TWO RIVER BANCORP
Form 10-K
March 31, 2014

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-K

(Mark One)

ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2013

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ________ to _______

Commission file number: 000-51889

TWO RIVER BANCORP
(Exact Name of Registrant as Specified in Its Charter)

New Jersey	20-3700861
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification Number)

766 Shrewsbury Avenue, Tinton Falls, New Jersey 07724
(Address of Principal Executive Offices, including Zip Code)

(732) 389-8722
(Registrant's telephone number, including area code)

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

Title of each class	Name of each exchange on which registered
Common Stock, no par value	The NASDAQ Stock Market LLC

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

Preferred Stock Purchase Rights
(Title of Class)

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

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

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 Act). Yes No

The aggregate market value of the registrant's voting and non-voting common equity held by non-affiliates of the registrant, computed by reference to the price at which the common stock was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrant's most recently completed second fiscal quarter, is $45,963,421.

As of March 14, 2014, 7,935,459 shares of the registrant's common stock were outstanding.

Documents incorporated by reference

Portions of the registrant's definitive Proxy Statement for its 2014 Annual Meeting of Shareholders are incorporated by reference into Part III of this report and will be filed within 120 days of December 31, 2013.

FORM 10-K

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PART I

Forward-Looking Statements

From time to time, Two River Bancorp (the "Company") may include forward-looking statements relating to such matters as anticipated financial performance, business prospects, technological developments, new products, research and development activities and similar matters in this and other filings with the Securities and Exchange Commission (the "SEC"). The Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking statements. When used in this and in future filings by us with the SEC), in our press releases and in oral statements made with the approval of one of our authorized executive officers, the words or phrases "will," "will likely result," "could," "anticipates," "believes," "continues," "expects," "plans," "will continue," "is anticipated," "estimated," "project" or "outlook" expressions (including confirmations by one of our authorized executive officers of any such expressions made by a third party with respect to us) are intended to identify forward-looking statements. We wish to caution readers not to place undue reliance on any such forward-looking statements, each of which speaks only as of the date made, even if subsequently made available on our website or otherwise. Such statements are subject to certain risks and uncertainties, many of which are beyond our control, that could cause actual results to differ materially from historical earnings and those presently anticipated or projected. The forward-looking statements are and will be based on management's then-current views and assumptions regarding future events and operating performance, and are applicable only as of the dates of such statements.

Factors that may cause actual results to differ from those results expressed or implied, include, but are not limited to, those listed in this report under the heading "Risk Factors"; the ability of customers to repay their obligations; the adequacy of the allowance for loan losses; developments in the financial services industry and U.S. and global credit markets; downward changes in the direction of the economy nationally or in New Jersey; changes in interest rates; competition; loss of management and key personnel; government regulation; environmental liability; failure to implement new technologies in our operations; changes in our liquidity; changes in our funding sources; failure of our controls and procedures; disruptions of our operational systems and relationships with vendors; and our success in managing risks involved in the foregoing. Although management has taken certain steps to mitigate any negative effect of the aforementioned items, significant unfavorable changes could severely impact the assumptions used and have an adverse effect on profitability. Such risks and other aspects of our business and operations are described in Item 1. "Business," Item 1A. "Risk Factors" and Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations" of this report. We have no obligation to publicly release the result of any revisions which may be made to any forward-looking statements to reflect anticipated or unanticipated events or circumstances occurring after the date of such statements.

Item 1. Business.

The disclosures set forth in this item are qualified by Item 1A. “Risk Factors,” Item 7. “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and other statements set forth in this report.

Two River Bancorp

Two River Bancorp, which we refer to herein as the “Company,” “we,” “us” and “our,” is a business corporation incorporated under the laws of the State of New Jersey in August 2005. The principal place of business of Two River Bancorp is located at 766 Shrewsbury Avenue, Tinton Falls, New Jersey 07724 and its telephone number is (732) 389-8722. Effective June 28, 2013, the Company changed its name from Community Partners Bancorp to Two River Bancorp.

Effective December 31, 2008, Two River Bancorp consolidated its two wholly owned bank subsidiaries, The Town Bank (“Town Bank”), based in Westfield, New Jersey, and Two River Community Bank (“Two River” or the “Bank”), based in Middletown, New Jersey. The two banks had been under common ownership since Two River Bancorp was organized to acquire them, in a transaction that took place in April 2006. The consolidation of Town Bank into Two River streamlined operations and created administrative efficiencies and reductions in overhead costs. As a result, the Company has only one New Jersey state-chartered commercial bank subsidiary, Two River. The entire branch network comprises 14 branches in Monmouth and Union counties and five loan production offices (“LPO’s”) throughout Monmouth, Middlesex and Union counties, New Jersey.

In early October 2012, the Company relocated and consolidated its executive offices and all bank-related departments into a new corporate headquarters located in Tinton Falls, New Jersey.

Other than its investment in the Bank, Two River Bancorp currently conducts no other significant business activities. Two River Bancorp may determine to operate its own business or acquire other commercial banks, thrift institutions or bank holding companies, or engage in or acquire such other activities or businesses as may be permitted by applicable law, although it has no present plans or intentions to do so. When we refer to the business conducted by Two River Bancorp in this document, including any lending or other banking activities, we are referring to the business that Two River Bancorp conducts through the Bank.

As of December 31, 2013, the Company had consolidated assets of $769.7 million, total deposits of $633.4 million and shareholders' equity of $95.4 million.

Employees

As of December 31, 2013, the Company and its subsidiaries had 138 full-time equivalent employees, of whom 133 were full-time and 5 were part-time. None of the Company's employees are represented by a union or covered by a collective bargaining agreement. Management of the Company and the Bank believe that, in general, their employee relations are good.

Two River Community Bank

Two River Community Bank was organized in January 2000 as a New Jersey state-chartered commercial bank to engage in the business of commercial and retail banking. As a community bank, the Bank offers a wide range of banking services including demand, savings and time deposits and commercial and consumer/installment loans to small and medium-sized businesses, not-for-profit organizations, professionals and individuals primarily in Monmouth, Middlesex and Union counties, New Jersey. The Bank also offers its customers numerous banking products such as safe deposit boxes, night depository, wire transfers, money orders, travelers checks, automated teller machines, direct deposit, telephone and internet banking and corporate business services. The Bank currently operates 14 banking offices in Monmouth and Union counties, New Jersey and a corporate headquarters building. The Bank's corporate headquarters is located at 766 Shrewsbury Avenue, Tinton Falls, New Jersey, while its principal banking office is located at 1250 Highway 35 South, Middletown, New Jersey. Other banking offices are located in Allaire, Atlantic Highlands, Manasquan, Navesink, Port Monmouth, Red Bank, Tinton Falls (2), West Long Branch, Westfield (2), Cranford and Fanwood, New Jersey. The Bank also operates five regional LPO's in Monmouth, Middlesex and Union counties, New Jersey, for the purpose of expanding our presence in these communities.

We believe that the Bank's customers still want to do business and have a relationship with their *banker.* To accomplish this objective, we emphasize to our employees the importance of delivering exemplary customer service and seeking out opportunities to build further relationships with the Bank's customers. The Bank's deposits are insured by the Federal Deposit Insurance Corporation ("FDIC") up to the statutory limits.

Competition

The Bank faces substantial competition for deposits and creditworthy borrowers. It competes with New Jersey and regionally based commercial banks, savings banks and savings and loan associations, as well as national financial institutions, most of which have assets, capital and lending limits greater in amount than that of the Bank. Other competitors include money market mutual funds, mortgage bankers, insurance companies, stock brokerage firms, regulated small loan companies, credit unions and issuers of commercial paper and other securities.

Products and Services

The Bank offers a full range of banking services to our customers. These services include a wide variety of business and consumer lending products as well as corporate services for businesses and professionals. We offer a range of deposit products including checking, savings and money market accounts plus certificates of deposit (“CD”). The Bank also participates in the Certificate of Deposit Account Registry Service (“CDARS”), a service that enables us to provide our customers with additional FDIC insurance on CD products. Other products and services include remote deposit capture, safe deposit boxes, ACH services, debit and ATM cards, traveler’s checks, money orders, direct deposit and coin counting. We also offer customers the convenience of a full complement of electronic banking services accessible either through the web, mobile device or telephone. These services allow customers to perform various transactions, such as check account balances, receive email alerts, transfer funds, initiate stop payment requests, re-order checks and pay bills. The Bank continues to invest in technology solutions for its customers and plans to expand and enhance its electronic services.

Lending Activities

The Bank engages in a variety of lending activities, which are primarily categorized as either commercial, real estate or consumer lending. The strategy is to focus our lending activities on small and medium-sized business customers and retain customers by offering them a wide range of products and personalized service. Commercial and real estate mortgage lending (consisting of commercial real estate, commercial business, construction and other commercial lending, including medical lending and private banking) are currently our main lending focus. Loans are funded primarily from deposits, although we do occasionally borrow to fund loan growth or meet deposit outflows.

The Bank presently generates virtually all of our loans from borrowers located in the State of New Jersey, with a significant portion in Union and Monmouth counties. Loans are generated through marketing efforts, the Bank's present base of customers, walk-in customers, referrals, the directors and members of the Bank's advisory boards. The Bank strives to maintain a high overall credit quality through the establishment of and adherence to prudent lending policies and practices. The Bank has an established written loan policy that has been adopted by the Board of Directors, which is reviewed at least annually. Any loans to members of the Board of Directors or their affiliates must be reviewed and approved by the Bank's Board of Directors in accordance with the loan policy as well as applicable state and federal banking laws. In accordance with our loan policy, approvals of affiliated transactions are made only by independent board members.

In managing the growth and quality of the Bank's loan portfolio, we have focused on: (i) the application of prudent underwriting criteria; (ii) the active involvement by senior management and the Bank's Board of Directors in the loan approval process; (iii) the active monitoring of loans to ensure timely repayment and early detection of potential problems; and (iv) a loan review process by an independent loan review firm, which conducts in-depth reviews of portions of the loan portfolio on a quarterly basis.

Our principal earning assets are loans originated or participated in by the Bank. The risk that certain borrowers will not be able to repay their loans under the existing terms of the loan agreement is inherent in the lending function. Risk elements in a loan portfolio include non-accrual loans (as defined below), past due and restructured loans, potential problem loans, loan concentrations (by industry or geographically) and other real estate owned acquired through foreclosure or a deed in lieu of foreclosure. Because the vast majority of the loans are made to borrowers located in Union and Monmouth counties, New Jersey, each loan or group of loans presents a geographical and credit risk based upon the condition of the local economy. The local economy is influenced by conditions such as housing prices, employment conditions and changes in interest rates.

Construction Loans

We originate fixed-rate and adjustable-rate loans to individuals and builders to finance the construction of residential dwellings. We also originate construction loans for commercial development projects, including multifamily buildings, restaurants, shopping centers and owner-occupied properties used for businesses. Within these project types, the Bank also offers land development loans. Our construction loans generally provide for the payment of interest only during the construction phase which is usually twelve months for residential owner occupied properties and twelve to eighteen months for commercial properties and upwards to 36 months for land development projects, depending on the size and scope of the project. At the end of the commercial or residential construction phase, the loan can either convert to a permanent loan or is paid in full. Before making a commitment to fund a construction loan, we require an appraisal of the property by a bank approved independent licensed appraiser, appropriate environmental due diligence, a construction cost review, an inspection of the property before disbursement of funds during the stages of the construction process, and pre-qualification from an identified source for the permanent takeout.

Construction financing is generally considered to involve a higher degree of risk of loss than long-term financing on improved, occupied real estate. Risk of loss on a construction loan depends largely upon the accuracy of the initial estimate of the property's value at completion of construction and the estimated cost (including interest) of construction. During the construction phase, a number of factors could result in delays and cost overruns. If the estimate of construction costs proves to be inaccurate, we may be required to advance funds beyond the amount originally committed to permit completion of the building. If the estimate of value proves to be inaccurate, we may be confronted, at or before the maturity of the loan, with a building having a value which is insufficient to assure full repayment. If we are forced to foreclose on a building before or at completion due to a default, there can be no assurance that we will be able to recover all of the unpaid balance of, and accrued interest on, the loan as well as related foreclosure and holding costs.

Commercial and Industrial and Commercial Real Estate Loans

The Bank originates commercial and industrial loans for business purposes to sole proprietorships, partnerships, corporations and small businesses in our lending market areas. We extend commercial business loans on a secured and unsecured basis. Secured commercial loans are generally collateralized by residential and nonresidential real estate, marketable securities, accounts receivable, inventory, industrial/commercial machinery and equipment, and furniture and fixtures. To further enhance our security position, we typically require personal guarantees of the principal owners of the entities to which we extend credit. These loans are made on both lines of credit and fixed-term basis ranging from one to five years in duration. When making commercial business loans, we consider the financial statements and/or tax returns of the borrower, the borrower's payment history along with the principal owners' payment history, the debt service capabilities of the borrower, the projected cash flows of the business, the value of the collateral and the financial strength of the guarantor.

Commercial real estate loans are made to local commercial, retail and professional firms and individuals for the acquisition of new property or the refinancing of existing property. These loans are typically related to commercial businesses and secured by the underlying real estate used in these businesses or real property of the principals. These loans are generally offered on a fixed or variable rate basis, subject to rate re-adjustments every five years and amortization schedules ranging from 5 to 25 years.

Our established written underwriting guidelines for commercial loans are periodically reviewed and enhanced as needed. Pursuant to these guidelines, in granting commercial loans, we look primarily to the borrower's cash flow as the principal source of loan repayment. To monitor cash flows on income properties, we require borrowers and loan guarantors of loan relationships to provide annual financial statements, rent rolls and/or tax returns. Collateral and personal guarantees of the principals of the entities to which we lend are consistent with the requirements of our loan policy.

Commercial loans are often larger and may involve greater risks than other types of lending. Because payments of such loans are often dependent on the successful operation of the business involved, repayment of such loans may be more sensitive than other types of loans and are subject to adverse conditions in the real estate market, or the general economy. We are also involved with off-balance sheet financial instruments, which include collateralized commercial and standby letters of credit. We seek to minimize these risks through our underwriting guidelines and prudent risk management techniques. Any collateral securing such loans may depreciate over time, may be difficult to appraise and may fluctuate in value. Environmental surveys and inspections are obtained when circumstances suggest the possible presence of hazardous materials. There can be no assurances, however, of success in the efforts to minimize these risks.

Unlike residential mortgage loans, which generally are made on the basis of the borrower's ability to make repayment from his or her employment or other income and which are secured by real property the value of which tends to be more easily ascertainable, commercial loans are of higher risk and typically are made on the basis of the borrower's ability to make repayment from the cash flow of the borrower's business operation. As a result, the availability of funds for the repayment of commercial loans may depend substantially on the success of the business itself as the primary source of repayment. Further, any collateral securing such loans may depreciate over time, may be difficult to appraise and may fluctuate in value.

Residential Real Estate Loans

We offer a full range of residential real estate loans. We do not originate subprime or negative amortization loans. Each residential mortgage loan is evidenced by a promissory note secured by a mortgage or deed of trust creating a first lien on one-to-four family residential property. Residential real estate properties underlying residential mortgage loans consist of single-family detached units, individual condominium units, two-to-four family dwelling units and townhouses.

Consumer Loans

The Bank offers consumer loans that are extended to individuals for personal or household purposes. These loans consist of home equity lines of credit, home equity loans, personal loans, automobile loans and overdraft protection.

Our home equity revolving lines of credit come with a floating interest rate tied to the prime rate. Lines of credit are available to qualified applicants in amounts up to $350,000 for up to 15 years. We also offer fixed rate home equity loans in amounts up to $350,000 for a term of up to 15 years. Credit is based on the income and cash flow of the individual borrowers, properly margined real estate collateral supporting the mortgage debt and past credit history.

Consumer loans may entail greater risk than do residential mortgage loans, particularly in the case of consumer loans that are unsecured or secured by assets that depreciate rapidly. In such cases, repossessed collateral for a defaulted consumer loan may not provide an adequate source of repayment for the outstanding loan and the remaining deficiency often does not warrant further substantial collection efforts against the borrower. In addition, consumer loan collections depend on the borrower’s continuing financial stability, and therefore are more likely to be adversely affected by job loss, divorce, illness or personal bankruptcy. Furthermore, the application of various federal and state laws, including bankruptcy and insolvency laws, may limit the amount that can be recovered on such loans.

Participation Loans

The Bank underwrites all loan participations in accordance with our underwriting standards. We will not participate in a loan transaction unless each participant has a substantial interest in the loan relationship. In addition, we also consider the financial strength and reputation of the lead lender. To monitor cash flows on loan participations, we look for the lead lender to provide at a minimum, tax returns and annual financial statements for the borrower. Generally, we also conduct an annual internal loan review for participations.

Small Business Administration ("SBA") Loans

In June 2010, the Bank announced the formation of the SBA Lending Division, which is consistent with the Bank's mandate of community lending in Monmouth, Middlesex and Union counties, New Jersey. During the fourth quarter of 2011, the Bank achieved Preferred Lending status, which allows us to have delegated authority to approve and close SBA loans up to $5.0 million. Our risk philosophy in SBA lending is an extension of our existing credit culture and focused on the cash flow of the businesses while maintaining our commitment to providing small and mid-sized companies access to the credit they need to expand and hire. The Bank participates in SBA's 7(a), including 7(a) sub-program such as SBA Express, and 504 loan programs. The 7(a) program typically provides guarantees ranging from 50% to 85%. The 504 program provides fixed rate financing with a first lien position for a conventional loan followed by a SBA debenture loan in a subordinated position. The 504 program is administered through SBA's Certified Development Companies ("CDCs"). A typical 504 structure transaction is broken down by a 10% equity injection by the borrower, a 40% SBA debenture and a 50% conventional mortgage.

Asset Quality

We believe that strong asset quality is a key to long-term financial success. We have sought to grow and diversify the loan portfolio, while maintaining a high level of asset quality and moderate credit risk, using underwriting standards that we believe are conservative and diligent monitoring and collection efforts. As we continue to grow and leverage our capital, we envision that loans will continue to be our principal earning assets. An inherent risk in lending is the borrower's ability to repay the loan under its existing terms. Risk elements in a loan portfolio include non-accrual loans (as defined below), past due and restructured loans, potential problem loans, loan concentrations (by industry or geographically) and other real estate owned acquired through foreclosure or a deed in lieu of foreclosure.

Non-performing assets include loans that are not accruing interest (non-accrual loans) as a result of principal or interest being in default for a period of 90 days or more, loans past due 90 days or more and still accruing and other real estate owned, which consists of real estate acquired as the result of a defaulted loan. When a loan is classified as non-accrual, interest accruals cease and all past due interest is reversed and charged against current income. Until the loan becomes current as to principal or interest, as applicable, any payments received from the borrower are applied to outstanding principal and fees and costs to the Bank, unless we determine that the financial condition of the borrower and other factors merit recognition of such payments as interest.

A troubled debt restructuring ("TDR") is a loan in which the contractual terms have been modified resulting in the Bank granting a concession to a borrower who is experiencing financial difficulties in order for the Bank to have a greater opportunity of collecting the indebtedness from the borrower. Non-accruing TDR's are included in non-performing loans.

We utilize a risk system, as described below under the section titled “Allowance for Loan Losses,” as an analytical tool to assess risk and set appropriate reserves. In addition, the FDIC has a classification system for problem loans and other lower quality assets, classifying them as “substandard,” “doubtful” or “loss.” A loan is classified as “substandard” when it is inadequately protected by the current value and paying capacity of the obligor or the collateral pledged, if any. Loans with this classification have a well-defined weakness or a weakness that jeopardizes the liquidation of the debt. They are characterized by the distinct possibility that some loss may occur if the deficiencies are not corrected. A loan is classified “doubtful” when it has all the weaknesses inherent in a loan classified as substandard with the added characteristics that the weaknesses make collection or liquidation in full, on the basis of currently existing factors, conditions, and values, highly questionable and improbable. A loan is classified as “loss” when it is considered uncollectible and such little value that the loan’s continuance as an asset on the balance sheet is not warranted.

In addition to categories for non-accrual loans and loans past due 90 days or more that are still accruing interest, we maintain a “watch list” of performing loans where management has identified conditions which potentially could cause such loans to be downgraded into higher risk categories in future periods. Loans on this list are subject to heightened scrutiny and more frequent review by management. *See Note 1-H in the Notes to Consolidated Financial Statements for more information.* Non-performing assets are further discussed within the “Asset Quality” section under Item 7 of this report.

Allowance for Loan Losses

We maintain an allowance for loan losses at a level that we believe is adequate to provide for probable losses inherent in the loan portfolio. Loan losses are charged directly to the allowance when they occur and any recovery is credited to the allowance when realized. Risks from the loan portfolio are analyzed on a continuous basis by the Bank’s senior management, outside independent loan reviewers, the directors’ loan committee, the Board of Directors and our regulators.

The level of the allowance is determined by assigning specific reserves to impaired loans and general reserves on all other loans. The portion of the allowance that is allocated to impaired loans is determined by estimating the inherent loss on each credit after giving consideration to the value of the underlying collateral. A risk system, consisting of multiple grading categories, is utilized as an analytical tool to assess risk and set appropriate general reserves. Along with the risk system, senior management evaluates risk characteristics of the loan portfolio under current and anticipated economic conditions and considers such factors as the financial condition of the borrower, past and expected loss experience, and other factors management feels deserve recognition in establishing an appropriate reserve. These estimates are reviewed at least quarterly, and as adjustments become necessary, they are realized in the periods in which they become known. Additions to the allowance are made by provisions charged to expense and the allowance is reduced by net charge-offs (i.e., loans judged to be uncollectible and charged against the reserve, less any recoveries on such loans).

Although management attempts to maintain the allowance at a level deemed adequate to cover any losses, future additions to the allowance may be necessary based upon any changes in market conditions, either generally or specific to our area, or changes in the circumstances of particular borrowers. In addition, various regulatory agencies periodically review our allowance for loan losses, and may require us to take additional provisions based on their judgments about information available to them at the time of their examination. *See Note 1-I in the Notes to Consolidated Financial Statements for more information.*

Risk Management

Managing risk is an essential part of a successful financial institution. Our most prominent risk exposures are credit risk, interest rate risk and market risk. Credit risk is the risk of not collecting the interest and/or the principal balance of a loan or investment when it is due. Interest rate risk is the potential reduction of net interest income as a result of changes in interest rates. Market risk arises from fluctuations in interest rates that may result in changes in the values of financial instruments, such as available for sale securities that are accounted for on a fair value basis. Other risks that we face are operational risks, liquidity risks and reputation risk. Operational risks include risks related to fraud, regulatory compliance, processing errors, and technology and disaster recovery. Liquidity risk is the possible inability to fund obligations to depositors or borrowers. Reputation risk is the risk that negative publicity or press, whether true or not, could cause a decline in our customer base or revenue.

The management of and authority to assume interest rate risk is the responsibility of the Asset/Liability Committee ("ALCO"), which is comprised of senior management and board members. The primary objective of Asset/Liability management is to establish prudent risk management guidelines and to coordinate balance sheet composition with interest rate risk management to sustain a reasonable and stable net interest income throughout various interest rate cycles. We have policies and practices for measuring and reporting interest rate risk exposure, through analysis of the net interest margin, gap position, simulation testing, liquidity ratios and the Economic Value of Portfolio Equity. In addition, we annually review our interest rate risk policy, which includes limits on the impact to earnings from shifts in interest rates.

Credit Risk Management

Our strategy for credit risk management focuses on having well-defined credit policies and uniform underwriting criteria and providing prompt attention to potential problem loans. The Bank internally conducts semi-annual commercial real estate stress testing. To further enhance our credit risk management strategy, we engage a third party loan review firm to provide additional portfolio surveillance. When a borrower fails to make a required loan payment, we take a number of steps to attempt to have the borrower cure the delinquency and restore the loan to current status. When the loan becomes 15 days past due, a late charge notice is generated and sent to the borrower and a representative of the Bank attempts to communicate by phone with the borrower to discuss the late payment. If payment is not then received by the 30th day of delinquency, a further notification is sent to the borrower. If no resolution can be achieved, after a loan becomes 90 days delinquent, we may commence foreclosure or other legal proceedings. If a foreclosure action is instituted and the loan is not brought current, paid in full, or refinanced before the foreclosure sale, the real property securing the loan generally is sold at foreclosure. We may consider loan workout arrangements with certain borrowers under certain circumstances.

Management reports to the Board of Directors monthly regarding the amount of loans delinquent more than 30 days, all loans in foreclosure and all foreclosed and repossessed property that we own.

Investment Portfolio

Our investment portfolio consists primarily of obligations of U.S. Government sponsored agencies as well as municipal and government authority bonds, with high grade corporate bonds accounting for less than 10% of the portfolio. Government regulations limit the type and quality of instruments in which the Company may invest its funds.

We conduct our asset/liability management through consultation with members of our Board of Directors, senior management and an outside financial advisor. The asset/liability investment committee, commonly known as an ALCO committee, is comprised of the president, senior officers and certain members of our Board of Directors. The ALCO committee, in consultation with our Board of Directors, is responsible for the review of interest rate risk and evaluates future liquidity needs over various time periods.

We have established a written investment policy which is reviewed annually by the ALCO committee and our Board of Directors that applies to Two River Bancorp and the Bank. The investment policy identifies investment criteria and states specific objectives in terms of risk, interest rate sensitivity and liquidity and emphasizes the quality, term and marketability of the securities acquired for our investment portfolio.

The ALCO committee is responsible for monitoring the investment portfolio and ensuring that investments comply with the investment policy. The ALCO committee may from time to time consult with investment advisors. The Bank’s president and its chief financial officer working with the financial advisor may purchase or sell securities in accordance with the guidelines of the ALCO committee. The Board of Directors review the composition and performance of the investment portfolio, including all transactions, on a monthly basis.

Deposit Products

We emphasize relationships with commercial and individual customers and seek to obtain transaction accounts, which are frequently non-interest bearing deposits or lower cost interest bearing checking, savings and money market deposit accounts.

Deposits are the primary source of funds used in lending and other general business purposes. In addition to deposits, we may derive additional funds from principal repayments on loans, the sale of investment securities and borrowings from other financial institutions. Loan amortization payments have historically been a relatively predictable source of funds. The level of deposit liabilities can vary significantly and is influenced by prevailing interest rates, money market conditions, general economic conditions and competition.

The Bank’s deposits consist of checking accounts, savings accounts, money market accounts and certificates of deposit. All deposits are obtained from individuals, partnerships, corporations and unincorporated businesses in our market area. The Bank participates in CDARS, a service that enables us to provide our customers with additional FDIC insurance on CD products. We attempt to control the flow of deposits primarily by pricing our accounts to remain generally competitive with other financial institutions in our market area.

Business Growth Strategy

Our current plan for growth includes expanding our deposit product line, enhancing our electronic delivery channels and looking for opportunities to expand and optimize our branch network. We are focusing on establishing a market presence in the communities between Union and Monmouth counties by adding strategically located new offices and considering selective acquisitions that would be accretive to earnings within the first full year of combined operations. An example is the planned opening of a branch in New Brunswick in early 2014, which was made possible by the business generated by our New Brunswick regional loan production office. During 2013, the Bank opened three regional lending offices in Freehold, Piscataway, and East Brunswick, New Jersey, for the purpose of expanding our presence in these communities. We believe that this strategy continues to build shareholder value and increase revenues and earnings per share by creating a larger base of lending and deposit relationships and achieving economics of scale and other efficiencies. Our efforts include looking for potential new retail banking offices in markets where we have established lending relationships, as well as exploring opportunities to grow and add other profitable banking-related businesses. We believe that by establishing banking offices and making selective acquisitions in attractive growth markets while providing exemplary customer service, our core deposits will naturally increase.

In March 2013, the Company filed the requisite applications to close its existing smaller branch in Red Bank as well as its Cliffwood branch. The closures were finalized in June 2013. Management believes that the closure of both offices is in line with the strategic plans of optimizing the profitability of the branch network. There has been minimal loss of customer relationships due to these closures and we anticipate an annual pre-tax savings of approximately $290,000.

Supervision and Regulation

Overview

Two River Bancorp operates within a system of banking laws and regulations intended to protect bank customers and depositors, and these laws and regulations govern the permissible operations and management, activities, reserves, loans and investments of the Company.

Two River Bancorp is a bank holding company under the Federal Bank Holding Company Act of 1956 (“BHCA”), as amended by the Financial Modernization Act of 1999, known as the Gramm-Leach-Bliley Act, and is subject to the supervision of the Board of Governors of the Federal Reserve System (the “Federal Reserve”). In general, the BHCA limits the business of bank holding companies to banking, managing or controlling banks, and performing certain servicing activities for subsidiaries and, as a result of the Gramm-Leach-Bliley Act amendments, permits bank holding companies that are also financial holding companies to engage in any activity, or acquire and retain the shares of any company engaged in any activity, that is either (1) financial in nature or incidental to such financial activity or (2) complementary to a financial activity and does not pose a substantial risk to the safety and soundness of depository institutions or the financial system generally. In order for a bank holding company to engage in the broader range of activities that are permitted by the BHCA for bank holding companies that are also financial holding companies, upon satisfaction of certain regulatory criteria, the bank holding company must file a declaration with the Federal Reserve Board that it elects to be a “financial holding company.” Two River Bancorp does not presently intend to seek a “financial holding company” designation at this time, and does not believe that the current decision not to seek a financial holding company designation will adversely affect its ability to compete in its chosen markets. We believe that seeking such a designation for Two River Bancorp would not position it to compete more effectively in the offering of products and services currently offered by the Bank. Two River Bancorp is also subject to other federal laws and regulations as well as the corporate laws and regulations of New Jersey, the state of its incorporation.

The BHCA prohibits the Company, with certain exceptions, from acquiring direct or indirect ownership or control of more than five percent of the voting shares of any company which is not a bank and from engaging in any business other than that of banking, managing and controlling banks or furnishing services to subsidiary banks. The BHCA requires prior approval by the Federal Reserve Board of the acquisition by the Company of more than five percent of the voting stock of any other bank. Satisfactory capital ratios, Federal Community Reinvestment Act ratings and anti-money laundering policies are generally prerequisites to obtaining federal regulatory approval to make acquisitions.

The Bank is a commercial bank chartered under the laws of the State of New Jersey and is subject to the New Jersey Banking Act of 1948 (the “Banking Act”). As such, it is subject to regulation, supervision and examination by the New Jersey Department of Banking and Insurance and by the FDIC. Each of these agencies regulates aspects of activities conducted by the Bank and Two River Bancorp, as discussed below. The Bank is not a member of the Federal Reserve Bank of New York.

The following descriptions summarize some of the more recent changes to the key laws and regulations to which the Bank is subject, and to which Two River Bancorp is subject as a registered bank holding company. These descriptions are not intended to be complete and are qualified in their entirety by reference to the full text of the statutes and regulations. Future changes in these laws and regulations, or in the interpretation and application thereof by their administering agencies, cannot be predicted, but could have a material effect on the business and results of Two River Bancorp and the Bank.

Small Business Lending Fund

On August 11, 2011, the Company received $12 million under the Small Business Lending Fund (“SBLF”), created as part of the Small Business Jobs Act. The SBLF provided Tier 1 capital to community banks with assets of $10 billion or less, and terms of this capital contain incentives for making small business loans, defined as certain loans of up to $10 million to businesses with up to $50 million in annual revenues. In exchange for the $12 million, the Company issued to the U.S. Department of the Treasury (“Treasury”) 12,000 shares of its Non-Cumulative Perpetual Preferred Stock, Series C, having a $1,000 liquidation preference per share (the “SBLF Preferred Shares”). The SBLF Preferred Shares qualify as Tier 1 capital.

Dividend rates on the SBLF Preferred Shares were determined by the bank’s lending practices with small business loans. The Company used a portion of the proceeds of the SBLF funds to redeem the full $9.0 million of its outstanding shares of Senior Preferred Stock, Series A, (the “TARP Preferred Shares”), previously issued to the Treasury under the Troubled Asset Relief Program Capital Purchase Plan (“TARP CPP”). The TARP Preferred Shares, issued under TARP CPP, qualified as Tier 1 capital.

The terms of the SBLF Preferred Shares impose limits on the ability of the Company to pay dividends and repurchase shares of common stock. Under the terms of the SBLF Preferred Shares, no repurchases may be effected, and no dividends may be declared or paid on preferred shares ranking pari passu with the SBLF Preferred Shares, junior preferred shares, or other junior securities (including the common stock) during the current quarter and for the next three quarters following the failure to declare and pay dividends on the SBLF Preferred Shares, except that, in any such quarter in which the dividend is paid, dividend payments on shares ranking pari passu may be paid to the extent necessary to avoid any resulting material covenant breach.

