrow up to a total of \$1.0 billion at June 30, 2015.

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11. JUNIOR SUBORDINATED DEBENTURES

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

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

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

12. DERIVATIVES

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 June 30, 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 June 30, 2015 and 2014 and December 31, 2014:

(Dollars in thousands)	Six Months Ended		Year Ended	
	June 30, 2015	June 30, 2014	December 31, 2014	
Notional amounts	\$75,000	\$ 75,000	\$ 75,000	
Weighted average pay rates	1.66 %	1.39 %	1.39 %	
Weighted average receive rates	0.28 %	0.23 %	0.24 %	
Weighted average maturity	3.36 years	4.36 years	3.86 years	
Unrealized losses	\$(1,332)	\$(740)	\$(943)	

Interest expense recorded on these swap transactions totaled \$176,000 and \$310,000 for the three and six months ended June 30, 2015, respectively and \$118,000 and \$233,000 for the six months ended June 30, 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 six months ended June 30, 2015 and June 30, 2014:

(In thousands)	2015	Amount of gain (loss) recognized in OCI (Effective Portion)	Amount of gain (loss) reclassified from OCI to interest income	Amount of gain (loss) recognized in other Non-interest income (Ineffective Portion)
	Amount of gain (loss) recognized in OCI (Effective Portion)			
Interest rate contracts	\$ (811)	\$	—	\$

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

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

(In thousands)	June 30, 2015		December 31, 2014	
	Notional Amount	Fair Value	Notional Amount	Fair Value
Included in other assets (liabilities):				
Interest rate swaps related to FHLB Advances	\$50,000	\$(917)	\$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	(415)	25,000	(250)

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 June 30, 2015 and December 31, 2014, the combined notional amounts of interest-rate swap agreements total \$37.0 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:

(Dollars in thousands)	Three Months Ended		Year Ended
	June 30, 2015	June 30, 2014	December 31, 2014

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Notional amounts	\$ 37,029	\$	—	\$ 11,175	
Weighted average pay rates	3.24	%	—	3.28	%
Weighted average receive rates	3.24	%	—	3.28	%
Weighted average maturity	16.81 years		—	9.64 years	
Fair value of combined interest rate swaps	\$ —	\$	—	\$ —	

Table of Contents**13. OTHER COMPREHENSIVE INCOME (LOSS)**

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

(In thousands)	Three Months Ended		Six Months Ended	
	June 30, 2015	June 30, 2014	June 30, 2015	June 30, 2014
Unrealized holding (losses) gains on available for sale securities	\$ (3,653)	\$ 6,913	\$ 1,262	\$ 11,456
Reclassification adjustment for losses realized in income	—	16	10	1,128
Income tax effect	1,486	(2,750)	(471)	(4,994)
Net change in unrealized (losses) gains on available for sale securities	(2,167)	4,179	801	7,590
Reclassification adjustment for amortization realized in income	90	(5)	179	(12)
Income tax effect	18	2	(17)	5
Net change in post-retirement obligation	108	(3)	162	(7)
Change in fair value of derivatives used for cash flow hedges	292	(426)	(389)	(576)
Reclassification adjustment for gains realized in income	—	—	—	—
Income tax effect	(96)	170	165	229
Net change in unrealized losses on cash flow hedge	196	(256)	(224)	(347)
Total	\$ (1,863)	\$ 3,920	\$ 739	\$ 7,236

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 June 30, 2015
Unrealized (losses) gains on available for sale securities	\$ (3,307)	\$ 801	\$ (2,506)
Unrealized (losses) gains on pension benefits	(4,491)	162	(4,329)
Unrealized gains/(losses) on cash flow hedges	(569)	(224)	(793)
Total	\$ (8,367)	\$ 739	\$ (7,628)

The following represents the reclassifications out of accumulated other comprehensive income for the three and six months ended June 30, 2015 and 2014:

(In thousands)	Three Months Ended		Six Months Ended		Affected Line Item in the Consolidated Statements of Income
	June 30, 2015	June 30, 2014	June 30, 2015	June 30, 2014	
Unrealized gains (losses) on available for sale securities:					
Realized losses on sale of available for sale securities	\$ —	\$ (16)	\$ (10)	\$ (1,128)	Net securities losses
Income tax effect	—	6	4	448	Income tax expense
Net of income tax	\$ —	\$ (10)	\$ (6)	\$ (680)	
Amortization of defined benefit pension plan and the defined benefit plan component of the SERP:					
Prior service credit (cost)	\$ 19	\$ 19	\$ 38	\$ 39	Salaries and employee benefits
Transition obligation	(7)	(7)	(14)	(14)	Salaries and employee benefits
Actuarial losses	(102)	(7)	(203)	(14)	Salaries and employee benefits
Income tax effect	\$ (90)	\$ 5	\$ (179)	\$ 11	
Net of income tax	(18)	(2)	17	(4)	Income tax expense
Net of income tax	\$ (108)	\$ 3	\$ (162)	\$ 7	
Total reclassifications, net of income taxes	\$ (108)	\$ (7)	\$ (168)	\$ (673)	

Table of Contents**14. BUSINESS COMBINATIONS**

On December 14, 2014, the Company, the Bank and Community National Bank entered into an Agreement and Plan of Merger (the “merger agreement”) pursuant to which Bridge Bancorp. would acquire, in an all stock merger, CNB through the merger of CNB with and into The Bridgehampton National Bank (the “merger”). The CNB transaction closed on June 19, 2015 resulting in the addition of total acquired assets on a fair value basis of \$900.1 million, with loans of \$736.3 million, investment securities of \$90.1 million and deposits of \$786.9 million. The transaction expanded the Company’s geographic footprint across Long Island including Nassau County, Queens and into New York City. It complements the Bank’s existing branch network and enhances our asset generation capabilities. The expanded branch network allows the Bank to serve a greater portion of the Long Island and metropolitan marketplace through a network of 40 branches.