Under the terms of the SBLF Preferred Shares, the Company may only declare and pay a dividend on the common stock or other stock junior to the SBLF Preferred Shares, or repurchase shares of any such class or series of stock, if, after payment of such dividend, the dollar amount of the Company’s Tier 1 Capital would be at least $54.4 million, excluding any subsequent net charge-offs and any redemption of the SBLF Preferred Shares (the “Tier 1 Dividend Threshold”).

After 10 years, if the SBLF Preferred Shares are not redeemed, the dividend rate will increase to the highest possible dividend rate as permitted by the Company’s regulators. Dividends are payable quarterly on January 1, April 1, July 1 and October 1 of each year. During the quarters ended March 31, June 30, September 30 and December 31, 2013, the dividend rate on the SBLF Preferred Shares was 3.511%, 2.000%, and 1.000% for both September and December quarters, respectively, and will remain fixed at 1.000% for two years, when it will increase to 9.000%.

Incentive Compensation

In June 2010, the Federal Reserve, the Office of the Currency Comptroller and FDIC issued comprehensive final guidance on incentive compensation policies intended to ensure that the incentive compensation policies of banking organizations do not undermine the safety and soundness of such organizations by encouraging excessive risk-taking. The guidance, which covers all employees that have the ability to materially affect the risk profile of an organization, either individually or as part of a group, is based upon the key principles that a banking organization's incentive compensation arrangements should (i) provide incentives that do not encourage risk-taking beyond the organization's ability to effectively identify and manage risks, (ii) be compatible with effective internal controls and risk management, and (iii) be supported by strong corporate governance, including active and effective oversight by the organization's board of directors. Also, in April 2011, the FDIC published a proposed interagency rule to implement certain incentive compensation requirements of the Dodd-Frank Act. Under the proposed rule, financial institutions must prohibit incentive-based compensation arrangements that encourage inappropriate risk taking that are deemed excessive or that may lead to material losses.

The Federal Reserve will review, as part of the regular, risk-focused examination process, the incentive compensation arrangements of banking organizations, such as us, that are not "large, complex banking organizations." These reviews will be tailored to each organization based on the scope and complexity of the organization's activities and the prevalence of incentive compensation arrangements. The findings of the supervisory initiatives will be included in reports of examination. Deficiencies will be incorporated into the organization's supervisory ratings, which can affect the organization's ability to make acquisitions and take other actions. Enforcement actions may be taken against a banking organization if its incentive compensation arrangements, or related risk-management control or governance processes, pose a risk to the organization's safety and soundness and the organization is not taking prompt and effective measures to correct the deficiencies.

The scope and content of the U.S. banking regulators' policies on executive compensation are continuing to develop and are likely to continue evolving in the near future. It cannot be determined at this time whether compliance with such policies will adversely affect the ability of the Company and the Bank to hire, retain and motivate their key employees.

Dividend Restrictions

The primary source of cash to pay dividends to the Company's shareholders and to meet the Company's obligations is dividends paid to the Company by the Bank. Dividend payments by the Bank to the Company are subject to the laws of the State of New Jersey, the Banking Act, the Federal Deposit Insurance Act ("FDIA") and the regulation of the New Jersey State Department of Banking and Insurance and of the Federal Reserve. Under the Banking Act and the FDIA, a bank may not pay any dividends if, after paying such dividends, it would be undercapitalized under applicable capital requirements. In addition to these explicit limitations, the federal regulatory agencies are authorized to prohibit a banking subsidiary or bank holding company from engaging in unsafe or unsound banking practices. Depending upon the circumstances, the agencies could take the position that paying a dividend would constitute an unsafe or unsound banking practice.

It is the policy of the Federal Reserve Board that bank holding companies should pay cash dividends on common stock only out of income available from the immediately preceding year and only if prospective earnings retention is consistent with the organization’s expected future needs and financial condition. The policy provides that bank holding companies should not maintain a level of cash dividend that undermines the bank holding company’s ability to serve as a source of strength to its banking subsidiary. A bank holding company may not pay dividends when it is insolvent.

The terms of the SBLF Preferred Shares impose limits on the ability of the Company to pay dividends and repurchase shares of common stock. Under the terms of the SBLF Preferred Shares, no repurchases may be effected, and no dividends may be declared or paid on preferred shares ranking pari passu with the SBLF Preferred Shares, junior preferred shares, or other junior securities (including the common stock) during the current quarter and for the next three quarters following the failure to declare and pay dividends on the SBLF Preferred Shares, except that, in any such quarter in which the dividend is paid, dividend payments on shares ranking pari passu may be paid to the extent necessary to avoid any resulting material covenant breach.

Under the terms of the SBLF Preferred Shares, the Company may only declare and pay a dividend on the common stock or other stock junior to the SBLF Preferred Shares, or repurchase shares of any such class or series of stock, if, after payment of such dividend, the dollar amount of the Company’s Tier 1 Capital would be at least $54.4 million, excluding any subsequent net charge-offs and any redemption of the SBLF Preferred Shares.

In 2013, Two River Bancorp paid $484,000 in cash dividends to common shareholders and $261,000 in dividends on the SBLF Preferred Shares.

Transactions with Affiliates

Banking laws and regulations impose certain restrictions on the ability of bank holding companies to borrow from and engage in other transactions with their subsidiary banks. Generally, these restrictions require that any extensions of credit must be secured (at levels of 100% and more) by designated amounts of specified collateral and be limited to (i) 10% of the bank's capital stock and surplus per non-bank affiliated borrower, and (ii) 20% of the bank's capital stock and surplus aggregated as to all non-bank affiliated borrowers. In addition, certain transactions with affiliates must be on terms and conditions, including credit standards, at least as favorable to the institution as those prevailing for arms-length transactions.

FIRREA

Under the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 ("FIRREA"), a depository institution insured by the FDIC can be held liable for any loss incurred by, or reasonably expected to be incurred by, the FDIC in connection with (i) the default of a commonly controlled FDIC-insured depository institution or (ii) any assistance provided by the FDIC to a commonly controlled FDIC-insured depository institution in danger of default. These provisions have commonly been referred to as FIRREA's "cross guarantee" provisions. Further, under FIRREA, the failure to meet capital guidelines could subject a bank to a variety of enforcement remedies available to federal regulatory authorities.

FIRREA also imposes certain independent appraisal requirements upon a bank's real estate lending activities and further imposes certain loan-to-value restrictions on a bank's real estate lending activities. The bank regulators have promulgated regulations in these areas.

Deposit Insurance

All U.S. banks are required to have their deposits insured by the FDIC. On July 21, 2010, the President signed into law the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"). As a result of changes made by the Dodd-Frank Act, the maximum amount of deposit insurance per depositor is $250,000, an increase from the old limit of $100,000. The FDIC charges premiums or "assessments" to pay for the deposit insurance provided. These assessments are based on the average total assets of a bank minus the bank's average tangible equity.

Deposit insurance assessments have been "risk based," in that the riskier a bank's perceived business activities, the higher deposit insurance rate it has to pay. All banks are assigned to one of four "risk categories" by the FDIC, pursuant to their capital levels and examination results. The assignment to a particular risk category is made by the FDIC each quarter based on the most recent information available. Then, the FDIC applies certain adjustments to each bank based on its specific asset attributes to determine a final assessment ratio. As discussed above, these assessments are based on assets, not deposits, and the assessment rates will range from 2.5 basis points to 45 basis points. In addition, the assessment rate for large banks (those over $10 billion in assets) is derived from a formula that that further takes into account specific activities and asset quality of a particular bank. Our bank is well below the $10 billion threshold for this additional assessment calculation.

The Dodd-Frank Act requires the deposit insurance fund to reach a reserve level of 1.35% of all insured deposits by September 2020, and authorizes the FDIC to implement changes in assessment rates in order to achieve such level. The Dodd-Frank Act authorizes the FDIC to establish a “designated reserve ratio” (which the FDIC has now set at 2.0%), and to reduce or eliminate assessments if the designated reserve ratio is met. If the deposit fund reserve ratio is 2.5% or more, the FDIC is authorized, but not required, to return assessments to banks. Given that most experts believe that the deposit fund will continue to incur losses over the short term for bank failures that have occurred and will occur from the financial crisis, it is expected that all banks will have to pay significant amounts of deposit insurance assessments for the foreseeable future, with little likelihood of reductions in deposit insurance assessments (or return of assessments paid) unless there is a material improvement in the economy and the health of the financial industry.

Capital Adequacy

The Federal Reserve has adopted risk-based capital guidelines for banks and bank holding companies. The minimum guideline for the ratio of total capital to risk-weighted assets is 8%. At least half of the total capital is to be comprised of common stock, retained earnings, minority interests in the equity accounts of consolidated subsidiaries, noncumulative perpetual preferred stock and a limited amount of qualifying cumulative perpetual preferred stock, less goodwill and certain other intangibles (“Tier 1 Capital”). The remainder may consist of other preferred stock, certain other instruments and a portion of the loan loss allowance (“Tier II Capital”). “Total Capital” is the sum of Tier I Capital and Tier II Capital.

In addition, the Federal Reserve has established minimum leverage ratio guidelines for banks and bank holding companies. These guidelines provide for a minimum ratio of Tier 1 Capital to average total assets of 3% for banks that meet certain specified criteria, including having the highest regulatory rating. All other banks and bank holding companies generally are required to maintain a leverage ratio of at least 3% plus an additional cushion of 100 to 200 basis points. At December 31, 2013, Two River Bancorp's' leverage ratio was 10.40%.

The Company's and the Bank's capital ratios at December 31, 2013 and 2012 are set forth in "Management's Discussion and Analysis of Financial Condition and Results of Operations – Capital Resource." Both the Company and the Bank were "well-capitalized" at December 31, 2013.

Basel III Capital Rules. In June 2012, the federal bank regulatory agencies issued a series of proposed revisions to the agencies' capital adequacy guidelines and prompt corrective action rules, which were designed to enhance such requirements and implement the revised standards of the Basel Committee on Banking Supervision, commonly referred to as Basel III. In July 2013, the federal bank regulatory agencies adopted final rules, which differ in certain respects from the June 2012 proposals.

The July 2013 final rules generally implement higher minimum capital requirements, add a new common equity tier 1 capital requirement, and establish criteria that instruments must meet to be considered common equity tier 1 capital, additional tier 1 capital or tier 2 capital. The new minimum capital to risk-adjusted assets requirements are a common equity tier 1 capital ratio of 4.5% (6.5% to be considered "well capitalized") and a tier 1 capital ratio of 6.0%, increased from 4.0% (and increased from 6.0% to 8.0% to be considered "well capitalized"); the total capital ratio remains at 8.0% under the new rules (10.0% to be considered "well capitalized").

Under the new rules, in order to avoid limitations on capital distributions (including dividend payments and certain discretionary bonus payments to executive officers), a banking organization must hold a capital conservation buffer comprised of common equity tier 1 capital above its minimum risk-based capital requirements in an amount greater than 2.5% of total risk-weighted assets. The new minimum capital requirements are effective on January 1, 2015. The capital contribution buffer requirements phase in over a three-year period beginning January 1, 2016.

The Company and the Bank will continue to analyze these new rules and their effects on the business, operations and capital levels of the Company and the Bank.

Prompt Corrective Action

The Federal Deposit Insurance Act (FDIA) requires federal banking regulators to take prompt corrective action with respect to depository institutions that do not meet minimum capital requirements. Failure to meet minimum requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have an adverse material effect on Two River Bancorp's financial condition. Under the FDIA's Prompt Corrective Action Regulations, the Bank must meet specific capital guidelines that involve quantitative measures of its assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices.

The Prompt Corrective Action Regulations define specific capital categories based on an institution's capital ratios. The capital categories, in declining order, are "well capitalized," "adequately capitalized," "undercapitalized," "significantly undercapitalized," and "critically undercapitalized." The FDIA imposes progressively more restrictive constraints on operations, management and capital distributions, depending on the capital category by which the institution is classified. Institutions categorized as "undercapitalized" or worse may be subject to requirements to file a capital plan with their primary federal regulator, prohibitions on the payment of dividends and management fees, restrictions on asset growth and executive compensation, and increased supervisory monitoring, among other things. Other restrictions may be imposed on the institution by the regulatory agencies, including requirements to raise additional capital, sell assets or sell the entire institution. Once an institution becomes "critically undercapitalized," it generally must be placed in receivership or conservatorship within 90 days.

The appropriate federal banking agency may, under certain circumstances, reclassify a well-capitalized insured depository institution as adequately capitalized. The appropriate agency is also permitted to require an adequately capitalized or undercapitalized institution to comply with the supervisory provisions as if the institution were in the next lower category (but not to treat a significantly undercapitalized institution as critically undercapitalized) based on supervisory information other than an institution's capital levels.

Unsafe and Unsound Practices

Notwithstanding its Prompt Corrective Action Regulations category dictated by risk-based capital ratios, the FDIA permits the appropriate bank regulatory agency to reclassify an institution if it determines, after notice and a hearing, that the condition of the institution is unsafe or unsound, or if it deems the institution to be engaging in an unsafe or unsound practice. Also, if a federal regulatory agency with jurisdiction over a depository institution believes that the depository institution will engage, is engaging, or has engaged in an unsafe or unsound practice, the regulator may require that the bank cease and desist from such practice, following notice and a hearing on the matter.

The USA PATRIOT Act

On October 26, 2001, the President of the United States signed into law certain comprehensive anti-terrorism legislation known as the USA PATRIOT Act of 2001. Title III of the USA PATRIOT Act substantially broadened the scope of the U.S. anti-money-laundering laws and regulations by imposing significant new compliance and due diligence obligations on financial institutions, creating new crimes and penalties and expanding the extra-territorial jurisdiction of the United States. The Treasury has issued a number of implementing regulations which apply various requirements of the USA PATRIOT Act to financial institutions such as the Bank. Those regulations impose new obligations on financial institutions to maintain appropriate policies, procedures and controls to detect, prevent and report money laundering and terrorist financing.

Failure of a financial institution to comply with the USA PATRIOT Act's requirements could have serious legal consequences for the institution and adversely affect its reputation. Two River Bancorp and the Bank adopted policies, procedures and controls designed to address compliance with the requirements of the USA PATRIOT Act under the existing regulations and will continue to revise and update its policies, procedures and controls to reflect changes required by the USA PATRIOT Act and by Treasury regulations.

Community Reinvestment Act

The Federal Community Reinvestment Act ("CRA") requires banks to respond to the full range of credit and banking needs within their communities, including the needs of low and moderate-income individuals and areas. A bank's failure to address the credit and banking needs of all socio-economic levels within its markets may result in restrictions on growth and expansion opportunities for the bank, including restrictions on new branch openings, relocation, formation of subsidiaries, mergers and acquisitions. Upon completion of a CRA examination, an overall CRA rating is assigned using a four-tiered rating system. These ratings are: Outstanding, Satisfactory, Needs to Improve, and Substantial Noncompliance.

In the latest CRA performance evaluation examination report with respect to the Bank, dated July 2, 2012, the Bank received a rating of Satisfactory.

Consumer Privacy

The Gramm-Leach-Bliley Act modified laws relating to financial privacy. Its financial privacy provisions generally prohibit financial institutions, including Two River Bancorp and the Bank, from disclosing or sharing nonpublic personal financial information to third parties for marketing or other purposes not related to transactions, unless customers have an opportunity to “opt out” of authorizing such disclosure, and have not elected to do so. It has never been the policy of Two River Bancorp or the Bank, to release such information except as may be required by law.

Loans to One Borrower

Federal banking laws limit the amount a bank may lend to a single borrower to 15% of the bank’s capital base, unless the entire amount of the loan is secured by adequate amounts of readily marketable collateral. However, no loan to one borrower may exceed 25% of a bank’s statutory capital, notwithstanding collateral pledged to secure it.

New Jersey banking law limits the total loans and extensions of credit by a bank to one borrower at one time to 15% of the capital funds of the bank when the loan is fully secured by collateral having a market value at least equal to the amount of the loans and extensions of credit. Such loans and extensions of credit are limited to 10% of the capital funds of the bank when the total loans and extensions of credit by a bank to one borrower at one time are fully secured by readily available marketable collateral having a market value (as determined by reliable and continuously available price quotations) at least equal to the amount of funds outstanding. This 10% limitation is separate from and in addition to the 15% limitation noted in the beginning of this paragraph. If a bank’s lending limit is less than $500,000, the bank may nevertheless have total loans and extensions of credit outstanding to one borrower at one time not to exceed $500,000. At December 31, 2013, the Bank’s lending limit to one borrower was $12.8 million.

Sarbanes-Oxley Act of 2002

The Sarbanes-Oxley Act of 2002 (the “Sarbanes-Oxley Act”), which became law on July 30, 2002, created new legal requirements affecting corporate governance, accounting and corporate reporting for companies with publicly traded securities.

The Sarbanes-Oxley Act provides for, among other things:

- a prohibition on personal loans made or arranged by the issuer to its directors and executive officers (except for loans made by a bank subject to Regulation O);
- independence requirements for audit committee members;
- disclosure of whether at least one member of the audit committee is a “financial expert” (as such term is defined by the SEC) and if not, why not;
- independence requirements for outside auditors;
- certification of financial statements and reports on Forms 10-K and 10-Q by the chief executive officer and the chief financial officer;
- the forfeiture of bonuses or other incentive-based compensation and profits from the sale of an issuer’s securities by directors and senior officers in the twelve month period following initial publication of any financial statements that later require restatement due to corporate misconduct;
- disclosure of a code of ethics for financial officers and filing a Form 8-K for a change or waiver of such code; and
- various increased criminal penalties for violations of securities laws.

Additionally, Section 404 of the Sarbanes-Oxley Act requires that a public company subject to the reporting requirements of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), include in its annual report (i) a management’s report on internal control over financial reporting assessing the company’s internal controls, and (ii) for larger publicly traded companies, an auditor’s attestation report, completed by the independent registered public accounting firm that prepares or issues an accountant’s report that is included in the company’s annual report, attesting to the effectiveness of management's internal controls over financial reporting. Because we are neither a "large accelerated filer" nor an "accelerated filer," compliance with the auditor's attestation report requirement is not required.

All of the national stock exchanges, including the Nasdaq Capital Market where our common stock is listed, have implemented corporate governance rules, including rules strengthening director independence requirements for boards, and the adoption of charters for the nominating, corporate governance, and audit committees. The rule changes are intended to, among other things, make the Board of Directors independent of management and allow shareholders to more easily and efficiently monitor the performance of companies and directors. These increased burdens have increased our legal and accounting fees and the amount of time that our Board of Directors and management must devote to corporate governance issues.

Dodd-Frank Act

The Dodd-Frank Act, which was enacted in July 2010, significantly restructured financial regulation in the United States, including through the creation of a new resolution and regulatory authority, mandating higher capital and liquidity requirements, and requiring banks to pay increased fees to regulatory agencies.

The implications of the Dodd-Frank Act for the Company's businesses will depend to a large extent on the manner in which rules adopted pursuant to the Dodd-Frank Act are implemented by the primary U.S. financial regulatory agencies, as well as potential changes in market practices and structures in response to the requirements of the Dodd-Frank Act and financial reforms in other jurisdictions. Among other things:

The Dodd-Frank Act repealed the federal prohibitions on the payment of interest on demand deposits, thereby permitting depository institutions to pay interest on business transaction and other accounts. Depending on competitive responses, this significant change to existing law could have an adverse impact on the Company's interest expense.

The Dodd-Frank Act also broadens the base for FDIC insurance assessments. Assessments will now be based on the average consolidated total assets less tangible equity capital of a financial institution.

The Dodd-Frank Act also permanently increases the maximum amount of deposit insurance for banks, savings institutions and credit unions to $250,000 per depositor.

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

The Dodd-Frank Act centralized responsibility for consumer financial protection by creating a new agency, the Consumer Financial Protection Bureau (“CFPB”), and giving it responsibility for implementing, examining and enforcing compliance with federal consumer protection laws.

The “Durbin Amendment” provisions of the Dodd-Frank Act provided that debit card interchange fees must be reasonable and proportional to the cost incurred by the issuer with respect to the transaction. In June 2011, the Federal Reserve adopted regulations setting the maximum permissible interchange fee as the sum of 21 cents per transaction and 5 basis points multiplied by the value of the transaction, with an additional adjustment of up to one cent per transaction if the issuer implements certain fraud-prevention standards.

The Dodd-Frank Act created a new systemic risk oversight body, the Financial Stability Oversight Council (“FSOC”), to oversee and coordinate the efforts of the primary U.S. financial regulatory agencies in establishing regulations to address financial stability concerns.

The Dodd-Frank Act directs the FSOC to make recommendations to the Federal Reserve as to enhanced supervision and prudential standards applicable to large, interconnected financial institutions, including bank holding companies with total consolidated assets of $50 billion or more, and authorizes the Federal Reserve to establish such standards either on its own or upon the recommendations of the FSOC.

The Dodd-Frank Act includes provisions permitting national and insured state banks to engage in *de novo* interstate branching if, under the laws of the state where the new branch is to be established, as state bank chartered in that state would be permitted to establish a branch.

The Dodd-Frank Act requires various U.S. financial regulatory agencies to implement comprehensive rules governing the supervision, structure, trading and regulation of swap and over-the-counter derivative markets and participants.

The Dodd-Frank Act requires the federal financial regulatory agencies to adopt rules that prohibit banks and their affiliates from engaging in proprietary trading and investing in and sponsoring certain unregistered investment companies (defined as hedge funds and private equity funds), with implementation starting as early as July 2012. The statutory provision is commonly referred to as the “Volcker Rule.” We do not currently anticipate that the Volcker Rule will have a material effect on our operations, although adjustments to the rule will undoubtedly be made.

In October 2011, the Federal Reserve issued a final rule implementing resolution planning requirements in the Dodd-Frank Act. The final rule requires bank holding companies with assets of $50 billion or more and nonbank financial firms designated by FSOC for supervision by the Federal Reserve to annually submit resolution plans to the FDIC and Federal Reserve. Each plan shall describe the company's strategy for rapid and orderly resolution in bankruptcy during times of financial distress. Under the final rule, companies will submit their initial resolution plans on a staggered basis.

Executive Compensation

The Dodd-Frank Act provides for a say on pay for shareholders of all public companies. Under the Dodd-Frank Act, each company must give its shareholders the opportunity to vote on the compensation of its executives at least once every three years. The Dodd-Frank Act also adds disclosure and voting requirements for golden parachute compensation that is payable to named executive officers in connection with sale transactions.

The SEC is required under the Dodd-Frank Act to issue rules obligating companies to disclose in proxy materials for annual meetings of shareholders information that shows the relationship between executive compensation actually paid to their named executive officers and their financial performance, taking into account any change in the value of the shares of a company's stock and dividends or distributions.

The Dodd-Frank Act provides that the SEC must issue rules directing the stock exchanges to prohibit listing any security of a company unless the company develops and implements a policy providing for disclosure of the policy of the company on incentive-based compensation that is based on financial information required to be reported under the securities laws and that, in the event the company is required to prepare an accounting restatement due to the material noncompliance of the company with any financial reporting requirement under the securities laws, the company will recover from any current or former executive officer of the company who received incentive-based compensation during the three-year period preceding the date on which the company is required to prepare the restatement based on the erroneous data, any exceptional compensation above what would have been paid under the restatement.

Corporate Governance

The Dodd-Frank Act requires the SEC, by rule, to require that each company disclose in the proxy materials for its annual meetings whether an employee or board member is permitted to purchase financial instruments designed to hedge or offset decreases in the market value of equity securities granted as compensation or otherwise held by the employee or board member.

The Dodd-Frank Act clarifies that the SEC may, but is not required to, promulgate rules that would require that a company’s proxy materials include a nominee for the board of directors submitted by a shareholder. Although the SEC promulgated rules to accomplish this, these rules were invalidated by a federal appeals court decision. The SEC has said that they will not challenge the ruling, but has not ruled out the possibility that new rules could be proposed.

The Dodd-Frank Act requires stock exchanges to have rules prohibiting their members from voting securities that they do not beneficially own (unless they have received voting instructions from the beneficial owner) with respect to the election of a member of the board of directors (other than an uncontested election of directors of an investment company registered under the Investment Company Act of 1940), executive compensation or any other significant matter, as determined by the SEC by rule.

FDIC Matters and Resolution Planning

The Dodd-Frank Act created an orderly liquidation process that the FDIC can employ for failing financial companies that are not insured depository institutions. The Dodd-Frank Act gives the FDIC new authority to create a widely available emergency financial stabilization program to guarantee the obligations of solvent depository institutions and their holding companies and affiliates during times of severe economic stress. Additionally, Dodd-Frank also codifies many of the temporary changes that had already been implemented, such as permanently increasing the amount of deposit insurance to $250,000.

New laws or regulations or changes to existing laws and regulations (including changes in interpretation or enforcement) could materially adversely affect our financial condition or results of operations. Many aspects of the Dodd-Frank Act are subject to further rulemaking and interpretation, and will take effect over several years. The overall financial impact on the Company and its subsidiaries or the financial services industry generally cannot be anticipated at this time.

Overall Impact of New Legislation and Regulations

Various legislative initiatives are from time to time introduced in Congress and in the New Jersey State Legislature. It cannot be predicted whether or to what extent the business and condition of Two River Bancorp or the Bank will be affected by new legislation or regulations, and legislation or regulations as yet to be proposed or enacted. Given that the financial industry remains under stress and severe scrutiny, and given that the U.S. economy has not yet fully recovered to pre-crisis levels of activity, we fully suspect that there will be significant legislation and regulatory actions that will materially affect the banking industry generally and our bank specifically for the foreseeable future.

Available Information

The Company maintains a website at www.tworiverbank.com. The Company makes available on its website free of charge its annual reports on Form 10-K, quarterly reports on Form 10-Q, Extensible Business Reporting Language (“XBRL”), a standards-based way to communicate and exchange business information between business systems, and current reports on Form 8-K, and amendments to those reports which are filed with or furnished to the SEC pursuant to Section 13(a) of the Securities Exchange Act of 1934. These documents are made available on the Company’s website as soon as reasonably practicable after they are electronically filed with or furnished to the SEC. Also available on the website are our Code of Conduct, our Shareholder Communications Policy and the charters of our Nominating and Corporate Governance Committee, Audit Committee, and Compensation Committee.

Item 1A. Risk Factors.

The following are some important factors that could cause the Company's actual results to differ materially from those referred to or implied in any forward-looking statement. These are in addition to the risks and uncertainties discussed elsewhere in this Annual Report on Form 10-K and the Company's other filings with the SEC.

Our dependence on loans secured by real estate subjects us to risks relating to fluctuations in the real estate market and related interest rates, and to legislation that could result in significant additional costs and capital requirements, which could adversely affect our financial condition and results of operations.

Approximately 90.5% of our loan portfolio as of December 31, 2013 was comprised of loans collateralized by real estate, with 98.3% of the real estate located in New Jersey. The real estate collateral in each case provides an alternate source of repayment in the event of default by the borrower and may deteriorate in value during the time the credit is extended. A weakening of the real estate market in our primary market areas could have an adverse effect on the demand for new loans, the ability of borrowers to repay outstanding loans, the value of real estate and other collateral securing the loans and the value of real estate owned by us. As real estate values decline, it is also more likely that we would be required to make provisions for additional loan losses, which could adversely affect our financial condition and results of operations.

As of December 31, 2013, we had $83.1 million, or 13.8%, of our total loans in real estate construction loans. Of this amount, $1.6 million were land loans and $43.2 million were made to finance residential construction with an identified purchaser. Substantially all of these loans are located in Monmouth and Union counties, New Jersey. Further, $38.3 million of real estate construction loans were made to finance commercial construction. Construction loans are subject to risks during the construction phase that are not present in standard residential real estate and commercial real estate loans. These risks include:

- the viability of the contractor;
- the value of the project being subject to successful completion;
- the contractor's ability to complete the project, to meet deadlines and time schedules and to stay within cost estimates; and
- concentrations of such loans with a single contractor and its affiliates.

Real estate construction loans also present risks of default in the event of declines in property values or volatility in the real estate market during the construction phase. If we are forced to foreclose on a project prior to completion, we may not be able to recover the entire unpaid portion of the loan, may be required to fund additional amounts to complete a project and may have to hold the property for an indeterminate amount of time. If any of these risks were to occur, it could adversely affect our financial condition, results of operations and cash flows.

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

Our commercial real estate and commercial loans expose us to increased credit risks, and these risks will increase if we succeed in increasing these types of loans.

We focus our lending efforts on commercial-related loans and intend to grow commercial real estate and commercial loans further as a proportion of our portfolio. As of December 31, 2013, commercial real estate loans and commercial and industrial loans totaled $462.6 million. In general, commercial real estate loans and commercial and industrial loans yield higher returns and often generate a deposit relationship, but also pose greater credit risks than do owner-occupied residential real estate loans. As our various commercial-related loan portfolios increase, the corresponding risks and potential for losses from these loans will also increase.

We make both secured and some unsecured commercial and industrial loans. Unsecured loans generally involve a higher degree of risk of loss than do secured loans because, without collateral, repayment is wholly dependent upon the success of the borrowers' businesses. Secured commercial and industrial loans are generally collateralized by accounts receivable, inventory, equipment or other assets owned by the borrower and include a personal guaranty of the business owner. Compared to real estate, that type of collateral is more difficult to monitor, its value is harder to ascertain, it may depreciate more rapidly and it may not be as readily saleable if repossessed. Further, commercial and industrial loans generally will be serviced primarily from the operation of the business, which may not be successful, and commercial real estate loans generally will be serviced from income on the properties securing the loans.

Our financial condition and results of operations would be adversely affected if our allowance for loan losses is not sufficient to absorb actual losses or if we are required to increase our allowance.

Despite our underwriting criteria, we may experience loan delinquencies and losses. In order to absorb losses associated with non-performing loans, we maintain an allowance for loan losses based on, among other things, historical experience, an evaluation of economic conditions, and regular reviews of delinquencies and loan portfolio quality. Determination of the allowance inherently involves a high degree of subjectivity and requires us to make significant estimates of current credit risks and future trends, all of which may undergo material changes. At any time there are likely to be loans in our portfolio that will result in losses but that have not been identified as non-performing or potential problem credits. We cannot be sure that we will be able to identify deteriorating credits before they become non-performing assets or that we will be able to limit losses on those loans that are identified.

We may be required to increase our allowance for loan losses for any of several reasons. State and federal regulators, in reviewing our loan portfolio as part of a regulatory examination, may request that we increase our allowance for loan losses. Changes in economic conditions affecting borrowers, new information regarding existing loans, identification of additional problem loans and other factors, both within and outside of our control, may require an increase in our allowance. In addition, if charge-offs in future periods exceed our allowance for loan losses, we will need additional increases in our allowance for loan losses. Any increases in our allowance for loan losses will result in a decrease in our net income and, possibly, our capital, and may materially affect our results of operations in the period in which the allowance is increased.

Negative developments in the financial services industry and the U.S. and global credit markets may adversely impact our operations and results.

Due to the negative developments in the financial services industry over the last six years, there is a potential for new federal or state laws and regulations regarding lending and funding practices and liquidity standards, and financial institution regulatory agencies have been very aggressive in responding to concerns and trends identified in examinations, including the expected issuance of many formal enforcement actions. Further negative developments in the financial services industry and the impact of new legislation in response to those developments could negatively impact our operations by restricting our business operations, including our ability to originate or sell loans, and adversely impact our financial performance.

The effects of Superstorm Sandy or similar natural disaster may negatively impact collateral values or loan originations in the areas in which we do business.

On October 29, 2012, Superstorm Sandy made landfall in New Jersey, causing widespread property damage throughout the northeastern United States, including our primary market area in New Jersey. A similar or worse natural disaster than Superstorm Sandy could have a material adverse effect. Natural disasters can disrupt our operations, result in damage to our properties, reduce or destroy the value of the collateral for our loans and negatively affect the local economies in which we operate, which could have a material adverse effect on our results of operations and financial condition. The occurrence of a natural disaster could result in one or more of the following: (i) an increase in loan delinquencies; (ii) an increase in problem assets and foreclosures; (iii) a decrease in the demand for our products and services; or (iv) a decrease in the value of the collateral for loans, especially real estate, in turn reducing customers’ borrowing power, the value of assets associated with problem loans and collateral coverage.

The Company’s profitability depends significantly on local economic conditions.