Under the terms of the merger agreement, the Company acquired CNB at a purchase price of \$157.5 million and issued an aggregate of 5.647 million Bridge Bancorp common shares in exchange for all the issued and outstanding common stock of CNB and recorded goodwill of \$85.5 million which is not deductible for tax purposes. In connection with the transaction, the Company also recorded an intangible asset of \$2.2 million which represents a Non-Competition Agreement between the Company and a former executive of CNB.

The acquisition was accounted for under the acquisition method of accounting in accordance with FASB ASC 805, “Business Combinations.” Accordingly, the assets acquired and liabilities assumed were recorded at their respective acquisition date fair values, and identifiable intangible assets were recorded at fair value. The operating results of the Company for the six month period ended June 30, 2015 includes the operating results of CNB since the acquisition date of June 19, 2015.

The following summarizes the preliminary fair value of the assets acquired and liabilities assumed:

(In thousands)	June 19, 2015
Cash and due from banks	\$24,628
Securities	90,109
Loans	736,348
Bank Owned Life Insurance	21,445
Premises and equipment	6,398
Other intangible assets	6,698
Other assets	14,484
Total Assets Acquired	\$900,110
 Deposits	 \$786,853

Federal Home Loan Bank term advances	35,581
Other liabilities and accrued expenses	5,647
Total Liabilities Assumed	\$828,081

Net Assets Acquired	72,029
Consideration Paid	157,503
Goodwill Recorded on Acquisition	\$85,474

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

The following table presents selected unaudited pro forma financial information reflecting the Merger assuming it was completed as of January 1, 2015 and January 1, 2014. The unaudited pro forma financial information is presented for illustrative purposes only and is not necessarily indicative of the financial results of the combined companies had the Merger actually been completed at the beginning of the periods presented, nor does it indicate future results for any other interim or full fiscal year period.

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The unaudited pro forma information, for the six months ended June 30, 2015 and 2014, set forth below reflects the adjustments related to estimated amortization and accretion of purchase accounting fair value adjustments related to interest income on loans and investments, interest expense on time deposits and borrowings, unfavorable leases, SBA loan servicing rights, and core deposit and other intangibles. In the table below, merger-related expenses of \$8.4 million were excluded from pro forma non-interest expenses for the six months ended June 30, 2015. Additionally, the unaudited pro forma information does not reflect management's estimate of any revenue enhancement opportunities or anticipated cost savings:

(In thousands, except per share amounts)	Pro Forma for the Six Months Ended June 30,	
	2015	2014
Net interest income	\$54,946	\$48,590
Net income	\$13,447	\$6,839
Basic earnings per share	\$0.77	\$0.40
Diluted earnings per share	\$0.77	\$0.40

15. RECENT ACCOUNTING PRONOUNCEMENTS

In April 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2015-05, "Intangibles – Goodwill and Other – Internal-Use Software (Subtopic 350-40): Customer's Accounting for Fees Paid in a Cloud Computing Arrangement." The amendments in this Update will help entities evaluate the accounting for fees paid by a customer in a cloud computing arrangement by providing guidance as to whether an arrangement includes the sale or license of software. If a cloud computing arrangement includes a software license, then the customer should account for the software license element of the arrangement consistent with the acquisition of other software licenses. If a cloud computing arrangement does not include a software license, the customer should account for the arrangement as a service contract. The guidance will not change GAAP for a customer's accounting for service contracts. ASU 2015-05 is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2015. The adoption of ASU 2015-05 is not expected to have a material effect on the Company's consolidated financial statements.

In April 2015, the FASB issued 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.

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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,” “outlook,” “predict,” “estimated,” “assumes,” “likely,” and variation of such similar expressions are intended to identify such forward-looking statements. Examples of forward-looking statements include, but are not limited to, possible or assumed estimates with respect to the financial condition, expected or anticipated revenue, and results of operations and business of the Company, including earnings growth; revenue growth in retail banking lending and other areas; origination volume in the consumer, commercial and other lending businesses; current and future capital management programs; non-interest income levels, including fees from the title abstract subsidiary and banking services as well as product sales; tangible capital generation; market share; expense levels; and other business operations and strategies. For this presentation, the Company claims the protection of the safe harbor for forward-looking statements contained in the PSLRA.

Factors that could cause future results to vary from current management expectations include, but are not limited to, changing economic conditions; legislative and regulatory changes, including increases in FDIC insurance rates; monetary and fiscal policies of the federal government; changes in tax policies; rates and regulations of federal, state and local tax authorities; changes in interest rates; deposit flows; the cost of funds; demands for loan products; demand for financial services; competition; 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 forty branches, including thirty-eight in the primary market areas of Suffolk and Nassau Counties, Long Island, with one branch in Bayside, Queens and one in Manhattan. 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) multi-family 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,

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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 entered into an Agreement and Plan of Merger (the "merger agreement") pursuant to which the Company would acquire, in an all stock merger, CNB through the merger of CNB with and into the Bank. The CNB transaction closed on June 19, 2015 resulting in the addition of total acquired assets on a fair value basis of \$900.1 million, with loans of \$736.3 million, investment securities of \$90.1 million and deposits of \$786.9 million. The transaction expanded the Company's geographic footprint across Long Island including Nassau County, Queens and into New York City. It complements the Bank's existing branch network and enhances asset generation capabilities. The expanded branch network allows the Bank to serve a greater portion of the Long Island and metropolitan marketplace through a network of 40 branches.

Under the terms of the merger agreement, the Company acquired CNB at a purchase price of \$157.5 million and issued an aggregate of 5.647 million Bridge Bancorp common shares in exchange for all the issued and outstanding common stock of CNB and recorded goodwill of \$85.5 million which is not deductible for tax purposes.

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 allowed the Company to serve a greater portion of the Long Island and metropolitan marketplace.

Quarterly Highlights

Net income of \$0.5 million and \$.04 per diluted share, including \$5.3 million in costs, net of income taxes, associated with the CNB acquisition and a reduction in income tax expense of \$0.4 million associated with changes in New York City tax law enacted in the second quarter of 2015, as compared to net income of \$4.3 million and \$0.37 per diluted share for the second quarter of 2014.