The Company’s success depends primarily on the general economic conditions of the primary markets in New Jersey in which it operates and where its loans are concentrated. Unlike nationwide banks that are more geographically diversified, the Company provides banking and financial services to customers primarily in Monmouth, Union and Middlesex counties, New Jersey. The local economic conditions in these areas have a significant impact on the Company’s commercial and industrial, real estate and construction loans, the ability of its borrowers to repay their loans and the value of the collateral securing these loans. In addition, if the population or income growth in the Company’s market areas is slower than projected, income levels, deposits and housing starts could be adversely affected and could result in a reduction of the Company’s expansion, growth and profitability. If the Company’s market areas experience a downturn or a recession for a prolonged period of time, the Company could experience significant increases in nonperforming loans, which could lead to operating losses, impaired liquidity and eroding capital. A significant decline in general economic conditions, caused by inflation, recession, acts of terrorism, outbreaks of hostilities or other international or domestic calamities, unemployment, monetary and fiscal policies of the federal government or other factors could impact these local economic conditions and could negatively affect the Company’s financial condition, results of operations and cash flows.

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

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

We currently pay dividends on our common stock and dividends on our SBLF Preferred Shares. Our ability to pay dividends is subject to restrictions.

We currently pay dividends to our holders of common stock. There are a number of restrictions on our ability to pay dividends. It is the policy of the Federal Reserve that bank holding companies should pay cash dividends on common stock only out of income available over the past year and only if prospective earnings retention is consistent with the organization's expected future needs and financial condition. The policy provides that bank holding companies should not maintain a level of cash dividends that undermines the bank holding company's ability to serve as a source of strength to its banking subsidiaries. If we fail to pay dividends on our SBLF Preferred Shares, we will be prohibited from paying dividends on our common stock.

Our principal source of funds to pay dividends on our common stock are cash dividends that we receive from the Bank. The payment of dividends by the Bank to us is subject to certain restrictions imposed by federal and state banking laws, regulations and authorities. The federal banking statutes prohibit federally insured banks from making any capital distributions (including a dividend payment) if, after making the distribution, the institution would be "under capitalized" as defined by statute. In addition, the relevant federal regulatory agencies have authority to prohibit an insured bank from engaging in an unsafe or unsound practice, as determined by the agency, in conducting an activity. The payment of dividends could be deemed to constitute such an unsafe or unsound practice, depending on the financial condition of the Bank. Regulatory authorities could impose administratively stricter limitations on the ability of the Bank to pay dividends to us if such limits were deemed appropriate to preserve certain capital adequacy requirements.

The terms of the SBLF Preferred Shares impose limits on the ability of the Company to pay dividends and repurchase shares of common stock. Under the terms of the SBLF Preferred Shares, no repurchases may be effected, and no dividends may be declared or paid on preferred shares ranking pari passu with the SBLF Preferred Shares, junior preferred shares, or other junior securities (including the common stock) during the current quarter and for the next three quarters following the failure to declare and pay dividends on the SBLF Preferred Shares, except that, in any such quarter in which the dividend is paid, dividend payments on shares ranking pari passu may be paid to the extent necessary to avoid any resulting material covenant breach.

Under the terms of the SBLF Preferred Shares, the Company may only declare and pay a dividend on the common stock or other stock junior to the SBLF Preferred Shares, or repurchase shares of any such class or series of stock, if, after payment of such dividend, the dollar amount of the Company's Tier 1 Capital would be at least $54.4 million, excluding any subsequent net charge-offs and any redemption of the SBLF Preferred Shares.

The 1.00% dividend rate on our SBLF Preferred Shares will remain fixed at this level for the next two years, when it will increase to 9.00%.

The per annum dividend rate on the SBLF Preferred Shares is fixed at 1.00% for the next two years, when it will increase to 9.00%. Depending on our financial condition at the time, this increase in the dividend rate could have a material negative effect on our liquidity and results of operations.

Failure to pay dividends on our SBLF Preferred Shares may have negative consequences, including external involvement in the Company's board of directors.

If dividends on the SBLF Preferred Shares are not paid in full for six quarterly dividend periods, whether or not consecutive, and if the aggregate liquidation preference amount of the then-outstanding shares of SBLF Preferred Shares is at least $25.0 million, the total number of positions on our board of directors will automatically increase by two and the holders of the SBLF Preferred Shares, acting as a single class, will have the right to elect two individuals to serve in the new director positions. This right and the terms of such directors will end when we have paid full dividends for at least four consecutive quarterly dividend periods. If full dividends have not been paid on the SBLF Preferred Shares for five or more quarterly dividend periods, whether or not consecutive, we must invite a representative selected by the holders of a majority of the outstanding shares of SBLF Preferred Shares, voting as a single class, to attend all meetings of our board of directors in a nonvoting observer capacity. Any such representative would not be obligated to attend any board meeting to which he or she is invited, and this right will end when we have paid full dividends for at least four consecutive dividend periods.

Our preferred shares impact net income available to our common stockholders and our earnings per share.

The dividends declared on the SBLF Preferred Shares reduce income available to common shareholders and our earnings per common share. The SBLF Preferred Shares will also receive preferential treatment in the event of liquidation, dissolution or winding up of the Company.

Changes in interest rates could reduce our income, cash flows and asset values.

Our income and cash flows and the value of our assets depend to a great extent on the difference between the interest rates we earn on interest-earning assets, such as loans and investment securities, and the interest rates we pay on interest-bearing liabilities such as deposits and borrowings. These rates are highly sensitive to many factors which are beyond our control, including general economic conditions and policies of various governmental and regulatory agencies and, in particular, the Federal Reserve. Changes in monetary policy, including changes in interest rates, will influence not only the interest we receive on our loans and investment securities and the amount of interest we pay on deposits and borrowings but will also affect our ability to originate loans and obtain deposits and the value of our investment portfolio. If the rate of interest we pay on our deposits and other borrowings increases more than the rate of interest we earn on our loans and other investments, our net interest income, and therefore our earnings, could be adversely affected. Our earnings also could be adversely affected if the rates on our loans and other investments fall more quickly than those on our deposits and other borrowings.

Competition may decrease our growth or profits.

We face substantial competition in all phases of our operations from a variety of different competitors, including commercial banks, savings and loan associations, mutual savings banks, credit unions, consumer finance companies, factoring companies, leasing companies, insurance companies and money market mutual funds. There is very strong competition among financial services providers in our principal service area. Our competitors may have greater resources, higher lending limits or larger branch systems than we do. Accordingly, they may be able to offer a broader range of products and services as well as better pricing for those products and services than we can.

In addition, some of the financial services organizations with which we compete are not subject to the same degree of regulation as is imposed on federally insured financial institutions such as the Bank. As a result, those non-bank competitors may be able to access funding and provide various services more easily or at less cost than we can, adversely affecting our ability to compete effectively.

We rely on our management and other key personnel, and the loss of any of them may adversely affect our operations.

We are and will continue to be dependent upon the services of our executive management team. The Company's performance is largely dependent on the talents and efforts of highly skilled individuals. There is intense competition in the financial services industry for qualified employees. In addition, the Company faces increasing competition with businesses outside the financial services industry for the most highly skilled individuals. The unexpected loss of services of any key management personnel or commercial loan officers could have an adverse effect on our business and financial condition because of their skills, knowledge of our market, years of industry experience and the difficulty of promptly finding qualified replacement personnel. The Company's business operations could be adversely affected if it were unable to attract new employees and retain and motivate its existing employees.

We may be adversely affected by government regulation.

The banking industry is heavily regulated. Banking regulations are primarily intended to protect the federal deposit insurance funds and depositors, not shareholders. Changes in the laws, regulations, and regulatory practices affecting the banking industry may increase our costs of doing business or otherwise adversely affect us and create competitive advantages for others. Regulations affecting banks and financial services companies undergo continuous change, and we cannot predict the ultimate effect of these changes, which could have a material adverse effect on our profitability or financial condition.

The anti-money laundering or AML, and bank secrecy, or BSA, laws have imposed far-reaching and substantial requirements on financial institutions. The enforcement policy with respect to AML/BSA compliance has been vigorously applied throughout the industry, with regulatory action taking various forms. We believe that our policies and procedures with respect to combating money laundering are effective and that our AML/BSA policies and procedures are reasonably designed to comply with current applicable standards. We cannot provide assurance that in the future we will not face a regulatory action, adversely affecting our ability to acquire banks or open new branches.

Additionally, the federal government has passed a variety of other reforms related to banking and the financial industry including, without limitation, the Dodd-Frank Act. See "Item 1. Business – Supervision and Regulation."

Some provisions of the Dodd-Frank Act became effective immediately upon its enactment. Many provisions, however, required the adoption of rules by various agencies, many of which are very complex, and many of which will be further amended as experience dictates. The provisions of the Dodd-Frank Act may have unintended effects, which will not be clear until actual experience by the industry with the rules is accomplished. The changes resulting from the Dodd-Frank Act could limit our business activities, require changes to certain of our business practices, impose upon us more stringent capital, liquidity and leverage requirements or otherwise materially and adversely affect us. These changes may also require us to invest significant management attention and resources to evaluate and make any changes necessary to comply with new statutory and regulatory requirements. Failure to comply with the new requirements could also materially and adversely affect us.

The short-term and long-term impact of the changing regulatory capital requirements and new capital rules is uncertain and could adversely affect us.

Effective January 1, 2015, we will be subject to new capital requirements under regulations adopted by the federal banking regulators to implement the Basel III regulatory capital reforms and changes required by the Dodd-Frank Act. These new requirements establish the following minimum capital ratios: (1) a common equity Tier 1 ("CET1") capital ratio of 4.5% of risk-weighted assets; (2) a Tier 1 capital ratio of 6.0% of risk-weighted assets; (3) a total capital ratio of 8.0% of risk-weighted assets; and (4) a leverage ratio of 4.0%. In addition, there is a new requirement to maintain a capital conservation buffer, comprised of CET1 capital, in an amount greater than 2.5% of risk-weighted assets over the minimum capital required by each of the minimum risk-based capital ratios in order to avoid limitations on the organization's ability to pay dividends, repurchase shares or pay discretionary bonuses. The capital conservation buffer requirement will be phased in, beginning January 1, 2016, requiring during 2016 a buffer amount greater than 0.625% in order to avoid these limitations, and increasing the amount each year until beginning January 1, 2019, when the buffer amount must be greater than 2.5% in order to avoid the limitations.

The new regulations also change what qualifies as capital for purposes of meeting these various capital requirements, as well as the risk weighting of certain assets for purposes of the risk-based capital ratios.

Under the new regulations, in order to be considered well-capitalized for prompt corrective action purposes, the Company and the Bank will be required to maintain the following ratios: (1) a CET1 ratio of at least 6.5% of risk-weighted assets; (2) a Tier 1 capital ratio of at least 8.0% of risk-weighted assets; (3) a total capital ratio of a least 10.0% of risk-weighted assets; and (4) a leverage ratio of at least 5.0%.

We have conducted a pro forma analysis of these new requirements as of December 31, 2013, and we have determined that if these requirements were in effect on that date, the Company and the Bank would be considered well-capitalized and the each would have a capital conservation buffer greater than 2.5%.

The application of these more stringent capital requirements could, among other things, result in lower returns on invested capital, over time require the raising of additional capital, and result in regulatory actions if we were to be unable to comply with such requirements. Implementation of changes to asset risk weightings for risk based capital calculations, items included or deducted in calculating regulatory capital and/or additional capital conservation buffers could result in management modifying its business strategy. Furthermore, the imposition of liquidity requirements in connection with the implementation of Basel III could result in our having to lengthen the term of our funding, restructure our business models, and/or increase our holdings of liquid assets. Any additional changes in our regulation and oversight, in the form of new laws, rules and regulations could make compliance more difficult or expensive or otherwise materially adversely affect our business, financial condition or prospects.

We depend upon the accuracy and completeness of information about customers.

In deciding whether to extend credit to customers, we may rely on information provided to us by our customers, including financial statements and other financial information. We may also rely on representations of customers as to the accuracy and completeness of that information and, with respect to financial statements, on reports of independent auditors. Our financial condition and results of operations could be negatively impacted to the extent that we extend credit in reliance on financial statements or other information provided by customers that is false or misleading.

Our information systems may experience an interruption or breach in security.

We rely heavily on communications and information systems to conduct our business. Any failure, interruption or breach in security of these systems could result in failures or disruptions in our customer-relationship management, general ledger, deposit, loan and other systems. While we have policies and procedures designed to prevent or limit the effect of the failure, interruption or security breach of our information systems, there can be no assurance that any such failures, interruptions or security breaches will not occur; or, if they do occur, that they will be adequately addressed. The occurrence of any failures, interruptions or security breaches of our information systems could damage our reputation, result in a loss of customer business, subject us to additional regulatory scrutiny or expose us to civil litigation and possible financial liability; any of which could have a material adverse effect on our financial condition and results of operations.

We face the risk of cyber-attack to our computer systems.

Our computer systems, software and networks have been and will continue to be vulnerable to unauthorized access, loss or destruction of data (including confidential client information), account takeovers, unavailability of service, computer viruses or other malicious code, cyber-attacks and other events. These threats may derive from human error, fraud or malice on the part of employees or third parties, or may result from accidental technological failure. If one or more of these events occurs, it could result in the disclosure of confidential client information, damage to our reputation with our clients and the market, additional costs to us (such as repairing systems or adding new personnel or protection technologies), regulatory penalties and financial losses, to both us and our clients and customers. Such events could also cause interruptions or malfunctions in our operations (such as the lack of availability of our online banking system), as well as the operations of our clients, customers or other third parties. Although we maintain safeguards to protect against these risks, there can be no assurance that we will not suffer losses in the future that may be material in amount.

Environmental liability associated with lending activities could result in losses.

In the course of our business, we may foreclose on and take title to properties securing our loans. If hazardous substances were discovered on any of these properties, we could be liable to governmental entities or third parties for the costs of remediation of the hazard, as well as for personal injury and property damage. Many environmental laws can impose liability regardless of whether we knew of, or were responsible for, the contamination. In addition, if we arrange for the disposal of hazardous or toxic substances at another site, we may be liable for the costs of cleaning up and removing those substances from the site even if we neither own nor operate the disposal site. Environmental laws may require us to incur substantial expenses and may materially limit use of properties we acquire through foreclosure, reduce their value or limit our ability to sell them in the event of a default on the loans they secure. In addition, future laws or more stringent interpretations or enforcement policies with respect to existing laws may increase our exposure to environmental liability.

Failure to implement new technologies in our operations may adversely affect our growth or profits.

The market for financial services, including banking services and consumer finance services is increasingly affected by advances in technology, including developments in telecommunications, data processing, computers, automation, Internet-based banking and telebanking. Our ability to compete successfully in our markets may depend on the extent to which we are able to exploit such technological changes. However, we can provide no assurance that we will be able to properly or timely anticipate or implement such technologies or properly train our staff to use such technologies. Any failure to adapt to new technologies could adversely affect our business, financial condition or operating results.

A limited market exists for our common stock.

Our common stock commenced trading on the NASDAQ Capital Market on April 4, 2006 and trading volumes since that time have been modest. The limited trading market for our common stock may cause fluctuations in the market value of our common stock to be exaggerated, leading to price volatility in excess of that which would occur in a more active trading market. Accordingly, you may have difficulty selling our common stock at prices which you find acceptable or which accurately reflect the value of the Company.

We are subject to liquidity risk.

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

Liquidity is required to fund various obligations, including credit commitments to borrowers, mortgage and other loan originations, withdrawals by depositors, repayment of borrowings, dividends to shareholders, operating expenses and capital expenditures. Liquidity is derived primarily from retail deposit growth and retention; principal and interest payments on loans; principal and interest payments on and the sale, maturity and prepayment of investment securities; net cash provided from operations and access to other funding sources.

Our access to funding sources in amounts adequate to finance our activities could be impaired by factors that affect us specifically or the financial services industry in general. Factors that could detrimentally impact our access to liquidity sources include a decrease in the level of our business activity due to a market downturn or adverse regulatory action against us. Our ability to borrow could also be impaired by factors that are not specific to us, such as a severe disruption of the financial markets or negative views and expectations about the prospects for the financial services industry as a whole.

Future offerings of debt or other securities may adversely affect the market price of our stock.

In the future, we may attempt to increase our capital resources or, if our or the Bank's capital ratios fall below the required minimums, we or the Bank could be forced to raise additional capital by making additional offerings of debt or preferred equity securities, including medium-term notes, trust preferred securities, senior or subordinated notes and preferred stock. Upon liquidation, holders of our debt securities and shares of preferred stock and lenders with respect to other borrowings will receive distributions of our available assets prior to the holders of our common stock. Additional equity offerings may dilute the holdings of our existing shareholders or reduce the market price of our common stock, or both. Holders of our common stock are not entitled to preemptive rights or other protections against dilution.

The Company may lose lower-cost funding sources.

Checking, savings, and money market deposit account balances and other forms of customer deposits can decrease when customers perceive alternative investments, such as the stock market, as providing a better risk/return tradeoff.

If customers move money out of bank deposits and into other investments, the Company could lose a relatively low-cost source of funds, increasing its funding costs and reducing the Company's net interest income and net income.

The Company is subject to operational risk.

The Company faces the risk that the design of its controls and procedures, including those to mitigate the risk of fraud by employees or outsiders, may prove to be inadequate or are circumvented, thereby causing delays in detection of errors or inaccuracies in data and information. Management regularly reviews and updates the Company's internal controls, disclosure controls and procedures, and corporate governance policies and procedures. Any system of controls, however well designed and operated, is based in part on certain assumptions and can provide only reasonable, not absolute, assurances that the objectives of the system are met. Any failure or circumvention of the Company's controls and procedures or failure to comply with regulations related to controls and procedures could have a material adverse effect on the Company's business, results of operations and financial condition.

The Company may also be subject to disruptions of its systems arising from events that are wholly or partially beyond its control (including, for example, computer viruses or electrical or telecommunications outages), which may give rise to losses in service to customers and to financial loss or liability. The Company is further exposed to the risk that its external vendors may be unable to fulfill their contractual obligations (or will be subject to the same risk of fraud or operational errors by their respective employees as is the Company) and to the risk that the Company's (or its vendors') business continuity and data security systems prove to be inadequate.

Item 1B. Unresolved Staff Comments.

Not applicable.

Item 2. Properties.

The following table provides certain information with respect to properties used by the Company or the Bank in their operations:

Office Location	Address	Description	Opened
Corporate Headquarters	766 Shrewsbury Avenue Tinton Falls, NJ	17,626 sq. ft. building (leased)	10/12
The Bank's Main Office:	1250 Highway 35 South Middletown, NJ	5,300 sq. ft. first-floor stand- alone building (leased)	02/00
Allaire:	Monmouth Executive Airport 229 Airport Road, Bldg. 13 Farmingdale, NJ	3,800 sq. ft. building (leased)	02/04
Atlantic Highlands:	84 First Avenue Atlantic Highlands, NJ	817 sq. ft. store front (leased)	03/02
Cranford Office:	104 Walnut Avenue Cranford, NJ	900 sq. ft. storefront (leased)	11/07
Fanwood:	328 South Avenue Fanwood, NJ	2,966 sq. ft. stand-alone building (leased)	03/08
Manasquan:	240 Route 71 Manasquan, NJ	3,761 sq. ft. stand-alone building (leased)	06/08
Navesink:	East Pointe Shopping Center 2345 Route 36 Atlantic Highlands, NJ	2,080 sq. ft. in strip shopping center (leased)	09/05
Port Monmouth:	357 Highway 36	2,180 sq. ft. stand-alone building (leased)	06/01

	Port Monmouth, NJ		
Red Bank:	140 Broad Street Red Bank, NJ	2,459 sq. ft. store front (leased)	11/12
Tinton Falls:	4050 Asbury Avenue Tinton Falls, NJ	2,500 sq. ft. stand-alone building (leased)	10/06
Tinton Falls:	656 Shrewsbury Avenue Tinton Falls, NJ	3,650 sq. ft. stand-alone building (leased)	08/00
West Long Branch:	359 Monmouth Road West Long Branch, NJ	3,100 sq. ft. in strip shopping center (leased)	01/04
Westfield:	520 South Avenue Westfield, NJ	3,630 sq. ft. stand-alone building (leased)	10/98
Westfield:	44 Elm Street Westfield, NJ	2,775 sq. ft. downtown building (owned)	04/01

The Company owns property located at 245-249 North Avenue in Cranford, New Jersey. The Company is in the process of constructing a full service branch at this location with an estimated completion date by the fourth quarter of 2014.

The Company also leases properties in East Brunswick, Freehold, Piscataway and Summit, New Jersey for loan production offices, with lease expiration dates ranging from April 2014 to September 2014.

Item 3. Legal Proceedings.

The Company may, in the ordinary course of business, become a party to litigation involving collection matters, contract claims and other legal proceedings relating to the conduct of its business. The Company may also have various commitments and contingent liabilities which are not reflected in the accompanying consolidated balance sheet. At December 31, 2013, we were not involved in any material legal proceedings.

Item 4. Mine Safety Disclosures.

Not applicable

PART II

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

The common stock of the Company trades on the Nasdaq Capital Market under the trading symbol "TRCB." The following are the high and low sales prices per share.

	2013		2012	
	High	Low	High	Low
First Quarter	$6.89	$5.50	$6.10	$4.55
Second Quarter	6.69	6.27	6.20	5.50
Third Quarter	7.63	6.31	5.98	5.45
Fourth Quarter	7.74	7.15	6.05	5.27

As of March 14, 2014, there were approximately 531 record holders of the Company's common stock.

For the year ended December 31, 2013, the Company paid a cash dividend of $0.06 per share.

On January 24, 2013, the Company announced that the Board of Directors approved and authorized a share repurchase program (the "Repurchase Program"). Information regarding the Company's common stock repurchases for the three month period ended December 31, 2013 is as follows:

Period	**Total Number of Shares Purchased (1)**	**Average Price Paid Per Share ($)**	**Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs**	**Maximum Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs ($)**
October 1, 2013 through October 31, 2013	67,241	7.35	67,241	1,679,025
November 1, 2013 through November 30, 2013	1,600	7.23	1,600	1,667,457
December 1, 2013 through December 31, 2013	4,071	7.28	4,071	1,637,820
Total	**72,912**	**7.34**	**72,912**	

On January 24, 2014, the Company announced that its Board of Directors approved an extension of the Repurchase Program from January 24, 2014 to December 31, 2014. In extending the Repurchase Program, the Board of Directors has authorized the Company to spend up to an additional $2.0 million on the repurchase of stock.

Item 6. Selected Financial Data.

Not required.

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

The following management's discussion and analysis of financial condition and results of operations is intended to provide a better understanding of the significant changes and trends relating to the financial condition, results of operations, capital resources, liquidity and interest rate sensitivity of Two River Bancorp as of December 31, 2013 and 2012 and for the years then ended. The following information should be read in conjunction with the audited consolidated financial statements as of and for the years ended December 31, 2013 and 2012, including the related notes thereto.

Critical Accounting Policies and Estimates

The following discussion is based upon our financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). The preparation of these financial statements requires the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses.

Note 1 to our audited consolidated financial statements contains a summary of the Company's significant accounting policies. Management believes the following critical accounting policies encompass the more significant judgments and estimates used in the preparation of our consolidated financial statements.

Allowance for Loan Losses. Management believes our policy with respect to the methodology for the determination of the allowance for loan losses ("ALLL") involves a high degree of complexity and requires management to make difficult and subjective judgments which often require assumptions or estimates about highly uncertain matters. Changes in these judgments, assumptions or estimates could materially impact the results of operations. This critical policy and its application are reviewed quarterly with our audit committee and Board of Directors.

Management is responsible for preparing and evaluating the ALLL on a quarterly basis in accordance with Bank policy, and the *Interagency Policy Statement on the ALLL* released by the Board of Governors of the Federal Reserve System on December 13, 2006 as well as GAAP. We believe that our allowance for loan losses is adequate to cover specifically identifiable loan losses, as well as estimated losses inherent in our portfolio for which certain losses are probable but not specifically identifiable. The allowance for loan losses is based upon management's evaluation of the adequacy of the allowance account, including an assessment of known and inherent risks in the portfolio, giving consideration to the size and composition of the loan portfolio, actual loan loss experience, level of delinquencies, detailed analysis of individual loans for which full collectability may not be assured, the existence and estimated net realizable value of any underlying collateral and guarantees securing the loans, and current economic and market conditions. Although management utilizes the best information available, the level of the allowance for loan losses remains an estimate that is subject to significant judgment and short term change. Various regulatory agencies may require us and our banking subsidiaries to make additional provisions for loan losses based upon information available to them at the time of their examination. Furthermore, the majority of our loans are secured by real estate in New Jersey, primarily in Monmouth and Union counties. Accordingly, the collectability of a substantial portion of the carrying value of our loan portfolio is susceptible to changes in local market conditions and may be adversely affected should real estate values decline or the New Jersey and/or our local market areas experience economic shock.

Stock Based Compensation. Stock based compensation cost has been measured using the fair value of an award on the grant date and is recognized over the service period, which is usually the vesting period. The fair value of each option is amortized into compensation expense on a straight-line basis between the grant date for the option and each vesting date. The Company estimates the fair value of stock options on the date of grant using the Black-Scholes option pricing model. The model requires the use of numerous assumptions, many of which are highly subjective in nature.

Goodwill Impairment. Although goodwill is not subject to amortization, the Company must test the carrying value for impairment at least annually or more frequently if events or changes in circumstances indicate that the asset might be impaired. Impairment testing requires that the fair value of our reporting unit be compared to the carrying amount of its net assets, including goodwill. Our reporting unit was identified as our community bank operations. If the fair value of the reporting unit exceeds the book value, no write-down of recorded goodwill is necessary. If the fair value of a reporting unit is less than book value, an expense may be required on the Company’s books to write-down the related goodwill to the proper carrying value. Impairment testing during 2013 and 2012 for goodwill and intangibles was completed and the Company did not require any impairment charge during the years ended December 31, 2013 and 2012.

Investment Securities Impairment Valuation. Securities are evaluated on at least a quarterly basis, and more frequently when market conditions warrant such an evaluation, to determine whether a decline in their value is other-than-temporary. The analysis of other-than-temporary impairment requires the use of various assumptions including, but not limited to, the length of time the investment’s book value has been greater than fair value, the severity of the investment’s decline and the credit deterioration of the issuer. For debt securities, management assesses whether (a) it has the intent to sell the security and (b) it is more likely than not that it will be required to sell the security prior to its anticipated recovery. These steps are done before assessing whether the entity will recover the cost basis of the investment.

In instances when a determination is made that an other-than-temporary impairment exists but the investor does not intend to sell the debt security and it is more likely than not that it will not be required to sell the debt security prior to its anticipated recovery, the other-than-temporary impairment is separated into (a) the amount of the total other-than-temporary impairment related to a decrease in cash flows expected to be collected from the debt security (the credit loss) and (b) the amount of the total other-than-temporary impairment related to all other factors. The amount of the total other-than-temporary impairment related to the credit loss is recognized in earnings. The amount of the total other-than-temporary impairment related to all other factors is recognized in other comprehensive income.

Other Real Estate Owned ("OREO"). Other Real Estate Owned ("OREO") and Repossessed Assets include real estate and assets pledged as collateral acquired through foreclosure or by deed in lieu of foreclosure. OREO and repossessed assets are carried at the lower of cost or fair value of the property and underlying collateral, adjusted by management for factors such as economic conditions and other market factors, less estimated costs to sell. When a property or asset is acquired, the excess of the loan balance over fair value, less selling costs, is charged to the allowance for loan losses. Operating results from real estate owned, including rental income, operating expenses, and gains and losses realized from the sales of real estate owned are recorded as incurred. OREO and repossessed assets are periodically reviewed to ensure that the fair value of the property and underlying collateral support the carrying value.

Deferred Tax Assets and Liabilities. We recognize deferred tax assets and liabilities for future tax effects of temporary differences, net operating loss carry forwards and tax credits. Deferred tax assets are subject to management's judgment based upon available evidence, primarily management's forecast of its ability to generate future earnings, that future realization is more likely than not. If management determines that we may be unable to realize all or part of net deferred tax assets in the future, a direct charge to income tax expense may be required to reduce the recorded value of the net deferred tax asset to the expected realizable amount.

Executive Summary

The Company reported record income available to common shareholders of $4.9 million for the year ended December 31, 2013, compared to $4.4 million in 2012, an increase of $531,000, or 12.2%. Basic and diluted earnings per common share after preferred stock dividends were $0.61 and $0.60, respectively, for the year ended December 31, 2013 compared to basic and diluted earnings of $0.55 and $0.54, respectively, per common share for the same period in 2012. Our results for 2013 were positively affected by increased net interest income primarily due to the strong loan and core deposit growth, a decrease in the provision for loan losses and, to a lesser degree, higher non-interest income. Additionally, the dividends paid on our SBLF preferred stock during 2013 were lower due to the loan growth we achieved under the program. These improvements were partially offset by an increase in non-interest expense primarily due to higher occupancy costs related to our corporate headquarters in 2013 and professional fees.

Total assets increased by $35.8 million, or 4.9%, to $769.7 million at December 31, 2013 from $733.9 million at December 31, 2012. The increase in total assets was primarily the result of the strong loan growth funded mainly by core deposit growth during the year.

Total loans amounted to $602.8 million at December 31, 2013, which was an increase of $31.4 million, or 5.5%, compared to the December 31, 2012 amount of $571.4 million. During 2013, $2.2 million of net loans were transferred to OREO and repossessed assets. The Company continues to provide commercial and consumer lending to our market customers in addition to maintaining our high credit standards in a challenging market. The allowance for loan losses totaled $7.9 million, or 1.31% of total loans, at December 31, 2013, compared to $8.0 million or 1.40% of total loans, at December 31, 2012.

Deposits increased to $633.4 million at December 31, 2013 from $606.8 million at December 31, 2012, an increase of $26.6 million, or 4.4%. The increase in deposits is primarily attributable to the growth in our core checking deposits resulting from increased business and consumer activity.

Shareholders’ equity amounted to $95.4 million at December 31, 2013 from $92.0 million at December 31, 2012, an increase of $3.4 million, or 3.7%. At year-end 2013, tangible book (Non-GAAP Financial Measures) value per common share increased to $8.11 compared to $7.71 at December 31, 2012.

Results of Operations

Our principal source of revenue is net interest income, the difference between interest income on interest earning assets and interest expense on deposits and borrowings. Interest earning assets consist primarily of loans, investment securities and federal funds sold. Sources to fund interest earning assets consist primarily of deposits and borrowed funds. Our net income is also affected by our provision for loan losses, non-interest income and non-interest expenses. Non-interest income consists primarily of service charges, commissions and fees, while non-interest expenses are comprised of salaries and employee benefits, occupancy costs and other operating expenses.

The following table provides certain performance ratios for the dates and periods indicated.

	2013	**2012**	**2011**
Return on average assets	0.69 %	0.69 %	0.65 %
Return on average tangible assets (1)	0.71 %	0.71 %	0.67 %
Return on average equity	5.49 %	5.36 %	5.16 %
Return on average tangible equity (1)	6.82 %	6.75 %	6.64 %
Net interest margin	3.84 %	4.08 %	4.21 %
Average equity to average assets	12.60%	12.84%	12.54%
Average tangible equity to average tangible assets (1)	10.40%	10.47%	10.02%

(1) The following table provided the reconciliation of Non-GAAP Financial Measures for the dates indicated:

(in thousands except per share data and percentages)	**2013**			**2012**			**2011**		
Total shareholders’ equity	$	95,427		$	91,965		$	87,134	
Less: preferred stock		(12,000	)		(12,000	)		(12,000	)
Common shareholders’ equity	$	83,427		$	79,965		$	75,134	
Common shares outstanding		8,036			7,984			7,942	
Book value per common share	$	10.38		$	10.02		$	9.46	
Book value per common share	$	10.38		$	10.02		$	9.46	
Effect of intangible assets		(2.27	)		(2.31	)		(2.33	)
Tangible book value per common share	$	8.11		$	7.71		$	7.13	

Return on average assets	0.69	%	0.69	%	0.65	%
Effect of intangible assets	0.02	%	0.02	%	0.02	%
Return on average tangible assets	0.71	%	0.71	%	0.67	%
Return on average equity	5.49	%	5.36	%	5.16	%
Effect of average intangible assets	1.33	%	1.39	%	1.48	%
Return on average tangible equity	6.82	%	6.75	%	6.64	%
Average equity to average assets	12.60	%	12.84	%	12.54	%
Effect of intangible assets	(2.20	%)	(2.37	%)	(2.52	%)
Average tangible equity to average tangible assets	10.40	%	10.47	%	10.02	%

This Report contains certain financial information determined by methods other than in accordance with generally accepted accounting policies in the United States (GAAP). These non-GAAP financial measures are "book value," "tangible book value per common share," "return on average tangible assets," "return on average tangible equity" and "average tangible equity to average tangible assets." This non-GAAP disclosure has limitations as an analytical tool and should not be considered in isolation or as a substitute for analysis of the Company's results as reported under GAAP, nor is it necessarily comparable to non-GAAP performance measures that may be presented by other companies. Our management uses these non-GAAP measures in its analysis of our performance because it believes these measures are material and will be used as a measure of our performance by investors.

While the overall economy remains somewhat constrained by the fragile economic environment, our local economy seems to reflect some strengthening in certain sectors. As such, we remain optimistic in our growth prospects for lending in 2014, recognizing that we will continue to be challenged due in part to both the competitive landscape and pricing pressures in this low rate environment. In addition, should another general decline in economic conditions in New Jersey occur, the Company may suffer higher default rates on its loans, decreased value of assets it holds as collateral, and potentially lower loan originations due to heightened competition for lending relationships coupled with our higher credit standards and requirements.

Year Ended December 31, 2013 Compared to Year Ended December 31, 2012

Net Income

The Company reported record income available to common shareholders of $4.9 million for the year ended December 31, 2013, compared to $4.4 million in 2012, an increase of $531,000, or 12.2%. Basic and diluted earnings per common share after preferred stock dividends were $0.61 and $0.60, respectively, for the year ended December 31, 2013 compared to basic and diluted earnings of $0.55 and $0.54, respectively, per common share for the same period in 2012. The primary reasons for the increase in net income was due to an increase in our net interest income resulting primarily from loan growth and core deposit growth coupled with a decrease in certificates of deposit, a decrease in the provision for loan losses and, to a lesser degree, higher non-interest income. Additionally, the dividends paid on our SBLF preferred stock during 2013 were lower due to the loan growth we achieved under the program. These increases were partially offset by an increase in non-interest expense primarily due to higher occupancy costs related to our new corporate headquarters in 2013 and professional fees.

Net Interest Income

For the year ended December 31, 2013, net interest income amounted to $26.5 million, as compared to $26.2 million for the year ended December 31, 2012. This increase of $299,000, or 1.1%, was primarily the result of a higher level of average interest earning assets, lower deposit rates and a higher level of average core checking deposits coupled with a decrease in certificates of deposit. These positives were partially offset by the continued compression on our asset yields resulting from the maturity, prepayment or contractual repricing of loans and investment securities in this extended period of low interest rates. As general economic conditions continued to remain weak, the Federal Reserve kept short term interest rates at 0.25% throughout 2013. Our average earning assets increased by $46.5 million, or 7.2%, to $689.9 million for the year ended December 31, 2013 from $643.4 million for the year ended December 31, 2012, while our net interest spread decreased by 21 basis points to 3.67% for the year ended December 31, 2013 as compared to 3.88% for the same period in 2012. The net interest margin decreased by 24 basis points to 3.84% for year ended December 31, 2013 as compared to 4.08% for the same period in 2012, primarily as a result of the prolonged low interest rate environment, which has continued to exert pressure on asset yields, while our funding costs have neared their implied floors.

For the year ended December 31, 2013, total interest income decreased to $30.3 million from $30.8 million for the year ended December 31, 2012. This decrease of $520,000, or 1.7%, was primarily due to interest rate-related decreases in interest income of $2.6 million, partially offset by volume-related increases in interest income of $2.1 million for the year ended December 31, 2013 as compared to the prior year. The average yield on our interest earning assets decreased by 40 basis points to 4.39% for the year ended December 31, 2013 from 4.79% for the prior year.

Interest and fees on loans decreased by $417,000, or 1.4%, to $28.8 million for the year ended December 31, 2013 compared to $29.2 million for the same period in 2012. Of the $417,000 decrease in interest and fees on loans, $2.3 million was attributable to rate-related decreases partially offset by $1.9 million of volume-related increases. During 2013, there was $228,000 of interest and late fee reversals on loans transferred to non-accrual status, as compared to $167,000 in 2012. The average balance of the loan portfolio for the year ended December 31, 2013 increased by $36.2 million, or 6.6%, to $582.2 million from $546.0 million for the same period in 2012. The average annualized yield on the loan portfolio decreased to 4.94% for the year ended December 31, 2013, from 5.35% for the same period in 2012. The average balance of non-accrual loans was $8.4 million and $5.1 million for the years ended December 31, 2013 and 2012, respectively, which impacted the Company’s loan yield for both periods presented. The average balance in OREO and repossessed assets amounted to $1.7 million and $4.7 million for the years ended December 31, 2013 and 2012, respectively.

Interest income on Federal funds sold and interest bearing deposits was $75,000 for the year ended December 31, 2013, representing a decrease of $6,000, or 7.4%, from $81,000 for the same period in 2012. For the year ended December 31, 2013 and 2012, Federal funds sold had no average balance. For the year ended December 31, 2013, interest bearing deposits had an average balance of $30.2 million and an average annualized yield of 0.25% as compared to $31.7 million and an average annualized yield of 0.26% in 2012.

Interest income on investment securities totaled $1.5 million for the year ended December 31, 2013, compared to $1.6 million for year ended December 31, 2012. The $97,000 decrease in interest income on investment securities was primarily attributable to a decrease in rate related activity offset in part by an increase in volume related activity. New purchases made in 2013 were made at lower rates resulting from the lower rate environment. For the year ended December 31, 2013, investment securities had an average balance of $77.5 million with an average annualized yield of 1.89%, compared to an average balance of $65.6 million with an average yield of 2.38%, for the year ended December 31, 2012.

Total interest expense amounted to $3.8 million for the year ended December 31, 2013, compared to $4.6 million for the corresponding period in 2012, a decrease of $819,000, or 17.7%. Of this decrease in interest expense, $722,000 was due to rate-related decreases on interest-bearing liabilities primarily resulting from lower deposit costs coupled with a $97,000 decrease for volume-related decreases on interest-bearing liabilities.

The average balance of interest-bearing liabilities increased to $525.7 million for the year ended December 31, 2013, from $507.9 million for the same period last year, an increase of $17.8 million, or 3.5%. The average balance in NOW deposits during 2013 increased $25.2 million from $69.1 million with an average annualized yield of 0.43% for the year ended December 31, 2012, to $94.3 million with an average annualized yield of 0.47% for the same period in 2013. Additionally, the average balance on savings deposit accounts increased from $217.9 million with an average annualized yield of 0.74% for the year ended December 31, 2012, to $236.1 million with an average annualized yield of 0.54% for the year ended December 31, 2013. During 2013, average demand deposits reached $121.3 million, an increase of $24.3 million, or 25.1%, over the same period last year. These average balance increases were partially offset by decreases in certificates of deposit by $19.1 million, or 18.0%, to $86.9 million with an average annualized yield of 1.61% for the year ended December 31, 2013, from $106.0 million with an average annualized yield of 1.75% for the same period in 2012. Average money market deposits decreased by $7.7 million, or 9.3%, to $75.4 million with an average annualized yield of 0.21% for the year ended December 31, 2013, from $83.1 million with an average annualized yield of 0.38% for the same period in 2012. For the year ended December 31, 2013, the average yield on our interest-bearing liabilities was 0.72%, compared to 0.91% for the year ended December 31, 2012.

Our strategies for increasing and retaining core relationship deposits, managing loan originations within our acceptable credit criteria and loan category concentrations, and our planned branch network growth have combined to meet our liquidity needs. The Company also offers agreements to repurchase securities, commonly known as repurchase agreements, to its customers as an alternative to other insured deposits. Average balances of repurchase agreements for the year ended December 31, 2013 increased to $18.8 million, with an average interest rate of 0.42%, compared to $18.3 million, with an average interest rate of 0.59%, for the same prior year period.

The Company also utilizes FHLB term borrowings as an additional funding source. Average FHLB term borrowings amounted to $14.2 million and $13.5 million for the years ended December 31, 2013 and 2012, respectively, with an average yield of 3.13% and 3.21%, respectively, for both periods.

The following table reflects, for the periods presented, the components of our net interest income, setting forth: (1) average assets, liabilities, and shareholders' equity, (2) interest income earned on interest-earning assets and interest expense paid on interest-bearing liabilities, (3) average yields earned on interest-earning assets and average rates paid on interest-bearing liabilities, (4) our net interest spread (*i.e.*, the average yield on interest-earning assets less the average rate on interest-bearing liabilities), and (5) our yield on interest-earning assets. There have been no tax equivalent adjustments made to yields.

	Years ended December 31,								
	2013			**2012**			**2011**		
	Average balance	**Interest income/ expense**	**Average rates earned/ paid**	**Average balance**	**Interest income/ expense**	**Average rates earned/ paid**	**Average balance**	**Interest income/ expense**	**Average rates earned/ paid**
	(in thousands, except for percentages)								
ASSETS									
Interest-Earning Assets:									
Interest bearing deposits in banks	$30,152	$75	0.25 %	$31,748	$81	0.26 %	$37,801	$96	0.25 %
Federal funds sold	-	-	-	-	-	-	3,145	7	0.22 %
Investment securities	77,493	1,468	1.89 %	65,624	1,565	2.38 %	52,932	1,534	2.90 %
Loans, net of unearned fees (1) (2)	582,220	28,773	4.94 %	545,986	29,190	5.35 %	519,364	29,434	5.67 %
Total Interest-Earning Assets	689,865	30,316	4.39 %	643,358	30,836	4.79 %	613,242	31,071	5.07 %
Non-Interest-Earning Assets:									
Allowance for loan loss	(8,228)			(7,351)			(6,682)		
Other assets	64,019			63,303			59,723		
Total Assets	$745,656			$699,310			$666,283		
LIABILITIES & SHAREHOLDERS' EQUITY									
Interest-Bearing Liabilities:									
NOW deposits	$94,277	439	0.47 %	$69,063	296	0.43 %	$57,378	257	0.45 %
Savings deposits	236,104	1,284	0.54 %	217,879	1,605	0.74 %	199,641	1,720	0.86 %
Money market deposits	75,394	157	0.21 %	83,140	320	0.38 %	88,095	508	0.58 %

Time deposits	86,931	1,396	1.61 %	106,012	1,856	1.75 %	116,331	2,202	1.89 %
Securities sold under agreements to repurchase	18,766	79	0.42 %	18,266	107	0.59 %	16,593	118	0.71 %
Long-term debt	14,180	444	3.13 %	13,500	434	3.21 %	13,500	433	3.21 %
Total Interest-Bearing Liabilities	525,652	3,799	0.72 %	507,860	4,618	0.91 %	491,538	5,238	1.07 %
Non-Interest-Bearing Liabilities:									
Demand deposits	121,277			96,967			86,687		
Other liabilities	4,775			4,726			4,525		
Total Non-Interest-Bearing Liabilities	126,052			101,693			91,212		
Shareholders' Equity	93,952			89,757			83,533		
Total Liabilities and Shareholders' Equity	$745,656			$699,310			$666,283		
NET INTEREST INCOME		$26,517			$26,218			$25,833	
NET INTEREST SPREAD (3)			3.67 %			3.88 %			4.00 %
NET INTEREST MARGIN (4)			3.84 %			4.08 %			4.21 %

(1) Included in interest income on loans are loan fees.
(2) Includes non-performing loans.
(3) The interest rate spread is the difference between the weighted average yield on average interest-earning assets and the weighted average cost of average interest-bearing liabilities.
(4) The interest rate margin is calculated by dividing net interest income by average interest-earning assets.

Analysis of Changes in Net Interest Income

The following table sets forth for the periods indicated the amounts of the total change in net interest income that can be attributed to changes in the volume of interest-earning assets and interest-bearing liabilities and the amount of the change that can be attributed to changes in interest rates.

	Years ended December 31,					
	2013 vs. 2012			**2012 vs. 2011**		
	Increase (decrease) due to change in					
	Average volume	**Average rate**	**Net**	**Average volume**	**Average rate**	**Net**
	(in thousands)					
Interest Earned On:						
Interest bearing deposits in banks	$ (4)	$ (2)	$ (6)	$ (15)	$ -	$ (15)
Federal funds sold	-	-	-	(7)	-	(7)
Investment securities	212	(309)	(97)	276	(245)	31
Loans, net of unearned fees	1,937	(2,354)	(417)	1,512	(1,756)	(244)
Total Interest Income	2,145	(2,665)	(520)	1,766	(2,001)	(235)
Interest Paid On:						
NOW deposits	108	35	143	52	(13)	39
Savings deposits	134	(455)	(321)	158	(273)	(115)
Money market deposits	(30)	(133)	(163)	(29)	(159)	(188)
Time deposits	(334)	(126)	(460)	(196)	(150)	(346)
Securities sold under agreements to repurchase	3	(31)	(28)	12	(23)	(11)
Long-term debt	22	(12)	10	1	-	1
Total Interest Expense	(97)	(722)	(819)	(2)	(618)	(620)
Net Interest Income	$ 2,242	$ (1,943)	$ 299	$ 1,768	$ (1,383)	$ $385

The change in interest due to both volume and rate has been allocated proportionally to both, based on their relative absolute values.

Provision for Loan Losses

Our provision for loan losses for the year ended December 31, 2013 was $910,000, as compared to $1.4 million for the year ended December 31, 2012. The decrease in our provision was primarily due to $453,000 in recoveries recorded during the year ended December 31, 2013, from previously charged-off credits, which allowed the Company to reduce its loan loss provision, partially offset by loan growth. The $910,000 provision for 2013 was driven by a number of factors, including, our assessment of the current state of the economy and allowances related to impaired loans and loan activity. The provision for the comparable 2012 period considered the same factors. The provision for loan losses is determined by an allocation process whereby an estimated allowance is allocated to the specific allowance for impaired loans and the general allowance for pools of loans. The allocation reflects management's assessment of economic conditions, credit quality and other risk factors inherent in the loan portfolio. The allowance for loan losses totaled $7.9 million, or 1.31% of total loans at December 31, 2013, compared to $8.0 million or 1.40% of total loans, at December 31, 2012. The decrease of $112,000 in the allowance for loan losses is primarily due to loan charge-offs and partial write-downs of $1.5 million, which were previously reserved for, partially offset by the additional provision of $910,000 recorded during 2013 and $453,000 in loan recoveries.

In management's opinion, the allowance for loan losses, totaling $7.9 million at December 31, 2013, is adequate to cover losses inherent in the portfolio. In the current interest rate and credit quality environment, our risk management philosophy has been to stay within our established credit culture. Management will continue to review the need for additions to our allowance for loan losses based upon its ongoing review of the loan portfolio and credit quality trends, the level of delinquencies as well as general market and economic conditions.

Non-Interest Income

Non-interest income amounted to $2.7 million for the year ended December 31, 2013, compared to $2.6 million for the year ended December 31, 2012. This increase of $76,000, or 2.9%, was primarily due to an increase of $210,000 primarily related to higher loan prepayment and exit fees, an increase of $100,000 in net gains from the sale of securities, an increase of $48,000 in service fees on deposit accounts and $27,000 in title agency fees generated by TRCB Title Agency, LLC, a joint venture title agency established during 2013. Additionally, there was no credit loss recorded on the pooled trust preferred security sold in December 2013, as compared to an $80,000 loss in 2012. These increases were partially offset by a $271,000 decrease in residential mortgage fees resulting from lower origination volume, a $78,000 decrease in gains from the sales of SBA loans due to lower sales volume and a $26,000 decrease in bank owned life insurance income.

Non-Interest Expenses

The following table provides a summary of non-interest expenses by category for the years ended December 31, 2013 and 2012.

(dollars in thousands)	**Years ended December 31, 2013**	**2012**	**Increase (Decrease)**	**% Increase (Decrease)**
Salaries and employee benefits	$10,980	$10,915	$ 65	0.6 %
Occupancy and equipment	3,497	3,200	297	9.3 %
Professional fees	892	754	138	18.3 %
Advertising and marketing	302	270	32	11.9 %
Data processing	495	748	(253)	(33.8 %)
Insurance	330	345	(15)	(4.3 %)
FDIC insurance and assessments	545	553	(8)	(1.4 %)
Outside service fees	474	508	(34)	(6.7 %)
Amortization of identifiable intangibles	125	163	(38)	(23.3 %)
OREO and repossessed asset expenses, impairment and sales, net	665	699	(34)	(4.9 %)
Loan workout expenses	337	240	97	40.4 %
Other operating	1,538	1,452	86	5.9 %
Total Non-Interest Expenses	$20,180	$19,847	$ 333	1.7 %

Non-interest expenses for year ended December 31, 2013 increased $333,000, or 1.7%, compared to the year ended December 31, 2012. Salaries and employee benefits increased $65,000, or 0.6% primarily due to annual merit increases as well as the hiring of additional key personnel as the Company continues to expand its lending division, partially offset by the timing of personnel departures. Occupancy and equipment expense increased $297,000, or

9.3%, primarily due to expenses relating to our new corporate headquarters. Professional fee expenses increased $138,000, or 18.3%, primarily due to recruitment fees. Loan workout expenses increased $97,000, or 40.4%, primarily due to increased appraisal and legal billings relating to impaired loans. These increases were partially offset by a decrease of $253,000, or 33.8%, in data processing fees due primarily to a renegotiated service provider contract, a decrease of $34,000, or 6.7%, in outside service fees and a $34,000, or 4.9%, decrease in OREO and repossessed asset expenses primarily due to a decrease in the net losses on OREO sales. Amortization of intangible assets, which was the result of The Town Bank acquisition in 2006, amounted to $125,000 during 2013 as compared to $163,000 in 2012. Other operating expense increased $86,000, or 5.9%, primarily due to higher business development expense.

Income Tax Expense

For the year ended December 31, 2013, the Company recorded $3.0 million in income tax expense, compared to $2.8 million for the year ended December 31, 2012. The effective tax rate for the year ended December 31, 2013 and 2012 was 36.6% and 36.8%, respectively.

Financial Condition

December 31, 2013 Compared to December 31, 2012

Assets

At December 31, 2013, total assets were $769.7 million, an increase of $35.8 million, or 4.9% compared to total assets of $733.9 million at December 31, 2012. At December 31, 2013, total loans were $602.8 million, an increase of $31.4 million, or 5.5%, from the $571.4 million reported at December 31, 2012. Investment securities, including restricted stock, were $77.0 million at December 31, 2013 as compared to $75.4 million at December 31, 2012, an increase of $1.6 million, or 2.1%. At December 31, 2013, cash and cash equivalents totaled $47.8 million compared to $48.5 million at December 31, 2012, a decrease of $681,000, or 1.4%, as our liquidity position continues to remain strong at December 31, 2013. Goodwill totaled $18.1 million at both December 31, 2013 and 2012.

Liabilities

Total deposits increased $26.6 million, or 4.4%, to $633.4 million at December 31, 2013, from $606.8 million at December 31, 2012. Deposits are the Company's primary source of funds. The deposit increase during 2013 was primarily attributable to the Company's strategic initiative to continue to remain focused on growing market share through core deposit relationships. The Company anticipates continued loan demand increases during 2014 and beyond, and will depend on the expansion and maturation of the branch network as its primary funding source. As a secondary funding source, the Company intends to utilize borrowed funds, including brokered CD's, at opportune times during changing rate cycles. The Company continues to experience change in the mix of the deposit products through its branch sales efforts, which are targeted to gain market penetration. In order to fund future quality loan demand, the Company intends to raise the most cost-effective funding available within the market area.

Securities Portfolio

Investment securities, including restricted investments, totaled $77.0 million at December 31, 2013 compared to $75.4 million at December 31, 2012, an increase of $1.6 million, or 2.1%. Investment securities purchases amounted to $32.6 million, while repayments, calls and maturities amounted to $17.4 million. In 2013, there were sales of securities available-for-sale totaling $11.8 million resulting in a gain on sale of $218,000 as compared to sales of securities available-for-sale totaling $2.9 million resulting in a gain on sale of $118,000 during 2012.

The Company maintains an investment portfolio to fund increased loans and liquidity needs (resulting from decreased deposits or otherwise) and to provide an additional source of interest income. The portfolio is composed of obligations of the U.S. Government agencies and U.S. Government-sponsored entities, municipal securities, corporate debt securities and a Community Reinvestment Act ("CRA") mutual fund. U.S. Government agencies are considered to have the lowest risk due to the "full faith and credit" guarantee by the U.S. Government. All of our mortgage-backed investment securities are collateralized by pools of mortgage obligations that are guaranteed by privately managed, U.S. Government-sponsored enterprises ("GSE"), such as Fannie Mae, Freddie Mac and Government National Mortgage Association. Due to these GSE guarantees, these investment securities are susceptible to less risk of non-performance and default than other corporate securities which are collateralized by private pools of mortgages. At December 31, 2013, the Company maintained $14.5 million of GSE residential mortgage-backed securities in the investment portfolio and $19.4 million of collateralized residential mortgage obligations, all of which are current as to payment of principal and interest and are performing to the terms set forth in their respective prospectuses.

Included within the Company's investment portfolio are trust preferred securities, which consists of four single issue securities issued by large financial institutions with Moody's ratings from Baa1 to Ba2. These securities have an amortized cost value of $2.8 million and a fair value of $2.3 million at December 31, 2013. The unrealized loss on these securities is related to general market conditions, the widening of interest rate spreads and downgrades in credit ratings.

During 2013, the Company had one pooled trust preferred security with a Moody's rating of Ca included in corporate debt securities. This pooled trust preferred security had been remitting reduced amounts of interest as some individual participants of the pool had deferred interest payments. The pooled instrument consisted of securities issued by financial institutions and insurance companies in which we held the mezzanine tranche of such security. Due to the volatility in the financial performance of the underlying institutions comprising the pooled trust along with the recent heightened press exposure relating to the Volcker Rule, management made the determination to sell this security during the fourth quarter 2013. The original face of this security was $500,000 yet, over the years, the Company had taken $308,500 in other-than-temporary impairment charges, leaving a current book value of $191,500. There were no other-than-temporary impairment charges to earnings during 2013, as compared to $80,000 in 2012. This security was sold for $220,000 and as such, resulted in a gain of $28,500 in 2013.

Management evaluates all securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic and market concerns warrant such evaluations. As of December 31, 2013, all of these securities are current with their scheduled interest payments. Future deterioration in the cash flow of these investments or the credit quality of the financial institution issuers could result in impairment charges in the future.

The Company accounts for its investment securities as available for sale or held to maturity. Management determines the appropriate classification at the time of purchase. Based on an evaluation of the probability of the occurrence of future events, we determine if we have the ability and intent to hold the investment securities to maturity, in which case we classify them as held to maturity. All other investments are classified as available for sale.

Securities classified as available for sale must be reported at fair value, with unrealized gains and losses excluded from earnings and reported as a separate component of shareholders' equity, net of taxes. Gains or losses on the sales of securities available for sale are recognized upon realization utilizing the specific identification method. The net effect of unrealized gains or losses, caused by marking our available for sale portfolio to fair value, could cause fluctuations in the level of shareholders' equity and equity-related financial ratios as changes in market interest rates cause the fair value of fixed-rate securities to fluctuate.

Securities classified as held to maturity are carried at cost, adjusted for amortization of premium and accretion of discount over the terms of the maturity in a manner that approximates the interest method.

The following table sets forth the carrying value of the securities portfolio as of December 31, 2013, 2012 and 2011 (in thousands).

	December 31,		
	2013	**2012**	**2011**
Investment securities available for sale at fair value:			
U.S. Government agency securities	$3,451	$-	$2,258
Municipal securities	1,362	1,310	1,307
U.S. Government-sponsored enterprises ("GSE") - Residential mortgage-backed securities	14,519	20,374	21,878
U.S. Government collateralized residential mortgage obligations	19,352	22,996	17,163
Corporate debt securities, primarily financial institutions	4,074	3,655	2,528
Community Reinvestment Act ("CRA") mutual fund	2,335	2,421	2,321
	$45,093	$50,756	$47,455
Investment securities held to maturity at amortized cost:			
Municipal securities	$23,819	$17,799	$11,296

GSE – Residential mortgage-backed securities	2,377	1,083	-
U.S. Government collateralized residential mortgage obligations	660	892	-
Corporate debt securities, primarily financial institutions	1,814	1,812	1,809
	$28,670	$21,586	$13,105

The contractual maturity distribution and weighted average yields, calculated on the basis of the stated yields to maturity, taking into account applicable premiums or discounts, of the securities portfolio at December 31, 2013 is set forth in the following table (excluding restricted stock and mutual fund). Securities available for sale are carried at amortized cost in the table for purposes of calculating the weighted average yield. 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. There have been no tax equivalent adjustments made to the yields on tax-exempt securities.

December 31, 2013	**Due within 1 year**		**Due 1 – 5 years**		**Due 5 – 10 years**		**Due after 10 years**		**Total**	
(dollars in thousands)	**Amortized cost**	**Wtd Avg Yield**	**Amortized cost**	**Wtd Avg Yield**	**Amortized cost**	**Wtd Avg Yield**	**Amortized cost**	**Wtd Avg Yield**	**Amortized cost**	**Wtd Avg Yield**
Investment securities available for sale:										
U.S. Government agency securities	$-	-	$3,500	1.38 %	$-	-	$-	-	$3,500	1.38 %
Municipal securities	-	-	-	-	1,347	4.47 %	-	-	1,347	4.47 %
GSE - Residential mortgage-backed securities	-	-	16	5.50 %	3,598	2.29 %	11,163	2.62 %	14,777	2.54 %
U.S. Government collateralized residential mortgage obligations	-	-	-	-	1,421	2.16 %	18,461	2.05 %	19,882	2.06 %
Corporate debt securities, primarily financial institutions	781	2.44 %	500	1.49 %	2,035	1.58 %	994	1.22 %	4,310	1.64 %
	$781	2.44 %	$4,016	1.41 %	$8,401	2.45 %	$30,618	2.23 %	$43,816	2.20 %
Investment securities held to maturity:										
Municipal securities	$13,548	0.76 %	$3,693	3.28 %	$3,699	3.79 %	$2,879	3.97 %	$23,819	2.01 %
GSE - Residential mortgage-backed securities	-	-	-	-	1,317	2.50 %	1,060	3.50 %	2,377	2.95 %
U.S. Government collateralized residential mortgage obligations	-	-	-	-	-	-	660	2.00 %	660	2.00 %
Corporate debt securities primarily financial institutions	-	-	-	-	-	-	1,814	0.77 %	1,814	0.77 %

$13,548	0.76 %	$3,693	3.28 %	$5,016	3.45 %	$6,413	2.78 %	$28,670	2.01 %

Loan Portfolio

The following table summarizes total loans outstanding by loan category and amount on the dates indicated.

During the second quarter of 2013, certain types of loans were reclassified due to their purpose and overall risk characteristics. Therefore, balances on certain loan and allowance for loan losses as of December 31, 2012, 2011, 2010 and 2009 were reclassified to conform to the December 31, 2013 presentation.

	December 31, 2013		**2012**		**2011**	
	Amount	**Percent**	**Amount**	**Percent**	**Amount**	**Percent**
	(in thousands, except for percentages)					
Commercial and industrial	$98,289	16.3 %	$102,003	17.9 %	$102,803	19.4 %
Real estate - construction	83,060	13.8 %	87,561	15.3 %	65,018	12.3 %
Real estate - commercial	364,352	60.4 %	324,286	56.7 %	301,614	56.9 %
Real estate - residential	25,588	4.2 %	20,875	3.7 %	19,201	3.6 %
Consumer	32,413	5.4 %	37,378	6.5 %	42,155	7.9 %
Unearned fees	(886)	(0.1 %)	(656)	(0.1 %)	(661)	(0.1 %)
Total loans	$602,816	100.0 %	$571,447	100.0 %	$530,130	100.0 %

	December 31, 2010 Amount	Percent	2009 Amount	Percent
	(in thousands, except for percentages)			
Commercial and industrial	$105,496	20.6 %	$104,539	20.4 %
Real estate - construction	46,213	9.0 %	82,557	16.1 %
Real estate - commercial	288,626	56.2 %	249,348	48.5 %
Real estate - residential	21,473	4.2 %	19,381	3.8 %
Consumer	51,715	10.1 %	58,024	11.3 %
Unearned fees	(529)	(0.1 %)	(450)	(0.1 %)
Total loans	$512,994	100.0 %	$513,399	100.0 %

Total loans, net of unearned fees, increased by $31.4 million, or 5.5%, to a new high of $602.8 million at December 31, 2013 compared to $571.4 million at December 31, 2012. While the overall economy has been restrictive and somewhat constrained by the fragile economic environment, our local economy seems to reflect some strengthening in certain sectors. As such, we remain optimistic in our growth prospects for lending in 2014, recognizing that we will continue to be challenged due in part to both the competitive landscape and pricing pressures in this low rate environment. Our loan pipeline remains strong as we continue to stay focused on growing our portfolio. We have taken the approach of opening low cost loan production offices (“LPOs”) in different markets and once a certain level of business is achieved, the intention is to replace some of these LPO’s with a full service branch at an appropriate location within that market. During the second quarter of 2013, we finalized our lease to replace our current New Brunswick LPO with a full service branch in that market, which we anticipate opening in the second quarter of 2014. Additionally, as previously announced, the Bank opened three new LPO’s in the Freehold, East Brunswick and Piscataway, New Jersey markets in the second quarter of 2013. All of these LPO’s are staffed by experienced seasoned loan officers who are knowledgeable within these markets and have begun to produce positive results.

The mix of our loan composition at December 31, 2013 when compared to December 31, 2012 reflects our desire to continue emphasizing commercial and industrial, real estate-commercial and real estate-construction lending. Within the loan portfolio, commercial real estate loans remained the largest component, constituting 60.4% of our total loans outstanding at December 31, 2013, up from 56.7% from the prior year. These loans increased by $40.1 million, or 12.4%, to $364.4 million at December 31, 2013, compared to $324.3 million at December 31, 2012 due to both increased production as well completed construction projects which, at the time of renewal, were converted to commercial real estate loans. Commercial and industrial loans decreased $3.7 million to $98.3 million at year-end 2013 compared to $102.0 million at year-end 2012, a decrease of 3.6%, and comprised 16.3% of our portfolio, down from 17.9% for the prior year. Real estate construction loans decreased by $4.5 million, or 5.1%, to $83.1 million at December 31, 2013, and comprised 13.8% of our total loans outstanding, down from 15.3% for the prior year. As mentioned above, this decline was due to completed construction projects which converted to commercial real estate loans at the time of renewal. Residential real estate loans increased $4.7 million and comprised 4.2% of our total loan portfolio at December 31, 2013, up from 3.7% for the prior year. Consumer loans decreased by $5.0 million or 13.4%, to $32.4 million at December 31, 2013 compared to $37.4 million at December 31, 2012, and comprised 5.4% of our 2013 loan portfolio compared to 6.5% for 2012.

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The following table sets forth the aggregate maturities of commercial and construction related loans, net of unearned discounts and deferred loan fees, in specified categories and the amount of such loans, which have fixed and variable rates as of December 31, 2013.

As of December 31, 2013	Due within 1 year	Due 1–5 years	Due after 5 years	Total
		(in thousands)		
Commercial and industrial	$30,037	$48,782	$19,470	$98,289
Real estate - construction	43,149	5,752	34,159	83,060
Real estate - commercial	25,787	64,727	273,838	364,352
Total	$98,973	$119,261	$327,467	$545,701
Fixed rate loans	$25,039	$72,229	$41,853	$139,121
Variable rate loans	73,934	47,032	285,614	406,580
Total	$98,973	$119,261	$327,467	$545,701

Asset Quality

One of our key operating objectives has been, and continues to be, to maintain a high level of asset quality. We continually analyze our credit quality through a variety of strategies. We have been proactive in addressing problem and non-performing assets and management believes our allowance for loan losses is adequate to cover known and potential losses. These strategies, as well as our underwriting standards for new loan originations, have resulted in relatively low levels of non-performing loans and charge-offs. Our loan portfolio composition generally consists of loans secured by commercial real estate, development and construction of real estate projects in the Union and Monmouth County, New Jersey market area. The Company currently has five LPO’s in Monmouth, Middlesex and Union Counties, all of which are in-line with the Company’s growth strategy of expanding our footprint into key markets. We continue to have lending success and growth in the medical markets through our Private Banking Department. We have experienced signs of improvement in our markets as our loan pipeline remains strong. Efficient and effective asset-management strategies reflect the type and quality of assets being underwritten and originated.

The Company continues to be proactive in identifying troubled credits early, to record charge-offs promptly based on current collateral values, and to maintain an adequate allowance for loan losses at all times. We closely monitor local and regional real estate markets and other risk factors related in our loan portfolio.