· Net interest income increased to \$20.4 million for the second quarter of 2015 compared to \$16.8 million in 2014.

· Net interest margin was 3.57% for the second quarter of 2015 compared to 3.36% for the second quarter of 2014.

Total assets of \$3.43 billion at June 30, 2015 increased \$1.14 billion or 50% compared to December 31, 2014 and increased \$1.24 billion or 57% compared to June 30, 2014. Contributing to the change was the impact of the CNB acquisition, which added total assets on a fair value basis of \$900.1 million. Total asset growth, excluding the impact of the acquired assets of CNB, was \$333.3 million or 15% over June 30, 2014.

Loans held for investment at June 30, 2015 of \$2.27 billion increased \$926.9 million or 69% over December 31, 2014 and increased \$1.06 billion or 89% over June 30, 2014. These increases include \$736.3 of loans acquired in connection with the CNB acquisition.

Deposits of \$2.78 billion at June 30, 2015, increased \$949.8 million or 52% over December 31, 2014 and increased \$1.03 billion or 59% compared to June 30, 2014. These increases include \$768.9 million of deposits acquired from CNB.

Allowance for loan losses to total loans ratio, which was calculated inclusive of \$736.3 million of CNB acquired loans carried at fair value, was .83% as of June 30, 2015 compared to 1.32% at December 31, 2014 and 1.39% at June 30, 2014.

Tier 1 Capital increased by \$69.4 million or 36.6% to \$259.0 million as of June 30, 2015, compared to December 31, 2014.

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A cash dividend of \$0.23 per share was declared in July 2015 for the second 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.

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, the February 2014 acquisition of FNB NY and the June 2015 acquisition of CNB. 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 June 19, 2015 the Company acquired CNB. This acquisition increases the Company's scale and continues the westward expansion into new markets in Nassau County, Queens and Manhattan. Management recognizes the challenges associated with acquisitions and leveraged the experience gained from prior acquisitions to successfully integrate the operations of CNB.

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

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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 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,

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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 and management's judgment and experience play a key role in recording the allowance estimates. Additions to the allowance for loan losses are made by provisions charged to earnings. Furthermore, an improvement in the expected cash flows related to purchased credit impaired loans would result in a reduction of the required specific allowance with a corresponding credit to the provision.

The Credit Risk Management Committee is comprised of Bank management. The adequacy of the allowance is analyzed quarterly, with any adjustment to a level deemed appropriate by the Credit Risk Management Committee, based on its risk assessment of the entire portfolio. Each quarter, members of the Credit Risk Management Committee meet with the Credit Risk Committee of the Board to review credit risk trends and the adequacy of the allowance for loan losses. Based on the Credit Risk Management Committee's review of the classified loans and the overall allowance levels as they relate to the loan portfolio at June 30, 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 June 30, 2015 was \$0.5 million and \$.04 per diluted share as compared to \$4.3 million and \$0.37 per diluted share for the same period in 2014, and included (i) \$5.3 million in acquisition costs, net of income taxes, associated with the CNB acquisition and; (ii) an income tax expense reduction of \$0.4 million related to the impact of changes in New York City tax laws enacted in the second quarter of 2015 and effective on January 1,

2015. Other changes for the three months ended June 30, 2015 include: (i) a \$3.6 million or 21.5% increase in net interest income as a result of growth in interest earning assets primarily related to loans; (ii) a \$0.2 million or 40.0% increase in the provision for loan losses principally due to growth in the loan portfolio; (iii) a \$0.2 million or 10.3% increase in total non-interest income; and (iv) a \$9.9 million or 81.7% increase in total non-interest expense primarily related to a \$7.9 million increase in acquisition costs, and a \$1.1 million increase in salary and employee benefits due to the acquisition of CNB, expanding infrastructure and new branches.

Net income for the six months ended June 30, 2015 was \$5.2 million and \$0.43 per diluted share as compared to \$4.7 million and \$0.41 per diluted share for the same period in 2014 and included (i) \$5.3 million in acquisition costs, net of income taxes, associated with the CNB acquisition and; (ii) an income tax expense reduction of \$0.4 million related to the impact of changes in New York City tax law enacted in the second quarter of 2015 and effective on January 1, 2015. Other changes for the six months ended June 30, 2015 compared to June 30, 2014 include: (i) a \$6.8 million or 20.9% increase in net interest income as a result of growth in interest earning assets primarily related to loans and; (ii) a \$0.3 million or 25% increase in the provision for loan losses; (iii) a \$2.2 million or 72.3% increase in total non-interest income related to non-recurring net securities losses of \$1.1 million in 2014 compared to none in 2015 as well as increases in customer service fees and title fee income of \$0.3 million and an increase in other operating income of \$0.8 million. The effective income tax rate was 31.3% for the six months ended June 30, 2015 compared to 33.5% for the same period last year.

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

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

(In thousands)	Three Months Ended June 30, 2015			2014			
	Average Balance	Interest	Average Yield/ Cost	Average Balance	Interest	Average Yield/ Cost	
Interest earning assets:							
Loans, net ⁽¹⁾⁽²⁾	\$1,543,555	\$18,605	4.83	% \$1,156,025	\$14,070	4.88	%
Mortgage-backed securities, CMOs and other asset-backed securities	510,941	2,468	1.94	547,236	2,948	2.16	
Taxable securities	188,426	995	2.12	228,201	1,192	2.10	
Tax exempt securities ⁽²⁾	76,330	669	3.52	98,521	791	3.22	
Federal funds sold	32	—	—	—	—	—	
Deposits with banks	13,885	11	0.32	11,364	7	0.25	
Total interest earning assets	2,333,169	22,748	3.91	2,041,347	19,008	3.73	
Non-interest earning assets:							
Cash and due from banks	56,001			40,922			
Other assets	123,785			86,597			
Total assets	\$2,512,955			\$2,168,866			
Interest bearing liabilities:							
Savings, NOW and money market deposits	\$1,129,103	\$832	0.30	% \$998,553	\$801	0.32	%
Certificates of deposit of \$100,000 or more	95,120	217	0.92	103,948	209	0.81	
Other time deposits	64,140	131	0.82	64,639	121	0.75	
Federal funds purchased and repurchase agreements	108,764	92	0.34	74,738	140	0.75	
Federal Home Loan Bank advances	134,459	339	1.01	163,880	302	0.74	
Junior Subordinated Debentures	16,002	342	8.57	16,002	342	8.57	