The Bank does not originate or purchase loans with payment options, negative amortization loans or sub-prime loans. We evaluate the classification of all our loans and the financial results of some of those loans may be adversely impacted by changes in the prevailing economic conditions, either nationally or in our local market areas, including decreases in real estate values, adverse employment conditions, the monetary and fiscal policies of the federal and state government and other significant external events. For loans involved in a workout situation, a new or updated appraisal or evaluation, as appropriate, is ordered to address current project plans and market conditions that were considered in the development of the workout plan. The consideration includes whether there has been material deterioration in the following factors: the performance of the project; conditions for the geographic market and property type; variances between actual conditions and original appraisal assumptions; changes in project specifications (e.g., changing a planned condominium project to an apartment building); loss of a significant lease or a take-out commitment. A new appraisal may not be necessary in all instances where an internal evaluation is used and appropriately updates the original appraisal assumptions to reflect current market conditions and provides an estimate of the collateral’s fair market value for impairment analysis testing.

Non-Performing Assets

Non-performing assets include loans that are not accruing interest (non-accrual loans) as a result of principal or interest being in default for a period of 90 days or more, loans past due 90 days or more and still accruing and other real estate owned, which consists of real estate acquired as the result of a defaulted loan. A loan is placed on non-accrual status when collection of all principal or interest is considered unlikely or when principal or interest is past due for 90 days or more, unless the loan is well-secured and in the process of collection, in which case, the loan will continue to accrue interest. Any unpaid interest previously accrued on those loans is reversed from income. Interest income on other non-accrual loans is recognized only to the extent of interest payments received. A troubled debt restructuring loan (“TDR”) is a loan in which the contractual terms have been modified resulting in the Bank granting a concession to a borrower who is experiencing financial difficulties in order for the Bank to have a greater opportunity of collecting the indebtedness from the borrower. Non-accruing TDRs are included in non-performing loans.

At December 31, 2013 and 2012, the Company had $6.0 million and $7.5 in non-accrual loans, respectively. Our non-performing loans are primarily secured by real estate. There were no loans past due 90 days or more and still accruing interest at December 31, 2013 as compared to one loan totaling $1,800 at December 31, 2012.

The following table summarizes our non-performing assets for each of the five years in the period ended December 31, 2013. Total TDR's are broken out at the bottom portion of the table.

	Years ended December 31,				
	2013	**2012**	**2011**	**2010**	**2009**
(dollars in thousands)					
Non-Performing Assets:					
Non-Performing Loans:					
Commercial and industrial	$17	$1,137	$113	$-	$374
Real estate – construction	225	-	2,528	1,168	10,809
Real estate – commercial	5,483	4,086	145	752	657
Real estate – residential	-	263	263	-	-
Consumer	284	1,986	2,191	3,729	2,311
Total Non-Performing Loans	6,009	7,472	5,240	5,649	14,151
Loans Past Due 90 days or More and Still Accruing	-	2	-	-	-
Other Real Estate Owned and repossessed assets	2,771	1,752	7,765	8,098	-
Total Non-Performing Assets	$8,780	$9,226	$13,005	$13,747	$14,151
Ratios:					
Non-Performing loans to total loans	1.00 %	1.31 %	0.99 %	1.10 %	2.76 %
Non-Performing assets to total assets	1.14 %	1.26 %	1.93 %	2.16 %	2.21 %
Troubled Debt Restructured Loans:					
Performing	$23,021	$9,551	$7,579	$5,435	$4,717
Non-performing (included in non-performing assets above)	2,355	-	-	-	-

Total non-performing loans decreased by $1.5 million from December 31, 2012 to December 31, 2013. Nine loans comprised the $6.0 million of non-performing loans at December 31, 2013 compared to eighteen loans which comprised the $7.5 million at December 31, 2012. At December 31, 2013, the Company believes it has a manageable level of non-performing loans, many of which are in the final stages of loss mitigation or legal resolution.

At December 31, 2013, non-performing commercial and industrial loans decreased by $1.1 million from December 31, 2012, primarily due the payoff of three loans totaling $1.0 million, charge-off of two loans totaling $570,000, a write-down of $180,000 on one loan and one loan transferred to repossessed assets for $487,000. These decreases were partially offset by the addition of three loans totaling $1.1 million.

At December 31, 2013, non-performing real estate-construction loans increased by $225,000 from December 31, 2012, due to the addition of one loan.

At December 31, 2013, non-performing real estate commercial loans increased by $1.4 million from December 31, 2012, due primarily to the addition of three commercial real estate loans totaling $3.9 million, which are well secured, partially offset by five loans totaling $2.0 million, which were paid off in full, a $186,000 write-down on one loan and $300,000 in principal payments made.

At December 31, 2013, non-performing real estate-residential loans decreased $263,000, from December 31, 2012 due to the transfer of one loan into OREO.

At December, 2013, non-performing consumer loans decreased by $1.7 million from December 31, 2012, primarily due to the transfer of one loan totaling $1.5 million into OREO, a write-down of $235,000 on one loan, two loans totaling $191,000 which paid in full as well as one loan totaling $113,000, which was placed back onto active status. These reductions were partially offset by the addition of two loans totaling $388,000.

OREO and repossessed assets represent real estate and assets pledged as collateral acquired as a result of foreclosure or by deed in lieu of foreclosure. These assets are carried at the lower of cost or fair value less estimated selling costs. When a property or asset is acquired, the excess of the loan balance over fair value, less selling costs, is charged to the allowance for loan losses. Operating results from real estate owned, including rental income, operating expenses, and gains and losses realized from the sales of real estate owned are recorded as incurred. At December 31, 2013, the Bank had $2.8 million in other real estate owned and repossessed assets as compared to $1.8 million at December 31, 2012.

The increase of $1.0 million is primarily due to the addition of one residential mortgage totaling $203,000 and one consumer loan totaling $1.5 million, as well as $487,000 in repossessed assets consisting of trucks as collateral. These increases were partially offset by the sale of two properties totaling $760,000, in which the Company recorded a net loss of $11,500. Additionally, there was $408,000 in write-downs.

All of our OREO are aggressively marketed, and are monitored on a regular basis to ensure valuations are in line with current fair market values.

Loans whose terms are modified are classified as troubled debt restructurings if the Company grants such borrowers concessions and it is deemed that those borrowers are experiencing financial difficulty. Concessions granted under a troubled debt restructuring generally involve a temporary reduction in interest rate or a modification of a loan’s amortization schedule. Non-accrual troubled debt restructurings are restored to accrual status if principal and interest payments, under the modified terms, are current for six consecutive months after the modification is in place. Loans classified as troubled debt restructurings are designated as impaired from a cash flow perspective. Modifications involving troubled borrowers may include a modification of a loan’s amortization schedule, reduction in the stated interest rate and rescheduling of future cash flows.

The Company’s troubled debt restructured modifications are made on terms typically up to 12 months in order to aggressively monitor and track performance of the credit. The short-term modifications are monitored for continued performance for an additional period of time after the expiration of the concession. Balance reductions and annualized loss rates are also important metrics that are monitored. The main objective of the modification program is to reduce the payment burden for the borrower and improve the net present value of the Company’s expected cash flows.

As of December 31, 2013, loans modified in a troubled debt restructuring totaled $25.4 million as compared to $9.6 million at December 31, 2012, an increase of $15.8 million. The increase of $15.8 million was primarily due to modifications made to borrowers who were experiencing financial and cash difficulties. These concessions generally involved a temporary reduction in interest rate or modification of a loan's amortization schedule. The main objective of the modification is to reduce the payment burden for the borrower and improve the net present value of the Company's expected cash flows. The $25.4 million is comprised of $17.8 million in real estate commercial loans, $6.6 million in real estate construction loans and $1.0 million in consumer loans. All identified TDR's as of December 31, 2013, are collateral dependent loans and only $4.5 million of the $25.4 million have specific reserves in our ALLL computation totaling $503,000. The remaining $20.9 million of TDR's are adequately collateralized requiring no specific reserves.

The $17.8 million in real estate commercial loans identified as TDR’s are all accruing, with the exception of one non-accrual loan totaling $2.4 million. This non-accrual loan is secured by multiple income producing properties. It is anticipated that during 2014, two properties will be sold and the Company’s exposure will substantially deleveraged. The remaining $15.4 million are amortizing on various terms. The TDR designation was given primarily due to concessions granted for interest rate, amortization or maturity. These factors were all a result of the weak economy, which resulted in the borrowers having financial and cash flow difficulties.

The $6.6 million in real estate construction loans is primarily comprised of two relationships, totaling $6.2 million, which include a total of 40 fully improved building lots under contract of sale to two national home builder companies. The lot sales are structured as tranche takedowns with repayments expected in full by the end of the first quarter 2015. The remaining $408,000 is the last lot in a ten lot subdivision, with the house currently under construction.

The $1.0 million in consumer loans are all performing. Due to the weak economy, values and personal income deteriorated, causing these loans to not conform to current underwriting standards at maturity. These loans have been modified with amortizing schedules enhanced to allow for deleveraging of the debt.

Potential Problem Loans

Overall credit quality in the portfolio remains strong even though the economic weakness has negatively impacted several potential problem loans. Potential problem loans consist of special mention and substandard loans that continue to accrue interest. At December 31, 2013, the Company had $31.6 million in loans that were risk rated as special mention or substandard. This was a decrease of approximately $16.5 million from year ended December 31, 2012, which totaled $48.1 million. The change in risk rated loans was attributable to certain loans which were upgraded due to a variety of changing conditions, including general economic conditions, payoffs and/or conditions applicable to the specific borrower.

At December 31, 2013, other than the loans set forth above, the Company is not aware of any loans which present serious doubts as to the ability of its borrowers to comply with present loan repayment terms and which are expected to fall into one of the risk categories set forth in the description herein.

Allowance for Loan Losses

Analysis and Determination of the Allowance for Loan Losses

The allowance for loan losses is a valuation allowance for probable credit losses in the loan portfolio. We evaluate the need to establish allowances against losses on loans on a monthly basis and such allowances are reported to the Board of Directors on a quarterly basis. Through our prudent risk management practices, we continuously monitor the credit quality of our loan portfolio and maintain an allowance sufficient to absorb current probable and estimable losses inherent in our loan portfolio. We are committed to the timely recognition of problem loans and maintaining an appropriate and adequate allowance.

Our methodology for assessing the appropriateness of the allowance for loan losses consists of: (1) a specific allowance on impaired loans and (2) a general valuation allowance on the remainder of the loan portfolio. Although we determine the amount of each element of the allowance separately, the entire allowance for loan losses is available for the entire portfolio.

As part of the allowance computation at December 31, 2012, the Company undertook a comprehensive review and inspection of all loans with collateral identified as being located within certain impact zones of Superstorm Sandy that impacted the region in October 2012. In the analysis, the Company reviewed a total of $26.1 million in loans, comprised of $20.4 million of commercial real estate and commercial and industrial loans, which represented 4.0% of this segment of the loan portfolio, $4.9 million of consumer loans, consisting primarily of home equity products, which represented 12.0% of this segment of the portfolio, and $800,000 of residential mortgage loans, which represented 4.0% of this segment of our portfolio. In total, the $26.1 million of identified loans represented 4.6% of the total loan portfolio. The Company evaluated the impact of the storm relative to the adequacy of the allowance for loan losses. Based on that evaluation, although there were no loan charge-offs or specific losses identified at that time, the Company recorded an additional provision for loan losses of $204,000 for the quarter and year ended December 31, 2012, solely related to the impact of the storm. During the twelve month period ending December 31, 2013, due to no recorded losses relating to Superstorm Sandy, the additional reserve of $204,000 from 2012 was removed from the computation of the allowance for loan losses.

Specific Allowance Required for Impaired Loans

The first element of the allowance for loan loss analysis involves the estimation of allowance specific to individually evaluated impaired loans including restructured commercial and industrial, commercial and residential real estate, and consumer loans. In this process, a specific allowance may be established for impaired loans based on an analysis of the most probable sources of repayment, including discounted cash flows, liquidation of collateral, or the market value of the loan itself. Restructured consumer loans are also evaluated in this element of the estimate.

General Valuation Allowance on the Remainder of the Loan Portfolio

We establish a general allowance for non-impaired loans to recognize the inherent losses associated with lending activities. This general valuation allowance is determined by segregating the loans by loan category and assigning percentages to each category. The percentages are adjusted for significant factors that, in management's judgment, affect the collectability of the portfolio as of the evaluation date. These significant factors include changes in existing general economic and business conditions affecting our primary lending areas and the national economy, staff lending experience, recent historical loss experience in particular segments of the portfolio, specific reserve and classified asset trends, delinquency trends and risk rating trends. These loss factors are subject to ongoing evaluation to ensure their relevance in the current economic environment.

Future adjustments to the allowance for loan losses account may be necessary due to economic, operating, regulatory and other conditions beyond our control. Our primary lending emphasis is the origination of loans secured by commercial and residential real estate in the greater central New Jersey area. The downturn and instability in the economy has affected our local markets, resulting in a slowdown in residential and commercial real estate sales. We are diligently working to address any asset quality concerns, including working with borrowers and increasing our allowance for loan losses when appropriate to ensure that we are well positioned for any losses that we may incur.

The following table summarizes our allowance for loan losses for each of the five years in the period ended December 31.

	Years ended December 31,				
	2013	**2012**	**2011**	**2010**	**2009**
	(in thousands, except for percentages)				
Balance at beginning of year	$7,984	$7,310	$6,246	$6,184	$6,815
Provision charged to expense	910	1,380	2,205	3,100	2,205
Recoveries of loans charged off:					
Commercial and industrial	344	18	1	78	4
Real estate commercial	2	-	-	-	-
Real estate – construction	105	169	58	15	-
Consumer	2	3	52	-	-
Loans charged-off:					
Commercial and industrial	(1,128)	(552)	(482)	(1,061)	(526)
Real estate – construction	-	(59)	(82)	(1,420)	(2,012)
Real estate – residential	(60)	-	-	(150)	-
Consumer	(287)	(285)	(688)	(500)	(302)
Charge-offs, net	(1,022)	(706)	(1,141)	(3,038)	(2,836)
Balance of allowance at end of year	$7,872	$7,984	$7,310	$6, 246	$6,184
Ratio of net charge-offs to average loans outstanding	0.18 %	0.13 %	0.22 %	0.59 %	0.59 %
Balance of allowance at period-end as a percent of loans at year-end	1.31 %	1.40 %	1.38 %	1.22 %	1.20 %
Ratio of allowance at period-end to non-performing loans	131.00%	106.85%	139.50%	110.57%	43.70 %

Allocation of the Allowance for Loan Losses

The following table sets forth the allocation of the allowance for loan losses by category of loans and the percentage of loans in each category to total loans for each of the five years in the period ended December 31, 2013.

	December 31, 2013			**2012**			**2011**		
(dollars in thousands)	**Amount**	**Percent of Allowance to total allowance**	**Percent of Loans to total loans**	**Amount**	**Percent of Allowance to total allowance**	**Percent of Loans to total loans**	**Amount**	**Percent of Allowance to total allowance**	**Percent of Loans to total loans**
Balance applicable to :									
Commercial and industrial	$1,052	13.4 %	16.3 %	$1,354	17.0 %	17.9 %	$2,448	33.5 %	19.4 %
Real estate - construction	1,494	19.0 %	13.8 %	1,720	21.5 %	15.3 %	1,222	16.7 %	12.3 %
Real estate - commercial	4,407	56.0 %	60.3 %	3,791	47.5 %	56.6 %	2,412	33.0 %	56.8 %
Real estate - residential	190	2.4 %	4.2 %	217	2.7 %	3.7 %	256	3.5 %	3.6 %
Consumer	594	7.5 %	5.4 %	740	9.3 %	6.5 %	880	12.0 %	7.9 %
Unallocated	135	1.7 %	0.0 %	162	2.0 %	0.0 %	92	1.3 %	0.0 %
Total	$7,872	100.0%	100.0%	$7,984	100.0%	100.0%	$7,310	100.0%	100.0%

	December 31, 2010			**2009**		
(dollars in thousands)	**Amount**	**Percent of Allowance to total allowance**	**Percent of Loans to total loans**	**Amount**	**Percent of Allowance to total allowance**	**Percent of Loans to total loans**
Balance applicable to :						
Commercial and industrial	$2,081	33.3 %	20.6 %	$1,974	31.9 %	20.4 %
Real estate - construction	895	14.3 %	9.0 %	945	15.3 %	16.1 %
Real estate - commercial	2,193	35.1 %	56.1 %	2,495	40.4 %	48.4 %
Real estate - residential	276	4.4 %	4.2 %	126	2.0 %	3.8 %
Consumer	793	12.7 %	10.1 %	624	10.1 %	11.3 %
Unallocated	8	0.2 %	0.0 %	20	0.3 %	0.0 %

Total	$6,246	100.0%	100.0%	$6,184	100.0%	100.0%

The Company's allowance for loan losses was $7.9 million at December 31, 2013 and $8.0 million at December 31, 2012. The allowance for loan losses as a percentage of total loans at December 31, 2013 was 1.31%, compared with 1.40% at December 31, 2012. The Company had total provisions to the allowance for loan losses for the year ended December 31, 2013 in the amount of $910,000 as compared to $1.4 million for the comparable period in 2012. Net charge-offs for the year ended December 31, 2013 were $1.0 million, compared to $706,000 for the year ended December 31, 2012. All loans which the Company charged-off or had a direct write-down, had been previously identified and specific reserves were applied. Non-performing loans at December 31, 2013 are either well-collateralized or adequately reserved for in the allowance for loan losses.

Bank-Owned Life Insurance

In November of 2004, the Company invested in $3.5 million of bank-owned life insurance as a source of funding for additional life insurance benefits for officers and employee benefit expenses related to the Company's non-qualified Supplemental Executive Retirement Plan ("SERP") for certain executive officers implemented in 2004 that provides for payments upon retirement, death or disability. Since its initial investment in 2004, the Company has purchased an additional $10.5 million of bank-owned life insurance, which includes a purchase of $2.5 million during 2013, in order to provide additional life insurance benefits for additional officers upon death or disability and to provide a source of funding for future enhancements of the benefits under the SERP. Expenses related to the SERP for year ended December 31, 2013 were approximately $246,000 and $214,000 for year ended December 31, 2013 and 2012, respectively. During the second quarter 2013, the Company recognized a $20,000 benefit due to the forfeiture of SERP benefits to an officer no longer employed with the Bank. Bank-owned life insurance involves our purchase of life insurance on a selected group of officers. The Company is the owner and beneficiary of the policies. Increases in the cash surrender values of this investment are recorded in other income in the statement of operations. Income on bank-owned life insurance amounted to $432,000 and $459,000, for years ended December 31, 2013 and 2012, respectively.

Premises and Equipment

Premises and equipment totaled $4.2 million and $3.2 million at December 31, 2013 and 2012, respectively. The $1.0 million, or 30.5%, increase in our investment in premises and equipment in 2013 compared to 2012 is due primarily to additions to premises and equipment of $1.7 million made during the current year partially offset by normal recurring depreciation of existing assets of $711,000. Included in the $1.7 million is the transfer of $1.0 million from other assets, which was previously classified as a property, held for sale, to land. The Company has decided to construct a new branch on this property in the Cranford market of Union County. This branch is expected to open by the end of 2014.

Goodwill and Intangible Assets

Intangible assets totaled $18.3 million at December 31, 2013 compared to $18.4 million at December 31, 2012. The Company's intangible assets at December 31, 2013 were comprised of $18.1 million of goodwill and $143,000 of core deposit intangibles, net of accumulated amortization of $2.0 million. At December 31, 2012, the Company's intangible assets were comprised of $18.1 million of goodwill and $268,000 of core deposit intangibles, net of accumulated amortization of $1.8 million. During 2013, and 2012, the Company analyzed its goodwill for impairment and determined that there was no goodwill impairment. Accordingly, there was no impairment recorded during 2013 and 2012.

There can be no assurance that future testing will not result in additional material impairment charges due to further developments in the banking industry or our markets or otherwise. Additional goodwill discussion can be referenced in Note 5, "Goodwill and Other Intangible Assets" in the Company's financial statements.

Deposits

Deposits are the primary source of funds used by the Company in lending and for general corporate purposes. In addition to deposits, the Company may derive funds from principal repayments on loans, the sale of loans and securities designated as available for sale, maturing investment securities and borrowings from financial intermediaries. The level of deposit liabilities may vary significantly and is dependent upon prevailing interest rates, money market conditions, general economic conditions and competition. The Company's deposits consist of checking, savings and money market accounts along with CD's and individual retirement accounts. Deposits are obtained from individuals, partnerships, corporations, unincorporated businesses and non-profit organizations throughout our market area. We attempt to control the flow of deposits primarily by pricing deposit offerings to be competitive with other financial institutions in the market area but not by necessarily offering the highest rate.

At December 31, 2013, total deposits amounted to $633.4 million, reflecting an increase of $26.7 million, or 4.4%, from December 31, 2012. Core checking deposits increased $36.2 million, or 17.5%, while savings accounts, inclusive of money market deposits, increased $6.1 million, or 2.0%. Conversely, higher cost certificates of deposits ("CD's") decreased $15.6 million, or 15.7%. The Bank has continued to focus on building non-interest bearing deposits, as this lowers the institution's cost of funds. Additionally, our savings accounts and other interest-bearing deposit products, excluding high-cost CD's, provide an efficient and cost-effective source to fund our loan originations.

One of the primary strategies is the accumulation and retention of core deposits. Core deposits consist of all deposits, except CD's in excess of $100,000 and brokered CD's. Core deposits at December 31, 2013 amounted to $587.9 million and accounted for 92.8% of total deposits as compared to $556.3 million and 91.7% of total deposits at December 31, 2012. During 2013, we continued to price our CD's $100,000 and over at rates that did not exceed our market competition. The balance of CD's $100,000 and over amounted to $30.4 million at December 31, 2013 compared to $44.2 million at December 31, 2012, a decrease of $13.8 million or 31.2%. At December 31, 2013, brokered CD's totaled $15.2 million as compared to $6.3 million at December 31, 2012 with rates ranging from 1.09% to 2.15% with original terms ranging from 12 to 84 months. The Company found this strategy of placing brokered CD's provides a more cost-effective source of longer-term funding as the rates paid for these brokered CDs were lower than current fixed rate term advances at the FHLB of New York.

The following table reflects the average balances and average rates paid on deposits for the years ended December 31, 2013, 2012 and 2011.

	Years ended December 31,					
	2013		**2012**		**2011**	
(dollars in thousands)	**Average Balance**	**Average Rate**	**Average Balance**	**Average Rate**	**Average Balance**	**Average Rate**
Non-interest bearing demand	$121,277	-	$96,967	-	$86,687	-
Interest-bearing demand (NOW)	94,277	0.47 %	69,063	0.43 %	57,378	0.45 %
Savings deposits	236,104	0.54 %	217,879	0.74 %	199,641	0.86 %
Money market deposits	75,394	0.21 %	83,140	0.38 %	88,095	0.58 %
Time deposits	86,931	1.61 %	106,012	1.75 %	116,331	1.89 %
Total	$613,983	0.53 %	$573,061	0.71 %	$548,132	0.85 %

The following table sets forth a summary of the maturities of certificates of deposit $100,000 and over at December 31, 2013 (in thousands).

	December 31, 2013
Due in three months or less	$ 6,725
Due over three months through twelve months	13,834
Due over one year through three years	9,001
Due over three years	799
Total certificates of deposit $100,000 and over	$ 30,359

Borrowings

The Bank utilizes its account relationship with Atlantic Central Bankers Bank to borrow funds through its Federal funds borrowing line in an aggregate amount up to $10.0 million. The Bank also established a $7.0 million credit facility with another correspondent bank. These borrowings are priced on a daily basis. The Bank also has a remaining borrowing capacity with the Federal Home Loan Bank of New York (“FHLB”) of approximately $57.3 million based on the current loan collateral pledged of $74.8 million at December 31, 2013.

Short-term borrowings consist of Federal funds purchased and short-term borrowings from the FHLB. At December 31, 2013, 2012 and 2011, the Company had no short-term borrowings outstanding.

At December 31, 2013, 2012 and 2011, long term debt consisted of advances from the FHLB, which amounted to $17.5 million, $13.5 million and $13.5 million, respectively. The FHLB advances had a weighted average interest rate of 2.79% at December 31, 2013 and 3.18% for both December 31, 2012 and 2011, respectively. These advances are contractually scheduled for repayment as follows:

(dollars in thousands)	**Years ended December 31,**		
Long-term debt:	**2013**	**2012**	**2011**
2014	$1,500	$1,500	$1,500
2015	1,500	1,500	1,500
2016	1,500	1,500	1,500
2017	11,000	9,000	9,000
2018	2,000	-	-
	$17,500	$13,500	$13,500

The maximum amount outstanding of FHLB advances at any month-end during 2013 was $17.5 million and $13.5 million for 2012 and 2011, respectively. The average interest rates paid on FHLB advances were 3.18% for 2013 and 2.79% for 2012 and 2011, respectively.

Repurchase Agreements

Securities sold under agreements to repurchase, which are classified as secured borrowings, generally mature within one to four days from the transaction date. Securities sold under agreements to repurchase are reflected as the amount of cash received in connection with the transaction. The Company may be required to provide additional collateral based on the fair value of the underlying securities.

Repurchase agreements are summarized as follows:

	Years ended December 31,		
	2013	**2012**	**2011**
Repurchase agreements:	**(dollars in thousands)**		
Balance at year-end	$18,440	$16,710	$16,218
Average during the year	18,766	18,266	16,593
Maximum month-end balance	21,566	19,860	19,524
Weighted average rate during the year	0.42 %	0.59 %	0.71 %
Weighted average rate at year end	0.36 %	0.52 %	0.55 %

Liquidity

Liquidity defines our ability to generate funds to support asset growth, meet deposit withdrawals, maintain reserve requirements and otherwise operate on an ongoing basis. An important component of an institution's asset and liability management structure is the level of liquidity which is available to meet the needs of its customers and requirements of creditors. The liquidity needs of the Bank are primarily met by cash on hand, Federal funds sold, maturing investment securities and short-term borrowings on a temporary basis. The Bank invests the funds not needed to meet our cash requirements in overnight Federal funds sold and an interest bearing account with the Federal Reserve Bank of New York. With adequate deposit inflows over the past year coupled with the above-mentioned cash resources, the Bank is maintaining short-term assets which it believes are sufficient to meet its liquidity needs. The Bank's liquidity can be affected by a variety of factors, including general economic conditions, market disruption, operational problems affecting third parties or us, unfavorable pricing, competition, our credit rating and regulatory restrictions.

At December 31, 2013, the Company had $47.9 million in cash and cash equivalents as compared to $48.5 million at December 31, 2012. Cash and cash equivalent balances consisted of $31.9 million and $33.2 million held at the Federal Reserve Bank of New York at December 31, 2013 and December 31, 2012, respectively. At December 31, 2013 and 2012, there were no Federal funds sold.

Off-Balance Sheet Arrangements

Our financial statements do not reflect off-balance sheet arrangements that we enter into with our customers in the normal course of business. These off-balance sheet arrangements consist of unfunded loans and letters of credit made under the same standards as on-balance sheet instruments. These instruments have fixed maturity dates, and because many of them will expire without being drawn upon, they do not generally present any significant liquidity risk to the Company.

Management believes that any amounts actually drawn upon these commitments can be funded in the normal course of operations. The following table sets forth our off-balance sheet arrangements as of December 31, 2013 and 2012.

	December 31,	
	2013	**2012**
	(dollars in thousands)	
Home equity lines of credit	$24,186	$26,415
Commitments to fund commercial real estate and construction loans	77,999	50,032
Commitments to fund commercial and industrial loans	52,939	46,458
Commercial and financial letters of credit	5,344	4,195
	$160,468	$127,100

Capital

Shareholders' equity increased by $3.4 million, or 3.7%, to $95.4 million at December 31, 2013 compared to $92.0 million at December 31, 2012. Net income for 2013 added $5.2 million to shareholders' equity. Additionally, stock based compensation expense of $154,000 and options exercised of $395,000 contributed to the increase. These increases were partially offset by decreases of $1.1 million in net unrealized losses on securities available for sale, $554,000 in common stock repurchased, $484,000 in cash dividends on common stock and $261,000 relating to the dividends paid on the preferred stock Series C.

The Company and the Bank are subject to various regulatory and capital requirements administered by the Federal banking agencies. Our federal banking regulators, the Board of Governors of the Federal Reserve System (the "Federal Reserve) (which regulates bank holding companies) and the Federal Deposit Insurance Corporation (the "FDIC") (which regulates the Bank), have issued guidelines classifying and defining capital. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions that, if undertaken, could have a direct material effect on the Company's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and the Bank must meet specific capital guidelines that involve quantitative measures of their assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. The capital amounts and classification of the Company and the Bank is also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Company and the Bank to maintain minimum amounts and ratios, set forth in the following tables of Tier 1 Capital to Average Assets (Leverage Ratio), Tier 1 Capital to Risk Weighted Assets and Total Capital to Risk Weighted Assets. Management believes that, at December 31, 2013, the Company and the Bank met all capital adequacy requirements to which they are subject.

As of December 31, 2013, the Bank met all regulatory requirements for classification as well-capitalized under the regulatory framework for prompt corrective action. Management believes that there are no conditions or events that have changed the Bank's categories.

The capital amounts and ratios of the Company and the Bank at December 31, 2013 and 2012 and the minimum amounts and ratios required for capital adequacy purposes and to be well capitalized under the prompt corrective action provisions are as follows:

	Actual		**For Capital Adequacy Purposes**		**To be Well Capitalized under Prompt Corrective Action Provisions**	
	Amount	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
	(dollars in thousands, except for percentages)					
As of December 31, 2013						
Total capital (to risk-weighted assets)						
Two River Bancorp	$ 85,674	13.21 %	$ > 51,884	≥ 8.00 %	$ N/A	N/A
Two River Community Bank	85,284	13.15 %	> 51,884	≥ 8.00 %	> 64,855	≥ 10.00 %
Tier 1 capital (to risk-weighted assets)						
Two River Bancorp	77,802	11.99 %	> 25,956	≥ 4.00 %	N/A	N/A
Two River Community Bank	77,412	11.94 %	> 25,934	≥ 4.00 %	> 38,901	≥ 6.00 %
Tier 1 capital (to average assets)						
Two River Bancorp	77,802	10.40 %	> 29,924	≥ 4.00 %	N/A	N/A
Two River Community Bank	77,412	10.35 %	> 29,918	≥ 4.00 %	> 37,397	≥ 5.00 %
As of December 31, 2012						
Total capital (to risk-weighted assets)						
Two River Bancorp	$ 80,835	13.28 %	$ > 48,696	≥ 8.00 %	$ N/A	N/A
Two River Community Bank	80,773	13.27 %	> 48,695	≥ 8.00 %	> 60,869	≥ 10.00 %

Tier 1 capital (to risk-weighted assets)											
Two River Bancorp	73,220	12.03	%	>	24,346	≥	4.00 %	N/A		N/A	
Two River Community Bank	73,159	12.02	%	>	24,346	≥	4.00 %	>	36,519	≥	6.00 %
Tier 1 capital (to average assets)											
Two River Bancorp	73,220	10.36	%	>	28,270	≥	4.00 %	N/A		N/A	
Two River Community Bank	73,159	10.35	%	>	28,274	≥	4.00 %	>	35,343	≥	5.00 %

The Bank is subject to certain legal and regulatory limitations on the amount of dividends that it may declare without prior regulatory approval. Under Federal Reserve regulations, the Bank is limited as to the amount that it may lend affiliates, including the Company, unless such loans are collateralized by specific obligations.

The prompt corrective action regulations define specific capital categories based upon an institution's capital ratios. The capital categories in descending order are "well capitalized," "adequately capitalized," "undercapitalized," "significantly undercapitalized," and "critically undercapitalized." Institutions categorized as "undercapitalized" or lower are subject to certain restrictions, are not able to pay dividends and management fees, are restricted on asset growth and executive compensation and are subject to increased supervisory monitoring, among other matters. The regulators may impose other restrictions. Once an institution becomes "critically undercapitalized," it must be placed in receivership or conservatorship within 90 days. To be considered "adequately capitalized," an institution must generally have Tier 1 capital to total asset ratio of at least 4%, a Tier 1 risk-based capital ratio of at least 4%, and a total risked based capital ratio of at least 8%. An institution is deemed to be "critically undercapitalized" if it has a tangible equity ratio, Tier 1 capital, net of all intangibles, to tangible capital of 2% or less.

Under the risk-based capital guideline regulations, a banking organization's assets and certain off balance sheet items are classified into categories, with the least capital required for the category deemed to have the least risk, and the most capital required for the category deemed to have the most risk. Under current regulations, banking organizations are required to maintain total capital of 8.00% of risk weighted assets, of which 4.00% must be in core or Tier 1 capital.