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Total interest bearing liabilities	1,547,588	1,953	0.51	1,421,760	1,915	0.54
Non-interest bearing liabilities:						
Demand deposits	744,319			556,655		
Other liabilities	15,933			14,478		
Total liabilities	2,307,840			1,992,893		
Stockholders' equity	205,115			175,973		
Total liabilities and stockholders' equity	\$2,512,955			\$2,168,866		
Net interest income/interest rate spread ⁽³⁾		20,795	3.40 %		17,093	3.19 %
Net interest earning assets/net interest margin ⁽⁴⁾	\$785,581		3.57 %	\$619,587		3.36 %
Ratio of interest earning assets to interest bearing liabilities			150.76 %			143.58 %
Less: Tax equivalent adjustment		(368)			(278)	
Net interest income		\$20,427			\$16,815	

(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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(In thousands)	Six Months Ended June 30, 2015			2014				
	Average Balance	Interest	Average Yield/ Cost		Average Balance	Interest	Average Yield/ Cost	
Interest earning assets:								
Loans, net ^{(1) (2)}	\$1,447,309	\$35,207	4.91	%	\$1,110,494	\$27,386	4.97	%
Mortgage-backed securities, CMOs and other asset-backed securities	502,270	5,035	2.02		498,902	5,240	2.12	
Taxable securities	188,858	2,012	2.15		226,013	2,377	2.12	
Tax exempt securities ⁽²⁾	74,014	1,323	3.60		101,751	1,649	3.27	
Federal funds sold	16	—	—		—	—	—	
Deposits with banks	13,295	18	0.27		11,498	15	0.26	
Total interest earning assets	2,225,762	43,595	3.95		1,948,658	36,667	3.79	
Non interest earning assets:								
Cash and due from banks	50,876				38,634			
Other assets	112,840				78,448			
Total assets	\$2,389,478				\$2,065,740			
Interest bearing liabilities:								
Savings, NOW and money market deposits	\$1,093,008	\$1,605	0.30	%	\$971,228	\$1,638	0.34	%
Certificates of deposit of \$100,000 or more	89,381	407	0.92		94,187	384	0.82	
Other time deposits	60,521	243	0.81		58,452	216	0.75	
Federal funds purchased and repurchase agreements	114,942	238	0.42		69,196	269	0.78	
Federal Home Loan Bank advances	110,207	589	1.08		123,974	547	0.89	
Junior Subordinated Debentures	16,002	683	8.61		16,002	683	8.61	
Total interest bearing liabilities	1,484,061	3,765	0.51		1,333,039	3,737	0.57	
Non-interest bearing liabilities:								
Demand deposits	697,736				545,188			
Other liabilities	15,161				12,213			
Total liabilities	2,196,958				1,890,440			
Stockholders' equity	192,520				175,300			
Total liabilities and stockholders' equity	\$2,389,478				\$2,065,740			
Net interest income/interest rate spread ⁽³⁾		39,830	3.44	%		32,930	3.22	%
Net interest earning assets/net interest margin ⁽⁴⁾	\$741,701		3.61	%	\$615,619		3.41	%
Ratio of interest earning assets to interest bearing liabilities			149.98	%			146.18	%
Less: Tax equivalent adjustment		(708)				(579)		
Net interest income		\$39,122				\$32,351		

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

(In thousands)	Three Months Ended June 30, 2015 Over 2014 Changes Due To			Six Months Ended June 30, 2015 Over 2014 Changes Due To		
	Volume	Rate	Net Change	Volume	Rate	Net Change
Interest income on interest earning assets:						
Loans, net ⁽¹⁾⁽²⁾	\$ 5,522	\$ (987)	\$ 4,535	\$ 8,803	\$ (982)	\$ 7,821
Mortgage-backed securities, CMOs and other asset-backed securities	(189)	(291)	(480)	99	(304)	(205)
Taxable securities	(273)	76	(197)	(461)	96	(365)
Tax exempt securities ⁽²⁾	(504)	382	(122)	(728)	402	(326)
Federal funds sold	—	—	—	—	—	—
Deposits with banks	2	2	4	2	1	3
Total interest earning assets	4,558	(818)	3,740	7,715	(787)	6,928
Interest expense on interest bearing liabilities:						
Savings, NOW and money market deposits	291	(260)	31	384	(417)	(33)
Certificates of deposit of \$100,000 or more	(85)	93	8	2	21	23
Other time deposits	(6)	16	10	8	19	27
Federal funds purchased and repurchase agreements	257	(305)	(48)	275	(306)	(31)
Federal Home Loan Bank Advances	(245)	282	37	(144)	186	42
Total interest bearing liabilities	212	(174)	38	525	(497)	28
Net interest income	\$ 4,346	\$ (644)	\$ 3,702	\$ 7,190	\$ (290)	\$ 6,900

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

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

Analysis of Net Interest Income for the Three Months ended June 30, 2015 and June 30, 2014

Net interest income was \$20.4 million for the three months ended June 30, 2015 compared to \$16.8 million for the same period in 2014, an increase of \$3.6 million or 21.5%. Net interest margin increased to 3.57% for the quarter ended June 30, 2015, compared to 3.36% for the quarter ended June 30, 2014 as a result of a shift in asset mix from lower yielding securities to higher yielding loans. The higher margin also reflects \$0.5 million associated with greater than expected cash flows from the payoff of certain acquired credit impaired loans. The total average interest earning assets increased \$291.8 million or 14.3%, yielding 3.91% and the overall funding cost was 0.34%, including demand deposits. The yield on interest earning assets increased approximately 18 basis points from 3.73% to 3.91%. The cost of interest bearing liabilities decreased approximately 3 basis points during the second quarter of 2015 compared to 2014. The increase in average total deposits of \$308.8 million and average total borrowings of \$4.6 million funded higher yielding loans, which grew \$387.5 million from the comparable 2014 quarter.