On July 26, 2012, the Company filed a shelf Registration Statement on Form S-3 with the Securities and Exchange Commission (SEC). This Registration Statement was declared effective by the SEC on August 6, 2012. The filing of the Registration Statement does not require the Company to issue any securities. The Registration Statement will allow the Company the flexibility to offer and sell, from time to time, in one or more public offerings, up to a total aggregate of $30 million of its common stock, preferred stock, debt securities, or warrants, either separately or together. The debt securities, preferred stock and warrants may be convertible or exercisable or exchangeable for other debt or equity securities of the Company. Should the Company decide to issue any of the securities registered under this Registration Statement, we would provide the specific terms of the securities offered in one or more supplements to the prospectus contained in the Registration Statement.

We intend to use any net proceeds from the sale of the securities registered by this Registration Statement for general corporate purposes. General corporate purposes may include, among other purposes, contribution to the capital of the Bank to support its lending and investing activities; the repayment of our debt; redemption of our outstanding Series C Preferred Stock; to support or fund acquisitions of other institutions or branches, if opportunities for such transactions become available; and investments in activities that are permitted for bank holding companies. We may temporarily invest funds that we do not immediately need for these purposes in investment securities or use them to make payments on our borrowings. The applicable prospectus supplement will provide details on the use of proceeds of any specific offering.

Interest Rate Risk

Interest rate risk management involves managing the extent to which interest-sensitive assets and interest-sensitive liabilities are matched. Interest rate sensitivity is the relationship between market interest rates and earnings volatility due to the re-pricing characteristics of assets and liabilities. Our net income is affected by changes in the level of market interest rates. In order to maintain consistent earnings performance, we seek to manage, to the extent possible, the re-pricing characteristics of our assets and liabilities.

The management of and authority to assume interest rate risk is the responsibility of the ALCO, which is comprised of senior management and board members. The primary objective of Asset/Liability management is to establish prudent risk management guidelines and to coordinate balance sheet composition with interest rate risk management to sustain a reasonable and stable net interest income throughout various interest rate cycles. We have policies and practices for measuring and reporting interest rate risk exposure, through analysis of the net interest margin, gap position, simulation testing, liquidity ratios and the Economic Value of Portfolio Equity. In addition, we annually review our interest rate risk policy, which includes limits on the impact to earnings from shifts in interest rates.

Gap Analysis

To manage our interest sensitivity position, an asset/liability model called “gap analysis” is used to monitor the difference in the volume of our interest-sensitive assets and liabilities that mature or re-price within given periods. The ratio between assets and liabilities re-pricing in specific time intervals is referred to as an interest rate sensitivity gap. A positive gap (asset-sensitive) indicates that more assets re-price during a given period compared to liabilities, while a negative gap (liability-sensitive) has the opposite effect. During a period of falling interest rates, a positive gap would tend to adversely affect net interest income, while a negative gap would tend to result in an increase in net interest income. During a period of rising interest rates, a positive gap would tend to result in an increase in net interest income, while a negative gap would tend to affect net interest income adversely. We employ net interest income simulation modeling to assist in quantifying interest rate risk exposure. This process measures and quantifies the impact on net interest income through varying interest rate changes and balance sheet compositions. The use of this model assists the ALCO to gauge the effects of the interest rate changes on interest-sensitive assets and liabilities in order to determine what impact these rate changes will have upon the net interest spread.

As of December 31, 2013, the Company’s six month cumulative gap was -15.6% of total assets, or a negative $120.3 million, while its one-year cumulative gap was -6.0% of total assets, or $46.1 million, which is within the ALCO policy guideline of +/-25%.

Simulation Modeling

We use a simulation model to analyze net interest income sensitivity to movements in interest rates. The simulation model projects net interest income based on various interest rate scenarios over a twelve and twenty-four month period. The model is based on the actual maturity and re-pricing characteristics of rate sensitive assets and liabilities. The model incorporates certain assumptions which management believes to be reasonable regarding the impact of changing interest rates and the prepayment assumptions of certain assets and liabilities as of December 31, 2013. The model assumes changes in interest rates without any proactive change in the composition or size of the balance sheet by management. In the model, the forecasted shape of the yield curve remains static as of December 31, 2013.

Our simulation model is based on market interest rates and prepayment speeds prevalent in the market as of December 31, 2013. The model utilizes an immediate parallel shift in the market interest rates at December 31, 2013. As of December 31, 2013 and 2012, the results of the simulation model were within guidelines prescribed by the ALCO policy. If model results were to fall outside prescribed ranges, action would be required by ALCO.

December 31, 2013	**Immediate Shock in Interest Rates**				
	200 basis point increase		**200 basis point decrease**		
(dollars in thousands)	**Dollar change**	**Percent of change**	**Dollar change**	**Percent of change**	**ALCO Policy Guideline**
Twelve month horizon:					
Net interest income change	$(1,130)	-4.3 %	$(1,113)	-4.2 %	-10.0 %

December 31, 2012	**Immediate Shock in Interest Rates**				
	200 basis point increase		**200 basis point decrease**		
(dollars in thousands)	**Dollar change**	**Percent of change**	**Dollar change**	**Percent of change**	**ALCO Policy Guideline**
Twelve month horizon:					
Net interest income change	$(774)	-3.0 %	$(573)	-2.2 %	-10.0 %

The assumptions used in the net interest income simulation are inherently uncertain. Actual results may differ significantly from those presented in the table above, due to the frequency and timing of changes in interest rates, and changes in spreads between maturity and re-pricing categories. Overall, our net interest income is affected by changes in interest rates and cash flows from our loan and investment portfolios. We actively manage these cash flows in conjunction with our liability mix, duration and interest rates to optimize the net interest income, while structuring the balance sheet in response to actual or potential changes in interest rates.

Additionally, our net interest income is impacted by the level of competition within our market place. Competition can negatively impact the level of interest rates attainable on loans and increase the cost of deposits, which may result in downward pressure on our net interest margin in future periods. Other factors, including, but not limited to, the slope of the yield curve and projected cash flows will impact our net interest income results and may increase or decrease the level of asset sensitivity of our balance sheet.

Economic Value of Equity

To measure the impact of longer-term asset and liability mismatches beyond two years, the Company utilizes Economic Value of Portfolio Equity ("EVPE") models. EVPE considers the entire maturity spectrum of the Bank's balance sheet, thereby providing a longer term measure of interest rate risk. The underlying economic value of the Bank's assets, liabilities and off balance sheet instruments are affected by changes in interest rates. These changes occur because the present value of future cash flows and in some cases, the cash flows themselves, are affected by interest rate changes. The combined effects of the changes in these present values reflect the change in the Bank's underlying economic value.

In addition to providing a longer-term measurement of interest rate risk, the economic value of equity measurement may highlight the impact of current interest rate changes that may not be accounted for in simulation analysis. In addition, a decline in the economic value of equity may indicate below market returns in the future. Because of balance sheet optionality, an EVPE analysis is used to dynamically model the present value of asset and liability cash flows, with rates ranging up or down 200 basis points. Our analysis of EVPE excludes goodwill and includes only tangible equity. The economic value of equity is likely to be different as interest rates change. Results falling outside prescribed ranges require action by the ALCO.

At December 31, 2013 and 2012, the Company's variance in the EVPE as a percentage of change from book value of tangible equity compared to no change in interest rates, and to an instantaneous and sustained parallel shift of + or - 200 basis points, is within the Company's policy guidelines as presented below.

		Economic Value of Portfolio Equity		
		December 31, 2013		
Change in Interest Rates	Base Case	-200bp	+200bp	ALCO
(dollars in thousands)	(0 bp)			Policy Guideline
Economic Value of Equity	$94,195	$91,315	$87,973	
$ Change		(2,880)	(6,222)	
% Change to Present Value of Equity		-3.1 %	-6.6 %	-25.0 %

		December 31, 2012		
Change in Interest Rates	Base Case	-200bp	+200bp	ALCO
(dollars in thousands)	(0 bp)			Policy Guideline
Economic Value of Equity	$85,997	$76,448	$84,256	
$ Change		(9,549)	(1,741)	
% Change to Present Value of Equity		-11.1 %	-2.0 %	-25.0 %

Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

Not required.

Item 8. Financial Statements and Supplementary Data.

Reference is made to Item 15(a)(1) and (2) to page F-1 for a list of financial statements and supplementary data required to be filed pursuant to this Item 8. The information required by this Item 8 is provided beginning on page F-1 hereof.

Item 9. Changes In and Disagreements with Accountants on Accounting and Financial Disclosure.

None.

Item 9A. Controls and Procedures.

The Company has established disclosure controls and procedures designed to ensure that information required to be disclosed in the reports that the Company files or submits under the Securities Exchange Act of 1934, as amended (the “Exchange Act”) is recorded, processed, summarized, and reported within the time periods specified in SEC rules and forms and is accumulated and communicated to management, including the principal executive officer and principal financial officer, to allow timely decisions regarding required disclosure.

The Company’s principal executive officer and its principal financial and accounting officer, with the assistance of other members of the Company’s management, have evaluated the effectiveness of the design and operation of the Company’s disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this annual report. Based upon such evaluation, the Company’s principal executive officer and principal financial and accounting officer have concluded that the Company’s disclosure controls and procedures are effective as of the end of the period covered by this annual report.

The Company’s principal executive officer and principal financial officer have also concluded that there was no change in the Company’s internal control over financial reporting (as such term is defined in Rule 13a-15(f) under the Exchange Act) that occurred during the quarter ended December 31, 2013 that has materially affected, or is reasonably likely to materially affect, the Company’s internal control over financial reporting.

Management's Report on Internal Control over Financial Reporting

Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act and for complying with laws and regulations relating to safety and soundness that are designated by the FDIC and the Federal Reserve. The Company's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America.

There are inherent limitations in the effectiveness of any internal control, including the possibility of human error and circumvention or overriding of controls. Accordingly, even effective internal control or compliance with banking laws can provide only reasonable assurance with respect to financial statement preparation. Further, because of changes in conditions, the effectiveness of internal control and compliance with banking laws may vary over time.

The Company's management assessed the effectiveness of the Company's internal control over financial reporting and its compliance with laws and regulations relating to safety and soundness that are designated by the FDIC and the Federal Reserve as of December 31, 2013. In making this assessment, management used the criteria set forth in Internal Control-Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Based on their assessment using those criteria, management concluded that, as of December 31, 2013, the Company's internal control over financial reporting and its compliance with laws and regulations relating to safety and soundness that are designated by the FDIC and the Federal Reserve was effective.

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

/s/ WILLIAM D. MOSS		/s/ A. RICHARD ABRAHAMIAN	
Name:	William D. Moss	Name:	A. Richard Abrahamian
Title:	President and Chief Executive Officer	Title:	Executive Vice President and Chief Financial Officer
Date:	March 31, 2014	Date:	March 31, 2014

Item 9B. Other Information.

None

PART III

Item 10. Directors, Executive Officers and Corporate Governance.

The information required by this item is incorporated by reference from the Company's Proxy Statement for its 2014 Annual Meeting of Shareholders under the captions "Directors and Executive Officers," "Corporate Governance," "Compliance with Section 16(a) of the Exchange Act," "Code of Ethics" and "Audit Committee."

Item 11. Executive Compensation.

The information required by this item is incorporated by reference from the Company's Proxy Statement for its 2014 Annual Meeting of Shareholders under the caption "Executive Compensation."

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

Equity Compensation Plan Information

The following table provides information about the Company's common stock that may be issued upon the exercise of options, warrants and rights under all of the Company's equity compensation plans as of December 31, 2013. The information in the table has been adjusted for all subsequent stock dividends.

Plan category	**Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)**	**Weighted-average exercise price of outstanding options, warrants and rights (b)**	**Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)**	
Equity compensation plans approved by security holders	610,861	$ 6.95	250,275	(1)
Equity compensation plans not approved by security holders	-0-	N/A	-0-	
Total	**610,861**	**$ 6.95**	**250,275**	

(1) The Company may issue these shares pursuant to options and restricted stock awards.

The additional information required by this item is incorporated by reference from the Company's Proxy Statement for its 2014 Annual Meeting of Shareholders under the caption "Stock Ownership of Management and Principal Shareholders."

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

The information required by this item is incorporated by reference from the Company's Proxy Statement for its 2014 Annual Meeting of Shareholders under the captions "Certain Transactions With Management" and "Director Independence."

Item 14. Principal Accountant Fees and Services.

The information regarding principal accounting fees and services and the Company's pre-approval policies and procedures for audit and non-audit services provided by the Company's independent registered public accounting firm is incorporated by reference from the Company's Proxy Statement for its 2014 Annual Meeting of Shareholders under the caption "Principal Accountant Fees and Services."

PART IV

Item 15. Exhibits and Financial Statement Schedules.

(a) Financial Statements and Financial Statement Schedules

The following documents are filed as part of this report:

1. Financial Statements of Two River Bancorp

   Report of Independent Registered Public Accounting Firms

   Consolidated Balance Sheets – December 31, 2013 and 2012

   Consolidated Statements of Operations – Years Ended December 31, 2013 and 2012

   Consolidated Statements of Comprehensive Income – Years Ended December 31, 2013 and 2012

   Consolidated Statements of Shareholders' Equity – Years Ended December 31, 2013 and 2012

   Consolidated Statements of Cash Flows – Years Ended December 31, 2013 and 2012

   Notes to Consolidated Financial Statements

2. All schedules are omitted because either they are inapplicable or not required, or because the information required therein is included in the Consolidated Financial Statements and Notes thereto.

3. See accompanying Index to Exhibits.

(b) Exhibits

Exhibits required by Section 601 of Regulation S-K (see accompanying Index to Exhibits).

(c) Financial Statement Schedules

These schedules are not required or are not applicable under Securities Exchange Commission accounting regulations and therefore have been omitted.

TWO RIVER BANCORP

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders

Two River Bancorp

Tinton Falls, New Jersey

We have audited the accompanying consolidated balance sheet of Two River Bancorp and subsidiaries as of December 31, 2013 and the related consolidated statements of operations, comprehensive income, shareholders' equity, and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Two River Bancorp and subsidiaries at December 31, 2013, and the results of their operations and their cash flows for the year then ended**,** in conformity with accounting principles generally accepted in the United States of America.

/s/ BDO USA, LLP

BDO USA, LLP

Woodbridge, New Jersey

March 31, 2014

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders

Two River Bancorp

Tinton Falls, New Jersey

We have audited the accompanying consolidated balance sheet of Two River Bancorp and subsidiaries (the “Company”), formerly Community Partners Bancorp and subsidiaries, as of December 31, 2012, and the related consolidated statements of operations, comprehensive income, shareholders' equity and cash flows for the year then ended. The Company’s management is responsible for these consolidated financial statements. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Two River Bancorp and its subsidiaries as of December 31, 2012, and the results of their operations and their cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

/s/ ParenteBeard LLC

ParenteBeard LLC

Clark, New Jersey

March 29, 2013

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Two River Bancorp

Consolidated Balance Sheets

	December 31, 2013	2012
	(In Thousands, Except Share Data)	
Assets		
Cash and due from banks	**$16,003**	$15,349
Interest-bearing deposits in bank	**31,862**	33,197
Cash and Cash Equivalents	**47,865**	48,546
Securities available for sale	**45,093**	50,756
Securities held to maturity (fair value of $28,343 and $21,935 at December 31, 2013 and 2012, respectively)	**28,670**	21,586
Restricted investments, at cost	**3,278**	3,040
Loans	**602,816**	571,447
Allowance for loan losses	**(7,872)**	(7,984)
Net Loans	**594,944**	563,463
OREO and repossessed assets	**2,771**	1,752
Bank-owned life insurance	**16,389**	13,457
Premises and equipment, net	**4,232**	3,243
Accrued interest receivable	**1,760**	1,884
Goodwill	**18,109**	18,109
Other intangible assets, net of accumulated amortization of $1,963 and $1,838 at December 31, 2013 and 2012, respectively	**143**	268
Other assets	**6,453**	7,791
Total Assets	**$769,707**	$733,895
Liabilities		
Deposits:		
Noninterest-bearing	**$129,179**	$112,746
Interest-bearing	**504,270**	494,024
Total Deposits	**633,449**	606,770
Securities sold under agreements to repurchase	**18,440**	16,710
Accrued interest payable	**66**	70
Long-term debt	**17,500**	13,500
Other liabilities	**4,825**	4,880

Total Liabilities	**674,280**	641,930
Shareholders' Equity		
Preferred stock, no par value; 6,500,000 shares authorized;		
Preferred stock, Series B, none issued or outstanding	**-**	-
Preferred stock, Series C, $12,000 liquidation preference; 12,000 shares authorized; 12,000 issued and outstanding at December 31, 2013 and 2012, respectively	**12,000**	12,000
Common stock, no par value; 25,000,000 shares authorized;		
Issued – 8,113,080 and 7,983,778 at December 31, 2013 and 2012, respectively	**72,191**	71,537
Outstanding – 8,036,368 and 7,983,778 at December 31, 2013 and 2012, respectively		
Retained earnings	**12,474**	8,060
Treasury stock, at cost; 76,712 and 0 shares at December 31, 2013 and 2012, respectively	**(554)**	-
Accumulated other comprehensive (loss) income	**(684)**	368
Total Shareholders' Equity	**95,427**	91,965
Total Liabilities and Shareholders' Equity	**$769,707**	$733,895

See notes to consolidated financial statements.

Two River Bancorp

Consolidated Statements of Operations

	Years Ended December 31, 2013	2012
	(In Thousands, Except Per Share Data)	
Interest Income		
Loans, including fees	**$28,773**	$29,190
Securities:		
Taxable	**1,020**	1,167
Tax-exempt	**448**	398
Interest bearing deposits	**75**	81
Total Interest Income	**30,316**	30,836
Interest Expense		
Deposits	**3,276**	4,077
Securities sold under agreements to repurchase	**79**	107
Borrowings	**444**	434
Total Interest Expense	**3,799**	4,618
Net Interest Income	**26,517**	26,218
Provision for Loan Losses	**910**	1,380
Net Interest Income after Provision for Loan Losses	**25,607**	24,838
Non-Interest Income		
Total other-than-temporary impairment losses	**-**	(85)
Less: Portion included in other comprehensive income (pre-tax)	**-**	5
Net other-than-temporary impairment charges to earnings	**-**	(80)
Service fees on deposit accounts	**652**	604
Other loan fees	**697**	775
Earnings from investment in life insurance	**432**	459
Net realized gain on sale of securities	**218**	118
Net gain on sale of SBA loans	**109**	187
Other income	**597**	566
Total Non-Interest Income	**2,705**	2,629
Non-Interest Expenses		
Salaries and employee benefits	**10,980**	10,915
Occupancy and equipment	**3,497**	3,200
Professional	**892**	754
Advertising	**302**	270
Data processing	**495**	748
Insurance	**330**	345
FDIC insurance and assessments	**545**	553

Outside service fees	**474**	508
Amortization of identifiable intangibles	**125**	163
OREO and repossessed asset expenses, impairments and sales, net	**665**	699
Loan workout expenses	**337**	240
Other operating	**1,538**	1,452
Total Non-Interest Expenses	**20,180**	19,847
Income before Income Taxes	**8,132**	7,620
Income Tax Expense	**2,973**	2,805
Net Income	**$5,159**	$4,815
Preferred stock dividend	**(261)**	(448)
Income available to common shareholders	**$4,898**	$4,367
Earnings Per Common Share		
Basic	**$0.61**	$0.55
Diluted	**$0.60**	$0.54

See notes to consolidated financial statements.

Two River Bancorp

Consolidated Statements of Comprehensive Income

	Years Ended December 31, 2013 (In Thousands)	2012
Net income	**$5,159**	$4,815
Other comprehensive income (loss):		
Reclassification adjustment for gains on sales of securities recognized in income, net of income tax expense 2013: $87; 2012 $47	**(131)**	(71)
Unrealized holdings (loss) gains on securities available for sale, net of income tax (benefit) 2013: $(614); net of income tax 2012: $110	**(921)**	180
Unrealized loss on securities for which a portion of the impairment has been recognized in income, net of income tax benefit 2013: $0; 2012: $34	**-**	(51)
Reclassification adjustment for other-than-temporary credit losses on securities included in net income, net of income tax benefit 2013: $0; 2012: $32	**-**	48
Other comprehensive (loss) income	**(1,052)**	106
Total comprehensive income	**$4,107**	$4,921

See notes to consolidated financial statements.

Two River Bancorp

Consolidated Statements of Shareholders' Equity

(Dollars in thousands, except per share data)	Preferred Stock	Common Stock Outstanding shares	Common Stock Amount	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income(loss)	Total Shareholders' Equity
Balance, January 1, 2012	$ 12,000	7,942,218	$ 71,179	$ 3,693	$ -	$ 262	$ 87,134
Net income	-	-	-	4,815	-	-	4,815
Other comprehensive income	-	-	-	-	-	106	106
Dividends on preferred stock, Series C	-	-	-	(448)	-	-	(448)
Stock option compensation expense	-	-	183	-	-	-	183
Options exercised	-	37,130	124	-	-	-	124
Tax-benefit-exercised non-qualified stock options	-	-	13	-	-	-	13
Restricted stock awards-forfeiture	-	(4,133)	(8)	-	-	-	(8)
Employee stock purchase program	-	8,563	46	-	-	-	46
Balance, December 31, 2012	$ 12,000	7,983,778	$ 71,537	$ 8,060	$ -	$ 368	$ 91,965
Net income	-	-	-	5,159	-	-	5,159
Other comprehensive loss	-	-	-	-	-	(1,052)	(1,052)
Dividends on preferred stock, Series C	-	-	-	(261)	-	-	(261)
Stock option compensation expense	-	-	154	-	-	-	154
Cash dividends on common stock ($0.06 per share)	-	-	-	(484)	-	-	(484)

Options exercised	-	116,677	395	-	-	-	395
Tax-benefit-exercised non-qualified stock options	-	-	61	-	-	-	61
Common stock repurchased	-	(76,712)		-	(554)	-	(554)
Restricted stock awards	-	5,892	-	-	-	-	-
Employee stock purchase program	-	6,733	44	-	-	-	44
Balance, December 31, 2013	$ 12,000	8,036,368	$ 72,191	$ 12,474	$ (554)	$ (684)	$ 95,427

See notes to consolidated financial statements.

Two River Bancorp

Consolidated Statements of Cash Flows

	Years Ended December 31,	
	2013	**2012**
	(In Thousands)	
Cash Flows from Operating Activities		
Net income	**$5,159**	$4,815
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	**711**	680
Provision for loan losses	**910**	1,380
Intangible amortization	**125**	163
Net amortization of securities premiums and discounts	**259**	284
Other-than-temporary impairment on securities available for sale	**-**	80
Net realized gain on sale of securities available for sale	**(218)**	(118)
Deferred income taxes	**94**	(697)
Earnings from investment in life insurance	**(432)**	(459)
Net realized loss (gain) on sale of OREO	**12**	197
Impairment on OREO and repossessed assets	**408**	360
Stock based compensation expense	**154**	175
Gain from sale of SBA loans	**(109)**	(187)
Decrease (increase) in assets:		
Accrued interest receivable	**124**	44
Other assets	**1,912**	(111)
(Decrease) increase in liabilities:		
Accrued interest payable	**(4)**	(37)
Other liabilities	**9**	1,197
Net Cash Provided by Operating Activities	**9,114**	7,766
Cash Flows from Investing Activities		
Purchase of securities available for sale	**(15,463)**	(17,880)
Purchase of securities held to maturity	**(16,908)**	(12,093)
Proceeds from sales of securities available for sale	**11,753**	2,948
Proceeds from repayments and maturities of securities available for sale	**7,653**	11,575
Proceeds from repayments and maturities of securities held to maturity	**9,783**	3,589
Proceeds from sale of SBA loans	**1,185**	1,987
Purchase of restricted investments	**(238)**	(803)
Net increase in loans	**(35,654)**	(44,348)
Proceeds from the sale of OREO	**748**	6,047
Improvements on OREO	**-**	(66)
Purchase of bank-owned life insurance	**(2,500)**	-
Purchase of premises and equipment	**(1,700)**	(1,283)
Net Cash Used in Investing Activities	**(41,341)**	(50,327)
Cash Flows from Financing Activities		
Net increase in deposits	**26,679**	52,858

Net increase in securities sold under agreements to repurchase	**1,730**	492
Cash dividends paid - preferred stock	**(325)**	(448)
Cash dividends paid - common stock	**(484)**	-
Proceeds from employee stock purchase plan	**44**	46
Proceeds from long-term debt	**4,000**	-
Proceeds from exercise of stock options	**395**	124
Common stock repurchased	**(554)**	-
Tax benefit of stock options exercised	**61**	13
Net Cash Provided by Financing Activities	**31,546**	53,085
Net (Decrease) Increase in Cash and Cash Equivalents	**(681)**	10,524
Cash and Cash Equivalents – Beginning	**48,546**	38,022
Cash and Cash Equivalents – Ending	**$47,865**	$48,546
Supplementary Cash Flows Information		
Interest paid	**$3,803**	$4,655
Income taxes paid	**$3,720**	$3,270
Supplementary schedule of non-cash activities:		
OREO and repossessed assets acquired in settlement of loans	**$2,187**	$525
Transfer of property held for sale from other assets to premises and equipment	**$1,000**	$-

See notes to consolidated financial statements.

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Note 1 – Summary of Significant Accounting Policies

A. Organization and Basis of Presentation

The accompanying consolidated financial statements include the accounts of Two River Bancorp (the "Company"), formerly known as Community Partners Bancorp, a bank holding company, and its wholly-owned subsidiary, Two River Community Bank ("the Bank" or "Two River") and the Bank's wholly-owned subsidiaries, TRCB Investment Corporation, TRCB Holdings Two LLC, TRCB Holdings Three LLC, TRCB Holdings Five LLC, TRCB Holdings Six LLC and wholly-owned trust, Two River Community Bank Employer's Trust. All inter-company balances and transactions have been eliminated in the consolidated financial statements.

B. Nature of Operations

Two River Bancorp is a bank holding company whose principal activity is the ownership of Two River Community Bank. Through its banking subsidiary, the Company provides banking services to small and medium-sized businesses, professionals and individual consumers primarily in the Monmouth, Middlesex and Union Counties, located in Central and Northern New Jersey. The Company competes with other banking and financial institutions in its market communities.

The Company and its bank subsidiary are subject to regulations of certain state and federal agencies and, accordingly, they are periodically examined by those regulatory authorities. As a consequence of the extensive regulation of commercial banking activities, the Company's and the Bank's businesses are susceptible to being affected by state and federal legislation and regulations.

C. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The principal material estimates that are particularly susceptible to significant change in the near term related to: the allowance for loan losses, certain intangible assets, such as goodwill and core deposit intangible, the potential impairment of restricted investments, the valuation of deferred tax assets, valuation of other real estate owned and the determination of other-than-temporary impairment on securities.

D. Significant Concentrations of Credit Risk

Most of the Company’s activities are with customers located within Monmouth, Middlesex and Union counties of New Jersey. Note 2 discusses the types of securities that the Company invests in. Note 3 discusses the types of lending that the Company engages in. Although the Company actively manages the diversification of its loan portfolio, a substantial portion of its debtors’ ability to honor their contracts is dependent upon the strength of the local economy. The loan portfolio includes commercial real estate, which is comprised of owner occupied and investment real estate, including general office, medical, manufacturing and retail space. Construction loans, short-term in nature, comprise another portion of the portfolio, along with commercial and industrial loans. The latter includes lines of credit and equipment loans. From time to time, the Company may purchase or sell an interest in a loan from or to another lender (participation loan) in order to manage its portfolio risk. Loans purchased by the Company are typically located in central New Jersey and meet the Company’s own independent underwriting guidelines. The Company does not have any significant concentrations in any one industry or customer.

E. Comprehensive Income

Comprehensive income consists of net income and other comprehensive income. Other comprehensive income includes unrealized gains and losses on securities available for sale and unrealized losses related to factors other than credit on debt securities which have been determined to be other-than-temporarily impaired.

F. Statement of Cash Flows

For purposes of reporting cash flows, cash and cash equivalents include cash on hand, amounts due from banks, interest bearing demand deposits in banks, and Federal funds sold. Interest-bearing deposits are due from the Federal Reserve Bank of New York. Generally, Federal funds are purchased and sold for one-day periods.

Note 1 – Summary of Significant Accounting Policies (Continued)

G. Securities

Securities classified as available for sale are those securities that the Company intends to hold for an indefinite period of time but not necessarily to maturity. Securities available for sale are carried at fair value. Any decision to sell a security classified as available for sale would be based on various factors, including significant movement in interest rates, changes in maturity mix of the Company's assets and liabilities, liquidity needs, regulatory capital considerations and other similar factors. Unrealized gains or losses are reported as increases or decreases in other comprehensive income, net of the related deferred tax effect. Realized gains or losses, determined on the basis of the cost of the specific securities sold, are included in earnings. Premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Gains and losses on the sale of securities available for sale are recorded on the trade date and are determined using the specific identification method.

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

Management determines the appropriate classification of debt securities at the time of purchase and re-evaluates such designation as of each balance sheet date.

Other-than-temporary accounting guidance specifies that (a) if a company does not have the intent to sell a debt security prior to recovery and (b) it is more likely than not that it will not have to sell the debt security prior to recovery, the security would not be considered other-than-temporary impaired unless there is a credit loss. When an entity does not intend to sell the security, and it is more likely than not, the entity will not have to sell the security before recovery of its cost basis, it will recognize the credit component of an other-than-temporary impairment of a debt security in earnings and the remaining portion in other comprehensive income. For held to maturity debt securities, the amount of an other-than-temporary impairment recorded in other comprehensive income for the noncredit portion of a previous other-than-temporary impairment should be amortized prospectively over the remaining life of the security on the basis of the timing of future cash flows of the security.

H. Restricted Investments

Restricted investments, which represents the required investment in the common stock of correspondent banks, is carried at cost and as of December 31, 2013 and 2012, consists of the common stock of the Federal Home Loan Bank of New York (“FHLB”) and Atlantic Central Bankers Bank (“ACBB”). Federal law requires a member institution of the FHLB to hold stock of its district FHLB according to a predetermined formula. The recorded investment in FHLB common stock was $1,703,000 and $1,465,000 at December 31, 2013 and 2012, respectively.

Restricted investments also include the Solomon Hess SBA Loan Fund, utilized for the purpose of the Bank satisfying its CRA lending requirements. As this fund operates as a private fund, shares in the Fund are not publicly traded and therefore have no readily determinable market value. An investor can have their interest in the Fund redeemed for the balance of their capital account at any quarter end assuming they give the Fund 60 days’ notice. The investment in this Fund is recorded at cost which was $1,500,000 at December 31, 2013 and 2012, respectively. The Company does not record the investment at fair value on a recurring basis.

Management evaluates the restricted investments for impairment in accordance with U.S. generally accepted accounting principles. Management’s determination of whether these investments are impaired is based on their assessment of the ultimate recoverability of their cost rather than by recognizing temporary declines in value. Management believes no impairment charge is necessary related to restricted investments as of December 31, 2013.

Note 1 – Summary of Significant Accounting Policies (Continued)

I. Loans Receivable

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

The loans receivable portfolio is segmented into commercial and consumer loans. Commercial loans consist of the following classes: commercial and industrial, real estate-construction and real estate-commercial. Consumer loans consist of the following classes: real estate-residential and consumer.

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

J. Allowance for Loan Losses

The allowance for credit losses consists of the allowance for loan losses and the reserve for unfunded lending commitments. The allowance for loan losses represents management's estimate of losses inherent in the loan portfolio as of the balance sheet date and is recorded as a reduction to loans. The reserve for unfunded lending commitments represents management's estimate of losses inherent in its unfunded loan commitments and is recorded in other liabilities on the consolidated balance sheet, which at December 31, 2013 and 2012, the Company had no such reserves. The allowance for loan losses is increased by the provision for loan losses, and decreased by charge-offs, net of recoveries. Loans deemed to be uncollectable are charged against the allowance for loan losses, and subsequent recoveries, if any, are credited to the allowance. All, or part, of the principal balance of loans receivable are charged off to the allowance as soon as it is determined that the repayment of all, or part, of the principal balance is highly unlikely.

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

The allowance consists of specific, general and unallocated components. For loans that are classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of the loan. The specific component relates to loans that are classified as impaired. When a loan is impaired, there are three acceptable methods under ASC 310-10-35 for measuring the impairment:

1. The loan's observable market price;

2. The fair value of the underlying collateral; or

3. The present value (PV) of expected future cash flows.

Loans that are considered "collateral-dependent" should be evaluated under the "Fair market value of collateral." Loans that are still expected to be supported by repayment from the borrower should be evaluated under the "Present value of future cash flows."

For the most part, the Company measures impairment under the "Fair market value of collateral" for any loan that would rely on the value of collateral for recovery in the event of default. The individual impairment analysis for each loan is clearly documented as to the chosen valuation method.