For the three months ended June 30, 2015, average net loans grew by \$387.5 million or 33.5% to \$1.54 billion as compared to \$1.16 billion for the same period in 2014, driven by growth in commercial real estate mortgage loans, commercial, financial and agricultural

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loans, and multi-family mortgage loans. The Bank remains committed to growing loans with prudent underwriting, sensible pricing and limited credit and extension risk.

For the three months ended June 30, 2015, average total securities decreased by \$98.3 million or 11.2% to \$775.7 million as compared to \$874.0 million for the three months ended June 30, 2014. The average interest earning cash increased by \$2.5 million to \$13.9 million for the three months ended June 30, 2015 as compared to \$11.4 million for the same period in 2014.

Average total interest bearing liabilities were \$1.55 billion for the three months ended June 30, 2015 compared to \$1.42 billion for the same period in 2014. The Bank grew deposits as a result of the acquisition of CNB, opening new branches and building new relationships in existing markets. The Bank continues to reduce interest rates on deposit products through prudent management of deposit pricing. The reduction in deposit rates resulted in a decrease in the cost of interest bearing liabilities to 0.51% for the three months ended June 30, 2015 from 0.54% 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 June 30, 2015, average total deposits increased by \$308.9 million or 17.9% to \$2.03 billion from \$1.72 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 \$130.6 million or 13.1% to \$1.13 billion for the three months ended June 30, 2015 compared to \$998.6 million for the same period last year. Average balances in certificates of deposit of \$100,000 or more and other time deposits decreased \$9.3 million or 5.5% to \$159.3 million for 2015 as compared to \$168.6 million for the same period last year. Average balances in demand deposits increased \$187.7 million or 33.7% to \$744.3 million for 2015 as compared to \$556.7 million for the same period last year. Average public fund deposits comprised 17.0% of total average deposits during the three months ended June 30, 2015 and 18.2% of total average deposits for the same period in 2014. Average federal funds purchased and repurchase agreements increased \$34.0 million or 45.5% to \$108.8 million for the three months ended June 30, 2015 compared to \$74.7 million for the same period in the prior year. Average FHLB advances decreased \$29.4 million to \$134.5 million for the three months ended June 30, 2015 compared to \$163.9 million for the same period 2014.

Total interest income increased \$3.7 million or 19.5% to \$22.4 million, net of the tax equivalent adjustment on tax exempt securities interest income, for the three months ended June 30, 2015 from \$18.7 million for the same period in 2014. Interest income on loans increased \$4.5 million or 32.2% to \$18.6 million for the three months ended June 30, 2015 from \$14.1 million for the same period in 2014. The yield on average loans was 4.83% for 2015 as compared to 4.88 % in 2014.

Interest income on investments in mortgage-backed, taxable and tax exempt securities decreased \$0.9 million to \$3.7 million for the three months ended June 30, 2015 compared to \$4.6 million for the same period in 2014. Interest income on securities included net amortization of premium of \$1.3 million and a tax equivalent adjustment of \$0.4 million in the second quarter of 2015 compared to net amortization of premium of \$0.8 million and tax equivalent adjustment of \$0.3 million for the same period in 2014. The tax adjusted average yield on total securities was 2.14% for 2015 as compared to 2.26% in 2014.

Interest expense was \$2.0 million for the three months ended June 30, 2015 compared to \$1.9 million for the same period in 2014.

Analysis of Net Interest Income for the Six Months ended June 30, 2015 and June 30, 2014

Net interest income was \$39.1 million for the six months ended June 30, 2015 compared to \$32.4 million for the same period in 2014, an increase of \$6.8 million or 20.1%. Net interest margin increased to 3.61% for the six months ended June 30, 2015, compared to 3.41% for the six months ended June 30, 2014 as a result of higher yielding investments and lower cost of interest bearing liabilities. The total average interest earning assets increased \$277.1 million or 14.2%, yielding 3.95% and the overall funding cost was 0.35%, including demand deposits. The yield on interest earning assets increased approximately 16 basis points from 3.79% to 3.95%. The cost of interest bearing liabilities decreased approximately 6 basis points during the six months ended June 30, 2015 compared to the same period in 2014. The increase in average total deposits of \$271.6 million and average total borrowings of \$32.0 million funded higher yielding loans, which grew \$336.8 million from the comparable 2014 quarter.

For the six months ended June 30, 2015, average net loans grew by \$336.8 million or 30.3% to \$1.45 billion as compared to \$1.11 billion for the same period in 2014, driven by growth in commercial real estate mortgage loans, commercial, financial and agricultural loans, multi-family mortgage loans and, to a lesser extent, loans acquired in the CNB acquisition. The Bank remains committed to growing loans with prudent underwriting, sensible pricing and limited credit and extension risk.

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For the six months ended June 30, 2015, average total securities decreased by \$61.6 million or 7.4% to \$765.1 million as compared to \$826.7 million for the six months ended June 30, 2014. Average interest earning cash increased by \$1.8 million to \$13.3 million for the six months ended June 30, 2015 as compared to \$11.5 million for the same period in 2014.

Average total interest bearing liabilities were \$1.48 billion for the six months ended June 30, 2015 compared to \$1.33 billion for the same period in 2014. The Bank grew deposits as a result of the acquisition of CNB, opening new branches as well as building new relationships in existing markets. The Bank continues to reduce interest rates on deposit products through prudent management of deposit pricing. The reduction in deposit rates and the lower average balance of higher cost CDs resulted in a decrease in the cost of interest bearing liabilities to 0.51% for the six months ended June 30, 2015 from 0.57% 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 six months ended June 30, 2015, average total deposits increased by \$271.6 million or 16.3% to \$1.94 billion from \$1.70 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 \$121.8 million or 12.5% to \$1.09 billion for the six months ended June 30, 2015 compared to \$971.2 million for the same period last year. Average balances in certificates of deposit of \$100,000 or more and other time deposits decreased \$2.7 million or 1.8% to \$149.9 million for 2015 as compared to \$152.6 million for the same period last year. Average balances in demand deposits increased \$152.5 million or 28.0% to \$697.7 million for 2015 as compared to \$545.2 million for the same period last year. Average public fund deposits comprised 18.2% of total average deposits during the six months ended June 30, 2015 and 19.3% of total average deposits for the same period in 2014. Average federal funds purchased and repurchase agreements increased \$45.7 million or 66.1% to \$114.9 million for the six months ended June 30, 2015 compared to \$69.2 million for the same period in the prior year. Average FHLB advances decreased \$13.8 million to \$110.2 million for the six months ended June 30, 2015 compared to \$124.0 million for the same period 2014.

Total interest income increased \$10.1 million or 28.1% to \$42.9 million, net of the tax equivalent adjustment on tax exempt securities interest income, for the six months ended June 30, 2015 from \$36.1 million for the same period in 2014. Interest income on loans increased \$7.8 million or 28.6% to \$35.2 million for the six months ended June 30, 2015 from \$27.4 million for the same period in 2014. The yield on average loans was 4.91% for 2015 as compared to 4.97 % in 2014.

Interest income on investments in mortgage-backed, taxable and tax exempt securities decreased \$1.0 million to \$7.7 million for the six months ended June 30, 2015 compared to \$8.7 million for the same period in 2014. Interest income on securities included net amortization of premium of \$2.3 million and a tax equivalent adjustment of \$0.7 million in the 2015 compared to net amortization of premium of \$1.7 million and tax equivalent adjustment of \$0.6 million for the same period in 2014. The tax adjusted average yield on total securities was 2.21% for 2015 as compared to 2.26% in 2014.

Interest expense was \$3.8 million for the six months ended June 30, 2015 compared to \$3.7 million for the same period in 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 \$0.7 million and \$1.5 million was recorded during the three and six months ended June 30, 2015 compared to a provision for loan loss of \$0.5 million and \$1.2 million that was recorded during the same period in 2014. Net charge-offs were \$0.1 million for the quarter ended June 30, 2015 compared to \$0.6 million for the year ended December 31, 2014 and \$0.2 million for the quarter ended June 30, 2014. The ratio of allowance for loan losses to nonaccrual loans was 954% and 1466% at June 30, 2015 and December 31, 2014, respectively. The allowance for loan losses increased to \$18.8 million at June 30, 2015 as compared to \$17.6 million at December 31, 2014 and \$16.7 million at June 30, 2014. As a percentage of total loans, the allowance was .83% at June 30, 2015 compared to 1.32% at December 31, 2014 and 1.39% at June 30, 2014. In accordance with current accounting guidance, the acquired CNB 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 \$25.1 million or 1.1% of total loans at June 30, 2015 were categorized as classified loans compared to \$30.3 million or 2.3% at December 31, 2014 and \$44.5 million or 3.7% at June 30, 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 June 30, 2015, classified loans included \$3.2 million of acquired CNB loans and \$0.3 million of acquired FNBNY loans.

At June 30, 2015, approximately \$12.8 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 \$12.8 million of CRE loans, \$10.1 million were current and \$2.7 million were past due. In addition, all but \$2.1 million of the CRE loans have personal guarantees. At June 30, 2015, approximately \$2.8 million of classified loans were residential real estate loans with \$0.4 million current and \$2.4 million past due. Commercial, financial, and agricultural loans represented \$9.4 million of classified loans, with \$8.7 million current and \$0.7 million past due. There were no classified real estate construction loans or land loans and all were all current. All real estate construction and land loans are well secured with collateral. The remaining \$0.1 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 \$1.30 billion or 57.7% of the total loan portfolio at June 30, 2015 compared to \$814.4 million or 61.0% at December 31, 2014 and \$719.9 million or 60.1% at June 30, 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 June 30, 2015 and December 31, 2014, the Company had impaired loans as defined by FASB ASC No. 310, “Receivables” of \$3.7 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 \$2.0 million or 0.09% of total loans at June 30, 2015 and \$1.2 million or 0.09% of total loans at December 31, 2014. Approximately \$0.4 million of the nonaccrual loans at June 30, 2015 and \$0.5 million at December 31, 2014, represent troubled debt restructured loans.

The Bank had no other real estate owned at June 30, 2015 and December 31, 2014 and \$0.6 million at June 30, 2014.

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

	For the Six Months Ended June 30, 2015	For the Year Ended December 31, 2014
(Dollars in thousands)		
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	(530)	(104)
Real estate construction and land loans	—	—
Installment/consumer loans	(2)	(2)
Total	(532)	(824)
Recoveries:		
Commercial real estate mortgage loans	—	—
Multi-family mortgage loans	—	—
Residential real estate mortgage loans	78	170
Commercial, financial and agricultural loans	130	87
Real estate construction and land loans	—	—
Installment/consumer loans	5	3
Total	213	260
Net charge-offs	(319)	(564)
Provision for loan losses charged to operations	1,500	2,200
Balance at end of period	\$ 18,818	\$ 17,637

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

	June 30, 2015		December 31, 2014		
	Amount	Percentage of Loans to Total	Amount	Percentage of Loans to Total	
(Dollars in thousands)					
Commercial real estate mortgage loans	\$7,166	44.4	% \$ 6,994	44.5	%
Multi-family loans	3,015	13.1	2,670	16.4	
Residential real estate mortgage loans	1,989	16.7	2,208	11.7	
Commercial, financial & agricultural loans	5,273	21.3	4,526	21.8	
Real estate construction and land loans	1,236	3.6	1,104	4.8	
Installment/consumer loans	139	0.6	135	0.8	

Total	\$18,818	100.0	%	\$17,637	100.0	%
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Non-Interest Income

Total non-interest income increased \$0.2 million or 10.3% to \$2.5 million for the three months ended June 30, 2015 compared to \$2.3 million for the same period in 2014. The increase was primarily related to an increase in customer service fees \$0.1 million, and an increase in other operating income of \$0.1 million primarily associated with Bank Owned Life Insurance (“BOLI”) compared to the prior year.