Note 1 – Summary of Significant Accounting Policies (Continued)

The general component covers pools of loans by loan class including commercial and industrial, real estate-construction and real estate-commercial not considered impaired as well as smaller balance homogeneous loans such as real estate-residential and consumer.

These pools of loans are evaluated for loss exposure based upon historical loss rates for each of these categories of loans, adjusted for qualitative factors. These qualitative risk factors include:

1. Changes in lending policy and procedures, including changes in underwriting standards and collection practices not previously considered in estimating credit losses.

2. Changes in relevant economic and business conditions.

3. Changes in nature and volume of the loan portfolio and in the terms of loans.

4. Changes in experience, ability and depth of lending management and staff.

5. Changes in the volume and severity of past due loans, the volume of non-accrual loans and the volume and severity of adversely classified loans.

6. Changes in the quality of the loan review system.

7. Changes in the value of underlying collateral for collateral-dependent loans.

8. The existence and effect of any concentration of credit and changes in the level of such concentrations.

9. The effect of other external forces such as competition, legal and regulatory requirements on the level of estimated credit losses in the existing portfolio.

Each factor is assigned a risk value to reflect low, moderate or high risk assessments based on management’s best judgment using current market, macro and other relevant information available at the time of the evaluation.

Adjustments to the factors are supported through documentation in each factor and accompanies the allowance for loan loss calculation.

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

The Company engages in a variety of lending activities, including commercial and industrial, real estate-commercial, real estate-construction, real estate-residential and consumer loans. The Company focuses its lending activities on individuals, professionals along with small to medium sized businesses.

The Company originates commercial business loans to professionals, sole proprietorships and small businesses in our market areas. We extend commercial business loans on a secured and unsecured basis. Secured commercial loans are generally collateralized by residential and nonresidential real estate, marketable securities, accounts receivable, inventory, industrial/commercial machinery and equipment and furniture and fixtures. To further enhance our security position, we generally require personal guarantees of the principal owners of the entities to which we extend credit. These loans are made on both lines of credit and fixed-term basis typically ranging from one to five years in duration. When making commercial business loans, we consider the financial statements and/or tax returns of the borrower, the borrower's payment history along with the principal owners' payment history, the debt service capabilities of the borrower, the projected cash flows of the business, and the value of the collateral and the financial strength of the guarantor.

Commercial real estate loans are made to local commercial, retail and professional firms and individuals for the acquisition of new property or the refinancing of existing property. These loans are typically related to commercial businesses and secured by the underlying real estate used in these businesses or real property of the principals. Commercial real estate loans typically require a loan to value ratio of not greater than 75%. These loans are generally offered on a fixed or variable rate basis, subject to rate re-adjustments every five years and amortization schedules ranging from 5 to 25 years.

Note 1 – Summary of Significant Accounting Policies (Continued)

Commercial loans are often larger and may involve greater risks than other types of lending. Because payments of such loans are often dependent on the successful operation of the business involved, repayment of such loans may be more sensitive than other types of loans and are subject to adverse conditions in the real estate market or the general economy. We are also involved with off-balance sheet financial instruments, which include collateralized commercial and standby letters of credit. We seek to minimize these risks through our underwriting guidelines and prudent risk management techniques. Any collateral securing such loans may depreciate over time, may be difficult to appraise and may fluctuate in value. Environmental surveys and inspections are obtained when circumstances suggest that the possibility of the presence of hazardous materials. There can be no assurances, however, of success in the efforts to minimize these risks.

The Company is an approved Preferred Lender by the Small Business Administration ("SBA"), which allows the Company delegated authority to approve and close SBA loans up to $5.0 million. The Company maintains prudent credit risk management to monitor and evaluate the value of real estate and other collateral used to secure SBA loans. All SBA loans are originated in compliance with all applicable federal lending regulations, including but not limited to the Equal Credit Opportunity Act. The Bank currently participates in SBA's 7a and 504 loan programs, which typically provide guarantees up to 75% per loan. The Bank generally sells the guaranteed portion of selected loans to a third party and retains the servicing rights. The servicing asset rights recorded as of December 31, 2013 are not material. Our philosophy remains to be prudent and focused on the cash flow of the businesses and financial strength of the guarantors.

The Company originates fixed-rate and adjustable-rate loans to individuals and builders to finance the construction of residential dwellings. We also originate construction loans for commercial development projects, including apartment buildings, restaurants, shopping centers and owner-occupied properties used for businesses. Our construction loans generally provide for the payment of interest only during the construction phase which is typically twelve months for residential properties and twelve to eighteen months for commercial properties. At the end of the construction phase, the loan is either converted to a permanent mortgage loan or paid off. Before making a commitment to fund a construction loan, we require an appraisal and an environmental analysis of the property performed by a bank approved independent licensed appraiser and environmental consultant, an inspection of the property before disbursement of funds during the stages of the construction process, and approval from an identified source for the permanent takeout.

The Company offers a full range of residential real estate and consumer loans. These loans consist of residential mortgages, home equity lines of credit, equity loans, personal loans, automobile loans and overdraft protection. We do not originate subprime or negative amortization loans. Each residential mortgage loan is evidenced by a promissory note secured by a mortgage or deed of trust creating a first lien on one-to-four family residential property. Residential real estate properties underlying residential mortgage loans consist of single-family detached units, individual condominium units, two-to-four family dwellings units and townhouses. Our home equity revolving lines of credit come with a floating interest rate tied to the prime rate. Lines of credit are available to qualified applicants in amounts up to $350,000 for up to 15 years. We also offer fixed rate home equity loans in amounts up to $350,000 for a term of up to 15 years. Credit is based on the income and cash flow of the individual borrowers, real estate collateral supporting the mortgage debt and past credit history.

Consumer loans may entail greater risk than residential mortgage loans, particularly in the case of consumer loans that are unsecured or secured by assets that depreciate in value rapidly. In such cases, repossessed collateral for a defaulted consumer loan may not provide an adequate source of repayment for the outstanding loan and the remaining deficiency often does not warrant further substantial collection efforts against the borrower. In addition, consumer loan collections depend on the borrower's continuing financial stability, and therefore are more likely to be adversely affected by job loss, divorce, illness or personal bankruptcy. Furthermore, the application of various federal and state laws, including bankruptcy and insolvency laws, may limit the amount that can be recovered on such loans.

A loan is considered impaired when it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan by loan basis for commercial and industrial, real estate-commercial, real estate-construction, real estate-residential and consumer loans by either the present value of expected future cash flows discounted at the loan's effective interest rate or the fair value of the collateral if the loan is collateral dependent.

Note 1 – Summary of Significant Accounting Policies (Continued)

An allowance for loan losses is established for an impaired loan if its carrying value exceeds its estimated fair value. The estimated fair values of substantially all of the Company’s impaired loans are measured based on the estimated fair value of the loan’s collateral.

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

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

Loans whose terms are modified are classified as troubled debt restructurings if the Company grants such borrowers concessions and it is deemed that those borrowers are experiencing financial difficulty. Concessions granted under a troubled debt restructuring generally involve a temporary reduction in interest rate or a modification of a loan’s amortization schedule. Non-accrual troubled debt restructurings are restored to accrual status if principal and interest payments, under the modified terms, are current for six consecutive months after the modification is in place. Loans classified as troubled debt restructurings are designated as impaired. Modifications involving troubled borrowers may include a modification of a loan’s amortization schedule, reduction in the stated interest rate and rescheduling of future cash flows.

The Company’s troubled debt restructured modifications are typically made on short terms (12 month terms) in order to aggressively monitor and track performance. The short-term modifications performances are monitored for continued payment performance for an additional period of time after the expiration of the concession. Balance reductions and annualized loss rates are also important metrics that are monitored. The main objective of the modification programs is to reduce the payment burden for the borrower and improve the net present value of the Company’s expected cash flows.

The allowance calculation methodology includes further segregation of loan classes into risk rating categories. The borrower’s overall financial condition, repayment sources, guarantors and value of collateral, if appropriate, are evaluated annually for commercial loans or when credit deficiencies arise, such as delinquent loan payments, for commercial and consumer loans. Credit quality risk ratings include regulatory classifications of special mention, substandard, doubtful and loss. Loans criticized special mention have potential weaknesses that deserve management's close attention. If uncorrected, the potential weaknesses may result in deterioration of the repayment prospects. Loans classified substandard have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They include loans that are inadequately protected by the current sound net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans classified doubtful have all the weaknesses inherent in loans classified substandard with the added characteristics that collection or liquidation in full, on the basis of current conditions and facts, is highly improbable. Loans classified as a loss are considered uncollectable and are charged to the allowance for loan losses. Loans not classified are rated pass.

In addition, federal and state regulatory agencies, as an integral part of their examination process, periodically review the Company's allowance for loan losses and may require the Company to recognize additions to the allowance based on their judgments about information available to them at the time of their examination, which may not be currently available to management. Based on management's comprehensive analysis of the loan portfolio, management believes the current level of the allowance for loan losses is adequate.

K. Transfers of Financial Assets

Transfers of financial assets, including loan participation sales, are accounted for as sales, when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Company, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets and (3) the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity. The balance of participations sold to other banks that are serviced by the Company was $10,432,000 and $6,923,000 at December 31, 2013 and 2012, respectively.

Note 1 – Summary of Significant Accounting Policies (Continued)

L. Other Real Estate Owned and Repossessed Assets

Other Real Estate Owned ("OREO") and repossessed assets include real estate and assets pledged as collateral acquired through foreclosure or by deed in lieu of foreclosure. OREO and repossessed assets are initially recorded at fair value less cost to sell at the date of foreclosure, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less cost to sell. Operating results from real estate owned, including rental income, operating expenses, and gains and losses realized from the sales of real estate owned are recorded as incurred.

M. Bank-Owned Life Insurance

The Company invests in bank-owned life insurance ("BOLI") as a source of funding for employee benefit expenses. BOLI involves the purchasing of life insurance by the Company's wholly-owned trust on a chosen group of employees. The Company is the owner and beneficiary of the policies. This life insurance investment is carried at the cash surrender value of the underlying policies. Income generated from the increase in cash surrender value of the policies is included in non-interest income on the statements of operations.

N. Bank Premises and Equipment

Premises and equipment are stated at cost less accumulated depreciation. Depreciation is charged to operations on a straight-line basis over the estimated useful lives of the respective assets. Leasehold improvements are amortized over the shorter of their estimated life or the lease term.

O. Advertising

The Company expenses advertising costs as incurred.

P. Income Taxes

Deferred income taxes are provided on the liability method whereby deferred tax assets are recognized for deductible temporary differences and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax basis. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment. The Company and its subsidiary file a consolidated Federal income tax return.

The Company analyzes each tax position taken in its tax returns and those positions not taken and determines the likelihood that the position will be realized. Only tax positions that are "more likely than not" to be realized can be recognized in the Company's financial statements. For tax positions that do not meet this recognition threshold, the Company will record an unrecognized tax benefit for the difference between the position taken on the tax return and the amount recognized in the financial statements. The Company does not have any material unrecognized tax benefits or accrued interest or penalties at December 31, 2013 or 2012 or during the years then ended. No unrecognized tax benefits are expected to arise within the next twelve months. The Company's policy is to account for interest as a component of interest expense and penalties as a component of other expenses. The Company and its subsidiaries are subject to U.S. Federal income tax as well as income tax of the State of New Jersey. The Company is no longer subject to examination by taxing authorities for the years before January 1, 2010.

Q. Off-Balance Sheet Financial Instruments

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

Note 1 – Summary of Significant Accounting Policies (Continued)

R. Earnings per Common Share

Earnings per common share are calculated on the basis of the weighted average number of common shares outstanding during the year. Basic earnings per common share excludes dilution and is calculated by dividing income available to common shareholders by the weighted average common shares outstanding excluding restricted stock awards outstanding during the period. Diluted earnings per common share takes into account the potential dilution that could occur if certain outstanding securities to issue common stock were exercised and converted into common stock. Potential common shares relate to outstanding stock options, warrants and restricted stock awards, and are determined using the treasury stock method.

S. Stock-Based Compensation

Stock compensation accounting guidance requires that the compensation cost relating to share-based payment transactions be recognized in financial statements. That cost will be measured based on the grant date fair value of the equity or liability instruments issued. The stock compensation accounting guidance covers a wide range of share-based compensation arrangements including stock options, restricted share plans, performance-based awards, share appreciation rights, and employee share purchase plans.

The stock compensation accounting guidance requires that compensation cost for all stock awards be calculated and recognized over the employees' service period, generally defined as the vesting period. For awards with graded-vesting, compensation cost is recognized on a straight-line basis over the requisite service period for the entire award. A Black-Sholes model is used to estimate the fair value of stock options, while the market price of the Company's common stock at the date of grant is used for restricted stock awards.

T. Reclassification

Certain amounts in the 2012 financial statements have been reclassified to conform to the presentation used in the 2013 financial statements. These reclassifications had no effect on net income.

U. Goodwill and Other Intangible Assets

The Company's goodwill was recognized in connection with the acquisition of the Town Bank in April 2006. Accounting principles generally accepted in the United States of America requires that goodwill be tested for impairment annually or more frequently if impairment indicators arise utilizing a two-step methodology. Step one requires the Company to determine the fair value of the reporting unit and compare it to the carrying value, including goodwill, of such reporting unit. The reporting unit was determined to be our community banking operations, which is our only operating segment. If the fair value of the reporting unit exceeds the carrying value, goodwill is not impaired. If the carrying value exceeds fair value, there is an indication of impairment and the second step is performed to determine the amount of impairment, if any. The second step compares the fair value of the reporting unit to the aggregate fair values of its individual assets, liabilities and identified intangibles.

The Company performed its annual goodwill impairment analysis as of September 30, 2013. Based on the results of the step one goodwill impairment analysis, the Company determined that there was no impairment on the current goodwill balance. See Note 5 for additional details.

V. Segment Reporting

The Company acts as an independent community financial services provider, and offers traditional banking and related financial services to individual, business and government customers. Through its branch, automated teller machine networks, and internet banking services, the Company offers a full array of commercial and retail financial services, including time, savings and demand deposits; the making of commercial, consumer and mortgage loans; and the providing of other financial services. Management does not separately allocate expenses, including the cost of funding loan demand, between the commercial, retail, and consumer banking operations of the Company. Accordingly, all significant operating decisions are based upon analysis of the Bank as one segment or unit.

W. Subsequent Events

The Company has evaluated events and transactions occurring subsequent to the balance sheet date of December 31, 2013 for items that should potentially be recognized or disclosed in these financial statements.

Note 1 – Summary of Significant Accounting Policies (Continued)

X. Recent Accounting Pronouncements

ASU 2011-11; In December 2011, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ASU 2011-11 Balance Sheet (Topic 210): *Disclosures about Offsetting Assets and Liabilities.* ASU 2011-11 requires entities to enhance disclosures about financial instruments and derivative instruments that are subject to offsetting ("netting") in balance sheets. ASU 2011-11 requires disclosure of both gross information and net information about instruments and transactions eligible for offset or subject to an agreement similar to a master netting agreement. In addition to the quantitative disclosures, entities also are required to provide a description of rights of setoff associated with recognized assets and recognized liabilities subject to enforceable master netting arrangements or similar agreements. ASU 2011-11 is effective for annual reporting periods beginning on or after January 1, 2013 and interim periods within those annual periods. The required disclosures are required to be provided retrospectively for all comparative periods presented. The adoption of the requirements of ASU 2011-11 did not have a material impact on the Company's financial position, results of operations or cash flows.

ASU 2013-01; In January 2013, the FASB issued ASU 2013-01 Balance Sheet (Topic 210): *Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities.* ASU 2013-01 addresses implementation issues regarding the scope of ASU 2011-11 related to disclosures about offsetting assets and liabilities. The amendments clarify that ASU 2011-11 only applies to certain derivatives accounted for in accordance with the Derivatives and Hedging topic of ASC 2011-11 including bifurcated embedded derivatives, repurchase agreements and reverse repurchase agreements and securities borrowing and securities lending transactions that are either offset or subject to an enforceable master netting arrangement or similar agreement. The amendments are effective for reporting periods beginning on or after January 1, 2013. The adoption of the requirements of ASU 2013-01 did not have a material impact on the Company's financial position, results of operations or cash flows.

ASU 2013-02; In February, 2013, the FASB issued ASU 2013-02, *Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income.* This ASU requires disclosure of the effects of reclassifications out of accumulated other comprehensive income ("AOCI") on net income line items only for those items that are reported in their entirety in net income in the period of reclassification. For AOCI reclassification items that are not reclassified in their entirety into net income, a cross reference will be required to other U.S. GAAP disclosures. The amendments are effective for reporting periods beginning on or after December 15, 2012. The implementation of ASU 2013-02 did not have a material impact on our financial position or results of operation.

ASU 2014-01; In January, 2014, the FASB issued ASU 2014-01, *Accounting for Investments in Qualified Affordable Housing Projects*. This ASU provides guidance on accounting for investments by a reporting entity inflow-through limited liability entities that manage or invest in affordable housing projects that qualify for the low-income housing tax credit. The guidance in this ASU is effective for the annual periods and interim reporting periods within those annual periods, beginning after December 15, 2014. The implementation of ASU 2014-01 should not have a material impact on our financial position or results of operation.

ASU 2014-04; In January, 2014, the FASB issued ASU 2014-04, *Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure.* This ASU clarifies that an in substance repossession or foreclosure occurs, and a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, upon either (1) the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure or (2) the borrower conveying all interest in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. The ASU also requires additional related interim and annual disclosures. The guidance in this ASU is effective for annual and interim periods beginning after December 15, 2014.The implementation of ASU 2014-01 should not have a material impact on our financial position or results of operation.

Note 2 – Securities

The amortized cost, gross unrealized gains and losses, and fair values of the Company's securities are summarized as follows:

December 31, 2013:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(In Thousands)		
Securities available for sale:				
U.S. Government agency securities	$ 3,500	$ -	$ (49)	$ 3,451
Municipal securities	1,347	18	(3)	1,362
U.S. Government-sponsored enterprises ("GSE") - residential mortgage-backed securities	14,777	53	(311)	14,519
U.S. Government collateralized residential mortgage obligations	19,882	65	(595)	19,352
Corporate debt securities, primarily financial institutions	4,310	13	(249)	4,074
	43,816	149	(1,207)	42,758
Community Reinvestment Act ("CRA") mutual fund	2,392	-	(57)	2,335
	$ 46,208	$ 149	$ (1,264)	$ 45,093
Securities held to maturity:				
Municipal securities	$ 23,819	$ 292	$ (225)	$ 23,886
GSE - Residential mortgage-backed securities	2,377	10	(63)	2,324
U.S. Government collateralized residential mortgage obligations	660	-	(29)	631
Corporate debt securities, primarily financial institutions	1,814	-	(312)	1,502
	$ 28,670	$ 302	$ (629)	$ 28,343

December 31, 2012:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses Noncredit Other OTTI	Fair Value
			(In Thousands)	
Securities available for sale:				

Municipal securities	$ 1,255	$ 55	$ -	$ -	$ 1,310
GSE - Residential mortgage-backed securities	19,881	505	-	(12)	20,374
U.S. Government collateralized residential mortgage obligations	22,655	342	-	(1)	22,996
Corporate debt securities, primarily financial institutions	4,017	49	(164)	(247)	3,655
	47,808	951	(164)	(260)	48,335
CRA mutual fund	2,344	77	-	-	2,421
	$ 50,152	$ 1,028	$ (164)	$ (260)	$ 50,756
Securities held to maturity:					
Municipal securities	$ 17,799	$ 619	$ -	$ (4)	$ 18,414
GSE - Residential mortgage-backed securities	1,083	12	-	-	1,095
U.S. Government collateralized residential mortgage obligations	892	2	-	-	894
Corporate debt securities, primarily financial institutions	1,812	-	-	(280)	1,532
	$ 21,586	$ 633	$ -	$ (284)	$ 21,935

Note 2 – Securities (Continued)

The amortized cost and fair value of the Company's debt securities at December 31, 2013, by contractual maturity, are shown below. 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.

	Available for Sale		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(In Thousands)			
Due in one year or less	$781	$783	$13,548	$13,558
Due in one year through five years	4,000	3,948	3,693	3,775
Due in five years through ten years	3,382	3,391	3,699	3,743
Due after ten years	994	765	4,693	4,312
	9,157	8,887	25,633	25,388
GSE - Residential mortgage-backed securities	14,777	14,519	2,377	2,324
U.S. Government collateralized residential mortgage obligations	19,882	19,352	660	631
	$43,816	$42,758	$28,670	$28,343

The Company had thirty four securities sales in 2013 totaling $11,753,000 and recorded a gross realized gain of $218,000 from these sales as compared to six sales totaling $2,948,000 recording a gross realized gain of $118,000 during 2012.

Certain of the Company's GSE residential mortgage-backed securities and collateralized residential mortgage obligations, totaling $28,188,000 and $23,827,000 at December 31, 2013 and 2012, respectively, were pledged as collateral to secure securities sold under agreements to repurchase and public deposits as required or permitted by law.

The tables below indicate the length of time individual securities have been in a continuous unrealized loss position at December 31, 2013 and 2012:

Less than 12 Months	12 Months or More	Total

December 31, 2013:	Fair Value (In Thousands)	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Government agency securities	**$3,451**	**$ (49)**	**$-**	**$ -**	**$3,451**	**$ (49)**
Municipal securities	**14,570**	**(220)**	**250**	**(8)**	**14,820**	**(228)**
GSE – Residential mortgage-backed securities	**11,519**	**(374)**	**-**	**-**	**11,519**	**(374)**
U.S. Government collateralized residential mortgage obligations	**9,322**	**(368)**	**4,565**	**(256)**	**13,887**	**(624)**
Corporate debt securities, primarily financial institutions	**983**	**(17)**	**2,765**	**(544)**	**3,748**	**(561)**
CRA mutual fund	**2,292**	**(57)**	**-**	**-**	**2,292**	**(57)**
Total Temporarily Impaired Securities	**$42,137**	**$ (1,085)**	**$7,580**	**$ (808)**	**$49,717**	**$ (1,893)**

	Less than 12 Months		**12 Months or More**		**Total**	
December 31, 2012:	**Fair Value (In Thousands)**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**
Municipal securities	$2,222	$ (4)	$-	$ -	$2,222	$ (4)
GSE – Residential mortgage-backed securities	2,320	(12)	-	-	2,320	(12)
U.S. Government collateralized residential mortgage obligations	4,184	(1)	-	-	4,184	(1)
Corporate debt securities, primarily financial institutions	-	-	2,805	(691)	2,805	(691)
Total Temporarily Impaired Securities	$8,726	$ (17)	$2,805	$ (691)	$11,531	$ (708)

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Note 2 – Securities (Continued)

The Company had 57 securities in an unrealized loss position at December 31, 2013. In management's opinion, the unrealized losses in U.S. Government agencies, corporate debt, U.S. Government collateralized residential mortgage obligations, municipal and GSE residential mortgage-backed securities reflect changes in interest rates subsequent to the acquisition of specific securities. The unrealized loss for corporate debt securities also reflects a widening of spreads due to the liquidity and credit concerns in the financial markets. The Company does not intend to sell these debt securities prior to recovery and it is more likely than not that the Company will not have to sell these debt securities prior to recovery.

Included in corporate debt securities are four individual trust preferred securities issued by large financial institutions with Moody's ratings from Baa1 to Ba2. As of December 31, 2013, all of these securities are current with their scheduled interest payments. These single issue securities are from large money center banks. Management concluded that these securities were not other-than-temporarily impaired as of December 31, 2013. These four securities have an amortized cost value of $2.8 million and a fair value of $2.3 million at December 31, 2013.

During 2013, the Company had one pooled trust preferred security with a Moody's rating of Ca included in corporate debt securities. This pooled trust preferred security had been remitting reduced amounts of interest as some individual participants of the pool had deferred interest payments. The pooled instrument consisted of securities issued by financial institutions and insurance companies in which we held the mezzanine tranche of such security. Due to the volatility in the financial performance of the underlying institutions comprising the pooled trust along with the recent heightened press exposure relating to the Volcker Rule, management made the determination to sell this security during the fourth quarter 2013. The original face of this security was $500,000 and $308,500 in other-than-temporary impairment charges, leaving a current book value of $191,500. There were no other-than-temporary impairment charges to earnings during 2013, as compared to $80,000 in 2012. This security was sold for $220,000 resulting in a gain of $28,500 in 2013.

The following roll forward reflects the amounts related to other-than-temporary credit losses recognized in earnings for the years ended December 31, 2013 and 2012 (in thousands):

Beginning balance, January 1, 2012	**$228**
Additional increases to the amount related to the credit loss for which an other-than-temporary impairment was previously recognized	**80**
Ending balance, December 31, 2012	**308**

Decrease in prior period other-than-temporary impairments, due to the sale of the pooled trust preferred security	**(308)**
Ending balance, December 31, 2013	**$-**

Note 3 – Loans Receivable and Allowance for Loan Losses

The components of the loan portfolio at December 31, 2013 and 2012 are as follows:

During the second quarter of 2013, certain types of loans were reclassified due to their purpose and overall risk characteristics. Therefore, balances on certain loan and allowance for loan losses as of December 31, 2012 were reclassified to conform to the December 31, 2013 presentation.

	2013	2012
	(In Thousands)	
Commercial and industrial	**$98,289**	$102,003
Real estate – construction	**83,060**	87,561
Real estate – commercial	**364,352**	324,286
Real estate – residential	**25,588**	20,875
Consumer	**32,413**	37,378
	603,702	572,103
Allowance for loan losses	**(7,872)**	(7,984)
Net unearned fees	**(886)**	(656)
Net Loans	**$594,944**	$563,463

The performance and credit quality of the loan portfolio is monitored by analyzing the age of the loans receivable as determined by the length of time a recorded payment is past due. The following table presents the classes of the loan portfolio summarized by the past due status as of December 31, 2013 and 2012:

December 31, 2013:							**Loans Receivable**
(In Thousands)	**30-59 Days Past Due**	**60-89 Days Past Due**	**Greater than 90**	**Total Past Due**	**Current**	**Total Loans Receivable**	**>90 Days and Accruing**
Commercial and industrial	**$673**	**$408**	**$ 17**	**$1,098**	**$97,191**	**$ 98,289**	**$ -**
Real estate – construction	**5,483**	**1,647**	**225**	**7,355**	**75,705**	**83,060**	**-**
Real estate – commercial	**399**	**536**	**5,483**	**6,418**	**357,934**	**364,352**	**-**
Real estate – residential	**-**	**580**	**-**	**580**	**25,008**	**25,588**	**-**

Consumer	**22**	**-**	**284**	**306**	**32,107**	**32,413**	**-**
Total	**$6,577**	**$3,171**	**$ 6,009**	**$15,757**	**$587,945**	**$ 603,702**	**$ -**

December 31, 2012: **(In Thousands)**	**30-59 Days Past Due**	**60-89 Days Past Due**	**Greater than 90**	**Total Past Due**	**Current**	**Total Loans Receivable**	**Loans Receivable >90 Days and Accruing**
Commercial and industrial	$350	$138	$ 1,137	$1,625	$100,378	$ 102,003	$ -
Real estate – construction	-	1,470	-	1,470	86,091	87,561	-
Real estate – commercial	2,609	1,079	4,086	7,774	316,512	324,286	-
Real estate – residential	590	-	263	853	20,022	20,875	-
Consumer	201	-	1,988	2,189	35,189	37,378	2
Total	$3,750	$2,687	$ 7,474	$13,911	$558,192	$ 572,103	$ 2

Note 3 – Loans Receivable and Allowance for Loan Losses (Continued)

The following table presents non-accrual loans by classes of the loan portfolio at December 31, 2013 and 2012:

	2013	2012
	(In Thousands)	
Commercial and industrial	**$17**	$1,137
Real estate – construction	**225**	-
Real estate – commercial	**5,483**	4,086
Real estate – residential	**-**	263
Consumer	**284**	1,986
Total	**$6,009**	$7,472

The following table summarizes information in regards to impaired loans by loan portfolio class as of December 31, 2013 and 2012:

December 31, 2013:	**Recorded Investment, Net of Charge-offs**	**Unpaid Principal Balance**	**Related Allowance**	**Average Recorded Investment**	**Interest Income Recognized**
(In Thousands)					
With no related allowance recorded:					
Commercial and industrial	**$ 147**	**$ 147**	**$ -**	**$ 152**	**$ 7**
Real estate – construction	**6,786**	**6,786**	**-**	**5,703**	**275**
Real estate – commercial	**15,160**	**15,346**	**-**	**15,464**	**536**
Real estate – residential	**395**	**395**	**-**	**395**	**2**
Consumer	**477**	**477**	**-**	**483**	**8**
With an allowance recorded:					
Commercial and industrial	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**
Real estate – construction	**-**	**-**	**-**	**-**	**-**
Real estate – commercial	**6,165**	**6,165**	**832**	**6,330**	**221**
Real estate – residential	**-**	**-**	**-**	**-**	**-**
Consumer	**243**	**243**	**40**	**244**	**10**

Total:					
Commercial and industrial	**$ 147**	**$ 147**	**$ -**	**$ 152**	**$ 7**
Real estate – construction	**6,786**	**6,786**	**-**	**5,703**	**275**
Real estate – commercial	**21,325**	**21,511**	**832**	**21,794**	**757**
Real estate – residential	**395**	**395**	**-**	**395**	**2**
Consumer	**720**	**720**	**40**	**727**	**18**
	$ 29,373	**$ 29,559**	**$ 872**	**$ 28,771**	**$ 1,059**

Note 3 – Loans Receivable and Allowance for Loan Losses (Continued)

December 31, 2012:	Recorded Investment, Net of Charge-offs	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
(In Thousands)					
With no related allowance recorded:					
Commercial and industrial	$ 1,659	$ 1,939	$ -	$ 1,790	$ 70
Real estate – construction	-	-	-	-	-
Real estate – commercial	8,086	8,166	-	8,118	261
Real estate – residential	-	-	-	-	-
Consumer	352	352	-	361	16
With an allowance recorded:					
Commercial and industrial	$ 1,140	$ 1,140	$ 295	$ 1,185	$ 138
Real estate – construction	-	-	-	-	-
Real estate – commercial	4,121	4,121	470	4,170	206
Real estate – residential	263	263	60	263	-
Consumer	1,780	1,990	233	1,794	-
Total:					
Commercial and industrial	$ 2,799	$ 3,079	$ 295	$ 2,975	$ 208
Real estate – construction	-	-	-	-	-
Real estate – commercial	12,207	12,287	470	12,288	467
Real estate – residential	263	263	60	263	-
Consumer	2,132	2,342	233	2,155	16
	$ 17,401	$ 17,971	$ 1,058	$ 17,681	$ 691

The following table presents the classes of the loan portfolio summarized by the aggregate pass rating and the classified ratings of special mention, substandard and doubtful within the Company's internal risk rating system as of December 31, 2013 and 2012:

Pass	Special Mention	Substandard	Doubtful	Total
(In Thousands)				

December 31, 2013:					
Commercial and industrial	**$97,299**	**$ 531**	**$ 459**	**$ -**	**$98,289**
Real estate – construction	**73,810**	**-**	**9,250**	**-**	**83,060**
Real estate – commercial	**343,912**	**6,384**	**14,056**	**-**	**364,352**
Real estate – residential	**25,485**	**-**	**103**	**-**	**25,588**
Consumer	**31,590**	**135**	**688**	**-**	**32,413**
Total:	**$572,096**	**$ 7,050**	**$ 24,556**	**$ -**	**$603,702**

	Pass	Special Mention	Substandard	Doubtful	Total
	(In Thousands)				
December 31, 2012:					
Commercial and industrial	$93,853	$1,559	$ 6,591	$ -	$102,003
Real estate – construction	79,604	1,443	6,514	-	87,561
Real estate – commercial	295,222	10,285	18,779	-	324,286
Real estate – residential	20,507	-	368	-	20,875
Consumer	34,797	140	2,441	-	37,378
Total:	$523,983	$13,427	$ 34,693	$ -	$572,103

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Note 3 – Loans Receivable and Allowance for Loan Losses (Continued)

As part of the allowance computation at December 31, 2012, the Company undertook a comprehensive review and inspection of all loans with collateral identified as being located within certain impact zones of Superstorm Sandy in October 2012. In the analysis, the Company reviewed a total of $26.1 million in loans, comprised of $20.4 million of commercial real estate and commercial and industrial loans, which represented 4.0% of this segment of the loan portfolio, $4.9 million of consumer loans, consisting primarily of home equity products, which represented 12.0% of this segment of the portfolio, and $800,000 of residential mortgage loans, which represented 4.0% of this segment of our portfolio. In total, the $26.1 million of identified loans represented 4.6% of the total loan portfolio. The Company evaluated the impact of the storm relative to the adequacy of the allowance for loan losses. Based on that evaluation, there were no loan charge-offs or specific losses identified at this time. Although the ultimate amount of loan losses relating to the storm was uncertain and difficult to predict, the Company recorded an additional provision for loan losses of $204,000 for the quarter and year ended December 31, 2012, solely related to the impact of the storm. During the twelve month period ended December 31, 2013, due to no recorded losses relating to Superstorm Sandy, the additional allowance of $204,000 from 2012 was removed from the allowance for loan losses.