Total non-interest income increased \$2.2 million or 72.3% to \$5.3 million for the six months ended June 30, 2015 compared to \$3.1 million for the same period in 2014. The increase was primarily the result of net securities losses of \$1.1 million in 2014 compared to none in 2015, increases in customer service fees and title fee income of \$0.1 and \$0.2, respectively, and an increase in other operating income of \$0.8 million primarily associated with (i) BOLI of \$0.3 million; (ii) gain on sale of mortgages of \$0.2 million and; (iii) swap fee income of \$0.3, compared to the prior year.

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Total non-interest expense increased \$9.9 million or 81.7% to \$22.0 million during the three months ended June 30, 2015 compared to \$12.1 million over the same period in 2014. The increase in non-interest expense is primarily attributed to a \$7.9 million increase in acquisition costs. Additionally, salaries and employee benefits increased \$1.1 million or 17.9% to \$7.6 million for the three months ended June 30, 2015 from \$6.4 million for the same period in 2014. The increase reflects additional staff associated with the CNB acquisition, additional positions to support the Company's expanding infrastructure, new branches and a larger loan portfolio. Occupancy and equipment increased \$0.3 million to \$2.2 million compared to \$1.9 million in June 2014. Additionally, there was \$0.2 million in higher costs associated with marketing and advertising and an increase of \$0.3 million in other operating expenses.

Total non-interest expense increased \$8.2 million or 30.2% to \$35.3 million during the six months ended June 30, 2015 compared to \$27.1 million over the same period in 2014. The increase in non-interest expense is primarily attributed to a \$3.6 million increase in acquisition costs. Additionally, salaries and employee benefits increased \$2.5 million or 19.5% to \$15.1 million for the six months ended June 30, 2015 from \$12.6 million for the same period in 2014. The increase reflects additional staff associated with the CNB acquisition, additional positions to support the Company's expanding infrastructure, new branches and a larger loan portfolio. Occupancy and equipment expense increased \$1.0 million to \$4.5 million as of June 30, 2015 as compared to \$3.5 million for the same period last year. Marketing and advertising and professional services both increased \$0.3 million as of June 30, 2015 to \$1.4 million and \$1.1 million, respectively, as compared to \$1.1 million and \$0.8 million, respectively, for the same period last year. Other operating expenses increased \$0.5 million for the six months ended June 30, 2015 to \$2.6 million as compared to \$2.1 million for the six months ended June 30, 2014.

Income Taxes

The Company included an income tax benefit of \$0.4 million, resulting in a net income tax benefit of \$0.2 million for the three months ended June 30, 2015, compared to a provision of \$2.2 million for the three months ended June 30, 2014. The tax benefit was the result of changes in New York City income tax law associated with New York City tax legislation signed into law on April 13, 2015, and effective January 1, 2015, which largely conformed New York City banking income tax laws with the New York State legislation enacted in 2014. The impact of this change in tax law was to establish and recognize additional deferred tax assets of \$0.4 million

The provision for income taxes was \$2.4 million for the six months ended June 30, 2015 and 2014. The effective tax rate for the six months ended June 30, 2014 decreased to 31.3% from 33.5% for the same period last year. The decrease in the effective rate was a result of lower pre-tax income and the tax benefit associated with the change in New York City tax law.

Financial Condition

Total assets grew \$1.24 billion to \$3.43 billion, a 56.5% increase over the June 30, 2014 level of \$2.19 billion, and increased 49.6% over the December 31, 2014 level of \$2.29 billion. This increase reflects strong organic growth in new and existing markets as well as \$900.1 million in acquired assets from CNB on June 19, 2015.

Cash and due from banks increased \$11.9 million and interest earning deposits with banks increased \$12.6 million compared to December 31, 2014. Total securities increased \$39.1 million or 4.9% to \$841.2 million and net loans increased \$925.8 million or 70.1 % to \$2.25 billion compared to December 31, 2014 levels. The increase in net loans includes \$736.3 million of CNB acquired loans. The ability to grow the loan portfolio, while minimizing interest rate risk sensitivity and maintaining credit quality, remains a strong focus of management. Goodwill and Other Intangible assets increased \$94.3 million compared to December 31, 2014. Goodwill of \$85.5 million, \$5.9 million core deposit intangible, \$2.2 non-compete intangible and \$0.7 million of SBA loan servicing rights were recorded in connection with the CNB acquisition. Total deposits increased \$949.8 million to \$2.78 billion at June 30, 2015 compared to \$1.83 billion at December 31, 2014. Deposit growth includes \$786.9 million in deposits acquired from CNB. Demand deposits increased \$264.5 million to \$967.6 million as of June 30, 2015 compared to \$703.1 million at December 31, 2014. Savings, NOW and money market deposits increased \$492.1 million to \$1.48 billion at June 30, 2015 from \$989.3 million at December 31, 2014. Certificates of deposit of \$100,000 or more increased \$110.8 million to \$193.9 million at June 30, 2015, from \$83.1 million at December 31, 2014. Other time deposits increased \$82.4 million to \$140.7 million at June 30, 2015, from \$58.3 million at December 31, 2014.

Federal funds purchased were \$70.0 million as of June 30, 2015 compared to \$75.0 million at December 31, 2014. Federal Home Loan Bank advances were \$175.2 million as of June 30, 2015, inclusive of advances acquired from CNB, and \$138.3 million for December 31, 2014. Repurchase agreements decreased \$9.7 million to \$26.6 million at June 30, 2015 compared to \$36.3 million as of December 31, 2014. Junior subordinated debentures remained at \$16.0 million as of June 30, 2015 compared to December 31, 2014. Other liabilities and accrued expenses increased \$8.7 million to \$22.9 million as of June 30, 2015 from \$14.2 million as of December 31, 2014. Stockholders' equity was \$333.9 million at June 30, 2015, an increase of \$158.8 million or 90.7% from December 31, 2014, reflecting net income of \$5.2 million and \$1.0 million related to stock based compensation plans, the issuance of \$157.2 million in common equity

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in connection with the acquisition of CNB, a decrease in the unrealized loss on available for sale securities of \$0.8 million, partially offset by \$5.4 million paid in dividends. In July 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 other borrowings as they mature, to fund current and planned expenditures and to make new loans and investments as opportunities arise. The Holding Company's principal sources of liquidity included cash and cash equivalents of \$0.7 million as of June 30, 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 six months ended June 30, 2015, the Bank paid \$6.0 million in cash dividends to the Company. Prior regulatory approval is required if the total of all dividends declared by the Bank in any calendar year exceeds the total of the Bank's net income of that year combined with its retained net income of the preceding two years. As of July 1, 2015, the Bank has \$28.5 million of retained net income available for dividends to the Company. In the event that the Company subsequently expands its current operations, in addition to dividends from the Bank, it will need to rely on its own earnings, additional capital raised and other borrowings to meet liquidity needs.

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

The Bank's Asset/Liability and Funds Management Policy allows for wholesale borrowings of up to 25% of total assets. At June 30, 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 June 30, 2015, the Bank had \$70.0 million in overnight borrowings outstanding

under these lines. The Bank also has the ability, as a member of the Federal Home Loan Bank (“FHLB”) system, to borrow against unencumbered residential and commercial mortgages owned by the Bank. The Bank also has a master repurchase agreement with the FHLB, which increases its borrowing capacity. As of June 30, 2015, the Bank had \$62.0 million outstanding in FHLB overnight borrowings and an additional \$112.0 million outstanding in FHLB term borrowings. The Bank had \$25.0 million of securities sold under agreements to repurchase outstanding as of June 30, 2015 with brokers and \$1.6 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 approved broker relationships for the purpose of issuing brokered deposits. As of June 30, 2015, the Bank had \$22.4 million outstanding in brokered certificates of deposits and \$181.5 million outstanding in brokered money market accounts. As of December 31, 2014 the Bank had \$8.3 million of brokered deposits.

Capital Resources

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

Quantitative measures established by regulation to ensure capital adequacy require the Company and the Bank to maintain minimum amounts and ratios (set forth in the following table) of total and Tier 1 capital (as defined in the regulations) to risk weighted assets (as defined), and of Tier 1 capital (as defined) to average assets (as defined). Management believes as of June 30, 2015, the Company and

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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.

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 June 30, 2015 (under Basel III rules) and December 31, 2014.

As of June 30, 2015 (Dollars in thousands)	Basel III Transitional				Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Actual		Minimum Capital Adequacy Requirement		Amount	Ratio
	Amount	Ratio	Amount	Ratio		
Common Equity Tier 1 Capital to Risk Weighted Assets:						
Consolidated	\$243,673	9.7 %	\$ 112,915	4.5 %	n/a	n/a
Bank	258,022	10.3 %	\$ 112,905	4.5 %	\$ 163,084	6.5 %
Total Capital to Risk Weighted Assets:						
Consolidated	278,047	11.1 %	\$ 200,738	8.0 %	n/a	n/a
Bank	277,115	11.0 %	200,719	8.0 %	250,899	10.0 %
Tier 1 Capital to Risk Weighted Assets:						

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Consolidated	258,954	10.3 %	\$ 150,554	6.0 %	n/a	n/a	
Bank	258,022	10.3 %	150,539	6.0 %	200,719	8.0	%
Tier 1 Capital to Average Assets:							
Consolidated	258,954	10.7 %	\$ 96,781	4.0 %	n/a	n/a	
Bank	258,022	10.7 %	96,667	4.0 %	120,834	5.0	%

Basel I

As of December 31, 2014 (Dollars in thousands)	Minimum Capital Adequacy Requirement				Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions		
	Actual Amount	Ratio	Amount	Ratio	Amount	Ratio	
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

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liabilities of a financial institution are monetary in nature. As a result, changes in interest rates have a more significant effect on the performance of a financial institution than do the effects of changes in the general rate of inflation and changes in prices. Changes in interest rates could adversely affect our results of operations and financial condition. Interest rates do not necessarily move in the same direction, or in the same magnitude, as the prices of goods and services. Interest rates are highly sensitive to many factors, which are beyond the control of the Company, including the influence of domestic and foreign economic conditions and the monetary and fiscal policies of the United States government and federal agencies, particularly the Federal Reserve Bank.

Recent Regulatory and Accounting Developments

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

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Asset/Liability Management

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

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

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

At June 30, 2015, \$777.3 million or 92.4% 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.

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The following reflects the Company's net interest income sensitivity analysis at June 30, 2015:

Change in Interest Rates in Basis Points (Dollars in thousands)	Potential Change in Net Interest Income		
	\$ Change	% Change	
200	\$ (5,524)	(5.12)%	
100	\$ (2,571)	(2.38)%	
Static	—	—	
(100)	\$ 192	0.18 %	

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 5.12 percent. Our balance sheet sensitivity to such a move in interest rates at June 30, 2015 decreased as compared to June 30, 2014 (which was a decrease of 6.21 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 increased from 3.70 to 3.73. 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 June 30, 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 consolidated 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 June 30, 2015, filed on August 7, 2015 formatted in XBRL: (i) Consolidated Balance Sheets as of June 30, 2015 and December 31, 2014, (ii) Consolidated Statements of Income for the Three and Six Months Ended June 30, 2015 and 2014, (iii) Consolidated Statements of Comprehensive Income for the Three and Six Months Ended June 30, 2015 and 2014, (iv) Consolidated Statements of Stockholders' Equity for the Six Months Ended June 30, 2015 and 2014, (v) Consolidated Statements of Cash Flows for the Six Months Ended June 30, 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

SIGNATURES

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

BRIDGE BANCORP, INC.

Registrant

August 7, 2015 /s/ Kevin M. O'Connor
Kevin M. O'Connor
President and Chief Executive Officer

August 7, 2015 /s/ Howard H. Nolan
Howard H. Nolan
Senior Executive Vice President, Chief Financial Officer