The following table presents the change in the allowance for loan losses by classes of loans as of December 31, 2013 and 2012:

Allowance for Credit Losses	**Commercial and Industrial**	**Real Estate - Commercial**	**Real Estate - Construction**	**Real Estate – Residential**	**Consumer**	**Unallocated**	**Total**
			(In Thousands)				
Beginning balance, January 1, 2013	**$ 1,354**	**$ 3,791**	**$1,720**	**$ 217**	**$ 740**	**$ 162**	**$7,984**
Charge-offs	**(1,128)**	**-**	**-**	**(60)**	**(287)**	**-**	**(1,475)**
Recoveries	**344**	**2**	**105**	**-**	**2**	**-**	**453**
Provision	**482**	**614**	**(331)**	**33**	**139**	**(27)**	**910**
Ending balance, December 31, 2013	**$ 1,052**	**$ 4,407**	**$1,494**	**$ 190**	**$ 594**	**$ 135**	**$7,872**

Allowance for Credit Losses	**Commercial and Industrial**	**Real Estate - Commercial**	**Real Estate - Construction**	**Real Estate - Residential**	**Consumer**	**Unallocated**	**Total**
			(In Thousands)				

Beginning balance, January 1, 2012	$ 2,448	$ 2,412	$1,222	$ 256	$ 880	$ 92	$7,310
Charge-offs	(552)	-	(59)	-	(285)	-	(896)
Recoveries	18	-	169	-	3	-	190
Provision	(560)	1,379	388	(39)	142	70	1,380
Ending balance, December 31, 2012	$ 1,354	$ 3,791	$1,720	$ 217	$ 740	$ 162	$7,984

Note 3 – Loans Receivable and Allowance for Loan Losses (Continued)

The following table presents the balance in the allowance for loan losses at December 31, 2013 and 2012 disaggregated on the basis of the Company’s impairment method by class of loans receivable along with the balance of loans receivable by class disaggregated on the basis of the Company’s impairment methodology:

	Allowance for Loan Losses			**Loans Receivable**		
December 31, 2013:	**Balance**	**Balance Related to Loans Individually Evaluated for Impairment**	**Balance Related to Loans Collectively Evaluated for Impairment**	**Balance**	**Balance Individually Evaluated for Impairment**	**Balance Collectively Evaluated for Impairment**
			(In Thousands)			
Commercial and industrial	**$1,052**	**$ -**	**$1,052**	**$98,289**	**$ 147**	**$ 98,142**
Real estate – construction	**1,494**	**-**	**1,494**	**83,060**	**6,786**	**76,274**
Real estate – commercial	**4,407**	**832**	**3,575**	**364,352**	**21,325**	**343,027**
Real estate – residential	**190**	**-**	**190**	**25,588**	**395**	**25,193**
Consumer	**594**	**40**	**554**	**32,413**	**720**	**31,693**
Unallocated	**135**	**-**	**135**	**-**	**-**	**-**
Total:	**$7,872**	**$ 872**	**$7,000**	**$603,702**	**$ 29,373**	**$ 574,329**

	Allowance for Loan Losses			**Loans Receivable**		
December 31, 2012:	**Balance**	**Balance Related to Loans Individually Evaluated**	**Balance Related to Loans Collectively Evaluated**	**Balance**	**Balance Individually Evaluated for Impairment**	**Balance Collectively Evaluated for Impairment**

		for Impairment	for Impairment (In Thousands)			
Commercial and industrial	$1,354	$ 295	$1,059	$102,003	$ 2,799	$ 99,204
Real estate – construction	1,720	-	1,720	87,561	-	87,561
Real estate – commercial	3,791	470	3,321	324,286	12,207	312,079
Real estate – residential	217	60	157	20,875	263	20,612
Consumer	740	233	507	37,378	2,132	35,246
Unallocated	162	-	162	-	-	-
Total:	$7,984	$ 1,058	$6,926	$572,103	$ 17,401	$ 554,702

Loans whose terms are modified are classified as troubled debt restructurings if the Company grants such borrowers concessions and it is deemed that those borrowers are experiencing financial difficulty. Concessions granted under a troubled debt restructuring generally involve a temporary reduction in interest rate or a modification of a loan's amortization schedule. Non-accrual troubled debt restructurings are restored to accrual status if principal and interest payments, under the modified terms, are current for six consecutive months after the modification is in place. Loans classified as troubled debt restructurings are designated as impaired. Modifications involving troubled borrowers may include a modification of a loan's amortization schedule, reduction in the stated interest rate and rescheduling of future cash flows.

The Company's troubled debt restructured modifications are made on terms (up to12 month terms) in order to aggressively monitor and track performance of the credit. The short-term modifications are monitored for continued performance for an additional period of time after the expiration of the concession. Balance reductions and annualized loss rates are also important metrics that are monitored. The main objective of the modification program is to reduce the payment burden for the borrower and improve the net present value of the Company's expected cash flows.

Note 3 – Loans Receivable and Allowance for Loan Losses (Continued)

The following tables present newly troubled debt restructured loans that occurred during the years ended December 31, 2013 and 2012:

	Year Ended December 31, 2013		
		Pre-Modification	**Post-Modification**
	Number of Contracts	**Outstanding Recorded Investment**	**Outstanding Recorded Investment**
Troubled Debt Restructuring:	**(Dollars in Thousands)**		
Commercial and industrial	**3**	**$ 1,824**	**$ 1,824**
Real estate – construction	**5**	**4,729**	**4,729**
Real estate – commercial	**11**	**11,247**	**11,247**
Real estate – residential	**1**	**395**	**395**
Consumer	**4**	**442**	**442**
Total	**24**	**$ 18,637**	**$ 18,637**

	Year Ended December 31, 2012		
		Pre-Modification	**Post-Modification**
	Number of Contracts	**Outstanding Recorded Investment**	**Outstanding Recorded Investment**
Troubled Debt Restructuring:	**(Dollars in Thousands)**		
Commercial and industrial	4	$ 2,167	$ 2,167
Real estate – construction	-	-	-
Real estate – commercial	2	279	279
Real estate – residential	-	-	-
Consumer	1	155	155
Total	7	$ 2,601	$ 2,601

The Company classifies all troubled debt restructurings as impaired loans. Impaired loans are individually assessed to determine that the loan’s carrying value is not in excess of the estimated fair value of the collateral (less cost to sell), if the loan is collateral dependent, or the present value of the expected future cash flows, if the loan is not collateral dependent. Management performs a detailed evaluation of each impaired loan and generally obtains updated appraisals as part of the evaluation. In addition, management adjusts estimated fair value down to appropriately consider recent market conditions, our willingness to accept a lower sales price to effect a quick sale, and costs to dispose of any supporting collateral.

As a result of our impairment evaluation, the Company established an allowance of $503,000 against four loans classified as troubled debt restructuring as of December 31, 2013. Our troubled debt restructured loans are generally structured with short-term payment plans. The extent of these plans is generally made on terms up to twelve-month payments and all the loans identified as troubled debt restructured as of December 31, 2013, generally involve a temporary reduction in interest rate or a modification of a loan's amortization schedule. The Company has not extended maturities, recasted legal documents and/or forgiven any interest or principal.

As of December 31, 2013, loans modified in a troubled debt restructuring totaled $25.4 million, including $19.5 million that are current, $1.9 million that are 30-59 days past due, $1.6 million that are 60-89 days past due and one non-accrual loans totaling $2.4 million.

During the twelve months ended December 31, 2013, six TDR loans totaling $2.2 million were paid in full.

Note 3 – Loans Receivable and Allowance for Loan Losses (Continued)

The following tables represent loans receivable modified as troubled debt restructurings and with a payment default, with the payment default occurring within 12 months of the restructure date, and the payment default occurring during year ended December 31, 2013 and 2012:

	Year Ended December 31, 2013	
Troubled Debt Restructuring That Subsequently Defaulted:	**Number of Contracts**	**Recorded Investment**
	(Dollars in Thousands)	
Commercial and industrial	**1**	**$ 678**
Real estate – construction	**-**	**-**
Real estate – commercial	**1**	**2,608**
Real estate – residential	**1**	**145**
Consumer	**-**	**-**
Total	**3**	**$ 3,431**

	Year Ended December 31, 2012	
Troubled Debt Restructuring That Subsequently Defaulted:	**Number of Contracts**	**Recorded Investment**
	(Dollars in Thousands)	
Commercial and industrial	-	$ -
Real estate – construction	-	-
Real estate – commercial	1	476
Real estate – residential	-	-
Consumer	-	-
Total	1	$ 476

As of December 31, 2013, one real estate commercial loan totaling $2.4 million was placed on non-accrual status that was previously a troubled debt restructured loan. This loan was individually analyzed for impairment at the time of default and it was determined that the aggregate collateral value was in excess of the combined outstanding principal and interest of the loan and therefore no specific reserve was recorded nor was a charge-off taken. Additionally, one commercial and industrial loan totaling $487,000, which was placed on non-accrual, was subsequently transferred to repossessed assets and a non-accrual real estate residential loan totaling $145,000 was paid in full. It is the Company's policy to classify a troubled debt restructured loan that is either 90 days or greater delinquent or that has been placed in a non-accrual status as a subsequently defaulted troubled debt restructured loan.

Note 4 – Bank Premises and Equipment

Premises and equipment at December 31, 2013 and 2012 are as follows:

	Estimated Useful Lives (years)	2013	2012
		(In Thousands)	
Land	Indefinite	**$ 1,400**	$ 400
Buildings	30	**899**	899
Leasehold improvements	5 - 15	**3,805**	4,516
Furniture and equipment	2 - 7	**7,885**	7,490
		13,989	13,305
Less accumulated depreciation and amortization		**(9,757)**	(10,062)
		$ 4,232	$ 3,243

During 2013, the Company transferred $1,000,000 from other assets, which was previously classified as a property held for sale, to land. The Company has decided to construct a new branch on this property in the Cranford market of Union County. This branch is expected to open by the end of 2014.

Note 5 – Goodwill and Other Intangible Assets

The Company's goodwill was recognized in connection with the acquisition of The Town Bank ("Town Bank") in April 2006. GAAP requires that goodwill be tested for impairment annually or more frequently if impairment indicators arise utilizing a two-step methodology. Step one requires the Company to determine the fair value of the reporting unit and compare it to the carrying value, including goodwill, of such reporting unit. The reporting unit was determined to be our community banking operations, which is our only operating segment. If the fair value of the reporting unit exceeds the carrying value, goodwill is not impaired. If the carrying value exceeds fair value, there is an indication of impairment and the second step is performed to determine the amount of impairment, if any. The second step compares the fair value of the reporting unit to the aggregate fair values of its individual assets, liabilities and identified intangibles.

The Company performed its annual step one goodwill impairment analysis as of September 30, 2013, and uses the fair value of the reporting unit based on the income approach and market approach. The income approach uses a dividend discount analysis. This approach calculates cash flows based on anticipated financial results assuming a change of control transaction. This change of control assumes that an acquirer will achieve an expected base level of earnings, achieve integration cost savings and incur certain transaction costs (including such items as legal and financial advisors fees, contract cancellations, severance and employment obligations, and other transaction costs). The present value of all excess cash flows generated by the Company (above the minimum tangible capital ratio) plus the present value of a terminal sale value is calculated to arrive at the fair value for the income approach.

The market approach is used to calculate the fair value of a company by calculating median earnings and book value pricing multiples for recent actual acquisitions of companies of similar size and performance and then applying these multiples to our community banking reporting unit. No company or transaction in the analysis is identical to our community banking reporting unit and, accordingly, the results of the analysis are only indicative of comparable value. This technique uses historical data to create a current pricing level and is thus a trailing indicator. Results of the market approach need to be understood in this context, especially in periods of rapid price change and market uncertainty. The Company applied the market valuation approach to our then current stock price adjusted by an appropriate control premium and also to a peer group adjusted by an appropriate control premium.

Based on the results of the step one goodwill impairment analysis, the Company determined goodwill impairment did not exist and therefore a step two test was not required. Accordingly, no goodwill impairment was recorded on the goodwill balance of $18,109,000 for the years ended December 31, 2013 and 2012, respectively.

Note 5 – Goodwill and Other Intangible Assets (Continued)

The Company acquired core deposit intangible assets in conjunction with the acquisition of Town Bank. This intangible asset has a carrying value of $143,000, net of accumulated amortization of $1,963,000, as of December 31, 2013 and a carrying value of $268,000, net of accumulated amortization of $1,838,000, as of December 31, 2012. Amortization expense related to intangible assets was $125,000 and $163,000 for the years ended December 31, 2013 and 2012, respectively.

The aggregate estimated amortization expense for the next three fiscal years is expected to be as follows (in thousands):

2014	**$86**
2015	**48**
2016	**9**

Note 6 – Deposits

The components of deposits at December 31, 2013 and 2012 are as follows:

	2013	2012
	(In Thousands)	
Demand, non-interest bearing	**$129,179**	$112,746
Demand, interest bearing, money market and savings	**420,185**	394,317
Time, $100,000 and over	**30,359**	44,229
Time, other	**53,726**	55,478
	$633,449	$606,770

At December 31, 2013, the scheduled maturities of time deposits are as follows (in thousands):

2014	**$38,112**
2015	**21,836**
2016	**4,591**
2017	**5,501**
2018	**5,313**

Thereafter	**8,732**
	$84,085

Brokered CD's as of December 31, 2013 and 2012 were $15,168,000 and $6,336,000, respectively. The aggregate amounts of demand deposit overdrafts that have been reclassified as loan balances are $764,000 and $882,000 as of December 31, 2013 and 2012, respectively.

Note 7 – Securities Sold Under Agreements to Repurchase

Securities sold under agreements to repurchase, which are classified as secured borrowings, generally mature within one to four days from the transaction date. Securities sold under agreements to repurchase are reflected as the amount of cash received in connection with the transaction. Securities sold under these agreements are retained under the Company's control at its safekeeping agent. The Company may be required to provide additional collateral based on the fair value of the underlying securities. Information concerning repurchase agreements for the years ended December 31, 2013 and 2012 is as follows:

	2013	**2012**
	(Dollars In Thousands)	
Repurchase agreements:		
Balance at year-end	**$18,440**	$16,710
Average during the year	**18,766**	18,266
Maximum month-end balance	**21,566**	19,860
Weighted average rate during the year	**0.42 %**	0.59 %
Weighted average rate at December 31	**0.36 %**	0.52 %

Note 8 – Borrowings

Borrowings consist of long-term debt fixed rate advances from the FHLB. Information concerning long-term borrowings for the years ended December 31, 2013 and 2012 is as follows (dollars in thousands):

	2013	**2012**	**Rate**	**Original Term (years)**	**Maturity**
Fixed Rate Note	**$7,500**	**$7,500**	**3.97 %**	**10**	**November 2017**
Fixed Rate Note	**1,500**	**1,500**	**1.67 %**	**4**	**August 2014**
Fixed Rate Note	**1,500**	**1,500**	**2.00 %**	**5**	**August 2015**
Fixed Rate Note	**1,500**	**1,500**	**2.41 %**	**6**	**August 2016**
Fixed Rate Note	**1,500**	**1,500**	**2.71 %**	**7**	**August 2017**
Fixed Rate Note	**2,000**	**-**	**1.28 %**	**4**	**October 2017**
Fixed Rate Note	**2,000**	**-**	**1.65 %**	**5**	**October 2018**
	$17,500	**$13,500**			

The Company has unsecured lines of credit totaling $17,000,000 with two financial institutions that bear interest at a variable rate and are renewed annually. There were no borrowings under these lines of credit at December 31, 2013 and 2012.

The Company has a remaining borrowing capacity with the FHLB of approximately $57,305,000 based on $74,805,000 loans pledged at December 31, 2013. There were no short-term borrowings from the FHLB at December 31, 2013 and 2012.

Note 9 – Employee Benefit Plans

Under the 401(k) plan, all employees are eligible to contribute up to 100% of their pay and bonus up to the IRS yearly limit. Annually, the Company matches a percentage of employee contributions. The Company contributed $237,000 and $241,000 for the years ended December 31, 2013 and 2012, respectively. Each year, the Company, may at its discretion, elect to contribute profit sharing amounts into the 401(k) plan. For the year ended December 31, 2013 and 2012, the Company has not contributed any profit sharing amounts.

The Company has a non-qualified Supplemental Executive Retirement Plan for certain executive officers that provides for payments upon retirement, death or disability. At December 31, 2013 and 2012, other liabilities included approximately $980,000 and $767,000, respectively, accrued under this plan. For the year ended December 31, 2013, expenses related to this plan included in the consolidated statements of operations are recorded in salaries and benefits, which amounted to $246,000 as compared to $214,000 for year ended December 31, 2012.

Note 10 – Income Taxes

The components of income tax expense (benefit) for the years ended December 31, 2013 and 2012 are as follows:

	2013	**2012**
	(In Thousands)	
Current	**$2,879**	$3,502
Deferred	**94**	(697)
	$2,973	$2,805

A reconciliation of the statutory income tax at a rate of 34% to the income tax expense included in the statements of operations is as follows for the years ended December 31, 2013 and 2012:

	2013		**2012**	
	Amount	**%**	**Amount**	**%**
	(Dollars In Thousands)			
Pre-tax book income	**$2,765**	**34.0%**	$2,591	34.0%
Tax exempt interest	**(181)**	**(2.2)**	(168)	(2.2)
Bank-owned life insurance income	**(146)**	**(1.8)**	(156)	(2.0)
State income taxes, net of federal income tax benefit	**471**	**5.8**	419	5.5
Other	**64**	**0.8**	119	1.5
	$2,973	**36.6%**	$2,805	36.8%

The components of the net deferred tax asset, included in other assets, as of December 31, 2013 and 2012, were as follows:

	2013	**2012**
	(In Thousands)	
Deferred tax assets:		
Allowance for loan losses	**$3,165**	$3,210
Depreciation and amortization	**607**	1,541
Deferred compensation	**862**	128
Other real estate owned (“OREO”) write-downs	**547**	327

Unrealized loss on investment securities available for sale	**432**	-
Other	**100**	194
	5,713	5,400
Deferred tax liabilities:		
Purchase accounting adjustments	**(278)**	(333)
Unrealized gain on investment securities available for sale	**-**	(237)
Other	**(277)**	(247)
	(555)	(817)
Net Deferred Tax Asset	**$5,158**	$4,583

Note 11 – Earnings Per Common Share

The following sets forth the computation of basic and diluted earnings per common share for the years ended December 31, 2013 and 2012:

	Years Ended December 31,	
	2013	**2012**
	(In Thousands, Except Per Share Data)	
Net income	**$5,159**	$4,815
Preferred stock dividend	**(261)**	(448)
Income applicable to common shareholders	**$4,898**	$4,367
Weighted average common shares outstanding	**8,041**	7,950
Effect of dilutive securities, stock options	**149**	174
Weighted average common shares outstanding used to calculate diluted earnings per share	**8,190**	8,124
Basic earnings per common share	**$0.61**	$0.55
Diluted earnings per common share	**$0.60**	$0.54

Dilutive securities in the table above exclude common stock options with exercise prices that exceed the average market price of the Company's common stock during the periods presented. Inclusion of these common stock options would be anti-dilutive to the diluted earnings per common share calculation. Stock options that had no intrinsic value because their effect was anti-dilutive and, therefore, were not included in the diluted earnings per common share calculation were 202,000 and 345,000 for 2013 and 2012, respectively.

Note 12 – Lease Commitments and Total Rental Expense

The Company leases banking facilities under non-cancelable operating lease agreements expiring through 2022. Aggregate rent expense was $1,775,000 and $1,478,000 for the years ended December 31, 2013 and 2012, respectively.

The approximate future minimum rental commitments under operating leases at December 31, 2013 are as follows (in thousands):

2014	**$1,273**
2015	**1,322**
2016	**1,300**
2017	**1,234**
2018	**1,088**
Thereafter	**2,346**
	$8,563

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Note 13 – Stock Option Plans

Prior to the Company's formation in 2006, its banking subsidiaries had stock option plans, with outstanding stock options, for the benefit of their employees and directors. The plans provided for the granting of both incentive and non-qualified stock options. While options to purchase 162,868 shares of the Company's common stock remain outstanding under these plans, no further stock options may be granted.

On March 20, 2007, the Board of Directors adopted the Two River Bancorp 2007 Equity Incentive Plan (the "Plan"), which was approved by the Company's shareholders at the 2007 annual meeting. This plan provides that the Compensation Committee of the Board of Directors (the "Committee") may grant to those individuals who are eligible under the terms of the Plan stock options, shares of restricted stock, or such other equity incentive awards as the Committee may determine. As of December 31, 2013, the number of shares of Company common stock remaining and available for future issuance under the Plan is 250,275 after adjusting for subsequent stock dividends.

Options awarded under the Plan may be either options that qualify as incentive stock options ("ISOs") under Section 422 of the Internal Revenue Code of 1986, as amended (the "Code"), or options that do not, or cease to, qualify as incentive stock options under the Code ("nonqualified stock options" or "NQSOs"). Awards may be granted under the Plan to directors and employees.

Shares reserved under the Plan will be issued out of authorized and unissued shares, or treasury shares, or partly out of each, as determined by the Board. The exercise price per share purchasable under either an ISO or a NQSO may not be less than the fair market value of a share of stock on the date of grant of the option. The Committee will determine the vesting period and term of each option, provided that no ISO may have a term in excess of ten years after the date of grant.

Restricted stock is stock which is subject to certain transfer restrictions and to a risk of forfeiture. The Committee will determine the period over which any restricted stock which is issued under the Plan will vest, and will impose such restrictions on transferability, risk of forfeiture and other restrictions as the Committee may in its discretion determine. Unless restricted by the Committee, a participant granted restricted stock will have all of the rights of a shareholder, including the right to vote the restricted stock and the right to receive dividends with respect to that stock.

Unless otherwise provided by the Committee in the award document or subject to other applicable restrictions, in the event of a Change in Control (as defined in the Plan) all non-forfeited options and awards carrying a right to exercise that was not previously exercisable and vested will become fully exercisable and vested as of the time of the Change in Control, and all restricted stock and awards subject to risk of forfeiture will become fully vested.

On September 16, 2013, the Company awarded an officer incentive stock options to purchase an aggregate of 10,000 shares of Company's common stock. These options are scheduled to vest 20% per year over five years beginning September 17, 2014. These options were granted with an exercise price of $7.41 per share based upon the average trading price of Company's common stock on the grant date.

On December 17, 2013, the Company awarded officers incentive stock options to purchase an aggregate of 36,600 shares of Company common stock. These options are scheduled to vest 20% per year over five years beginning December 17, 2014. These options were granted with an exercise price of $7.51 per share based upon the average trading price of Company's common stock on the grant date.

Stock based compensation expense related to the stock option grants was approximately $143,000 and $158,000 for the years ended December 31, 2013 and 2012, respectively, and is included in salaries and employee benefits on the statement of operations.

Total unrecognized compensation cost related to non-vested options under the Plan was $349,000 as of December 31, 2013 and will be recognized over the subsequent 3.5 years.

Note 13 – Stock Option Plans (Continued)

The following table presents information regarding the Company's outstanding options at and for the years ended December 31, 2013 and 2012:

	Number of Shares	Weighted Average Price	Weighted Average Remaining Contractual Life (years)	Aggregate Intrinsic Value
Options outstanding, December 31, 2012	921,605	$ 6.95		
Options granted	46,600	7.49		
Options exercised	(116,677)	3.38		
Options forfeited	(240,667)	8.76		
Options outstanding, December 31, 2013	610,861	$ 6.95	5.2	$ 1,247,751
Options exercisable, December 31, 2013	402,713	$ 7.81	3.8	$ 834,106

Options price range at December 31, 2013	$3.01	to	$14.17

The total intrinsic value of stock options exercised was $378,000 and $76,000 during the years ended December 31, 2013 and 2012, respectively. Cash received from such exercises was $394,000 and $124,000, respectively. A tax benefit of $61,000 was recognized during the year ended December 31, 2013, as compared to $13,000 for the same period in 2012.

Note 13 – Stock Option Plans (Continued)

The following summarizes information about stock options outstanding at December 31, 2013:

Range of Exercise Prices	Options Outstanding Number Outstanding at December 31, 2013	Weighted-Average Remaining Contractual Life (years)	Weighted-Average Exercise Price
$3.01 - $3.83	244,405	5.3	$3.37
$5.19 - $6.38	160,682	8.3	5.30
$7.23 - $7.95	47,695	9.7	7.49
$9.37 - $14.17	158,079	0.9	14.02
	610,861		

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model.

The following weighted average assumptions were used to estimate the fair value of the stock options granted on December 17, 2013:

Dividend yield	1.08 %
Expected volatility	28.66 %
Risk-free interest rate	2.26 %
Forfeiture rate	5.00 %
Expected life (in years)	7.5
Weighted average fair value of options granted	$2.33

The following weighted average assumptions were used to estimate the fair value of the stock options granted on September 16, 2013:

Dividend yield	1.08 %
Expected volatility	29.08 %
Risk-free interest rate	2.27 %

Forfeiture rate	0.00 %
Expected life (in years)	7.5
Weighted average fair value of options granted	$2.33

The dividend yield assumption is based on the Company's history and expectations of cash dividends. The expected volatility is based on historical volatility. The risk-free interest rate is based on the U.S. Treasury yield curve for the expected life of the grants which is based on historical exercise experience.

Note 13 – Stock Option Plans (Continued)

Restricted stock is valued at the market value on the date of grant and expense is evenly attributed to the period in which the restrictions lapse.

On December 17, 2013, the Company awarded 5,892 shares of the Company's restricted common stock. These awards are scheduled to vest 20% per year over five years beginning December 17, 2014.

Total unrecognized compensation cost related to restricted stock under the Plan was $44,000 as of December 31, 2013 and will be recognized over the subsequent 5.0 years. As of December 31, 2013, all restricted stock shares were unvested.

Compensation expense related to the restricted stock was to $11,000 and $25,000 for the years ended December 31, 2013 and 2012, respectively, and is included in salaries and employee benefits on the statement of operations. An $8,000 reversal of compensation expense was recorded during the first quarter of 2012 due to the forfeiture of restricted stock. There was no deferred tax benefit recognized during years ended December 31, 2013 and 2012 related to the restricted stock compensation.

The following table summarizes information about restricted stock for the year ended December 31, 2013:

	Number of Shares	**Weighted Average Price**
Unvested at December 31, 2012	17,909	$ 3.93
Restricted stock earned	(17,909)	(3.93)
Granted	5,892	7.51
Unvested at December 31, 2013	5,892	$ 7.51

Note 14 – Transactions with Executive Officers, Directors and Principal Shareholders

Certain directors and executive officers of Two River Bancorp and its affiliates, including their immediate families and companies in which they are principal owners (more than 10%), are indebted to the Bank. In the opinion of management, such loans are consistent with sound banking practices and are within applicable regulatory bank lending limitations and in compliance with applicable rules and regulations of the Securities and Exchange Commission. Two River Bancorp relies on such directors and executive officers for the identification of their associates. These loans at December 31, 2013 were current as to principal and interest payments, and did not involve more than normal risk of collectability. At December 31, 2013 and 2012, loans to related parties amounted to $13,150,000 and $12,930,000 respectively. During 2013, new loans and advances to such related parties totaled $1,123,000 and repayments and other reductions aggregated $903,000.

The Bank paid $7,700 and $8,000 for the years ended December 31, 2013 and 2012, respectively, to two directors for certain services.

Note 15 – Financial Instruments with Off-Balance Sheet Risk

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

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

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. The Company evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Company upon extension of credit, is based on management's credit evaluation. Collateral held varies but may include personal or commercial real estate, accounts receivable, inventory and equipment. The Company had commitments to extend credit, including unused lines of credit, of approximately $155,124,000 and $122,905,000 at December 31, 2013 and 2012, respectively.

Standby letters of credit are conditional commitments issued by the Company to guarantee the financial performance of a customer to a third party. Those guarantees are primarily issued to support contracts entered into by customers. Most guarantees extend for one year. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Company defines the fair value of these letters of credit as the fees paid by the customer or similar fees collected on similar instruments. The Company amortizes the fees collected over the life of the instrument. The Company generally obtains collateral, such as real estate or liens on customer assets for these types of commitments. The Company's potential liability would be reduced by any proceeds obtained in liquidation of the collateral held. The Company had commercial and similar letters of credit for customers aggregating $5,344,000 and $4,195,000 at December 31, 2013 and 2012, respectively. The approximate value of underlying collateral upon liquidation that would be expected to cover this maximum potential exposure was $5,344,000 and $4,195,000 at December 31, 2013 and 2012, respectively. The current amounts of the liability related to guarantees under standby letters of credit issued are not material as of December 31, 2013 and 2012.

Note 16 – Regulatory Matters

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

Quantitative measures established by regulations to ensure capital adequacy require the Company and the Bank maintain minimum amounts and ratios (set forth below) of total and Tier l capital (as defined in the regulations) to risk-weighted assets, and of Tier l capital to average assets. Management believes, as of December 31, 2013 that the Company and its bank subsidiary meet all capital adequacy requirements to which they are subject.

As of December 31, 2013, the Bank met all regulatory requirements for classification as well-capitalized under the regulatory framework for prompt corrective action. There are no conditions or events that management believes have changed the institutions' categories. Two River Bancorp and the Bank's actual capital amounts and ratios at December 31, 2013 and 2012 and the minimum amounts and ratios required for capital adequacy purposes and to be well capitalized under the prompt corrective action provisions are as follows:

	Actual		**For Capital Adequacy Purposes**		**To be Well Capitalized under Prompt Corrective Action Provisions**	
	Amount	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
	(Dollars in Thousands)					
As of December 31, 2013						
Total capital (to risk-weighted assets)						
Two River Bancorp	$ 85,674	13.21 %	$ > 51,884	≥ 8.00 %	$ N/A	N/A
Two River Community Bank	85,284	13.15 %	> 51,884	≥ 8.00 %	> 64,855	≥ 10.00 %
Tier 1 capital (to risk-weighted assets)						

Two River Bancorp		77,802	11.99	%		>	25,956	≥	4.00	%		N/A	N/A	
Two River Community Bank		77,412	11.94	%		>	25,934	≥	4.00	%	>	38,901	≥	6.00 %
Tier 1 capital (to average assets)														
Two River Bancorp		77,802	10.40	%		>	29,924	≥	4.00	%		N/A	N/A	
Two River Community Bank		77,412	10.35	%		>	29,918	≥	4.00	%	>	37,397	≥	5.00 %
As of December 31, 2012														
Total capital (to risk-weighted assets)														
Two River Bancorp	$	80,835	13.28	%	$	>	48,696	≥	8.00	%	$	N/A	N/A	
Two River Community Bank		80,773	13.27	%		>	48,695	≥	8.00	%	>	60,869	≥	10.00 %
Tier 1 capital (to risk-weighted assets)														
Two River Bancorp		73,220	12.03	%		>	24,346	≥	4.00	%		N/A	N/A	
Two River Community Bank		73,159	12.02	%		>	24,346	≥	4.00	%	>	36,519	≥	6.00 %
Tier 1 capital (to average assets)														
Two River Bancorp		73,220	10.36	%		>	28,270	≥	4.00	%		N/A	N/A	
Two River Community Bank		73,159	10.35	%		>	28,274	≥	4.00	%	>	35,343	≥	5.00 %

The Bank is subject to certain legal and regulatory limitations on the amount of dividends that it may declare without prior regulatory approval. Under Federal Reserve regulations, the Bank is limited as to the amount it may lend affiliates, including the Company, unless such loans are collateralized by specific obligations.

Note 16 – Regulatory Matters (Continued)

Basel III Capital Rules. In June 2012, the federal bank regulatory agencies issued a series of proposed revisions to the agencies' capital adequacy guidelines and prompt corrective action rules, which were designed to enhance such requirements and implement the revised standards of the Basel Committee on Banking Supervision, commonly referred to as Basel III. In July 2013, the federal bank regulatory agencies adopted final rules, which differ in certain respects from the June 2012 proposals.

The July 2013 final rules generally implement higher minimum capital requirements, add a new common equity tier 1 capital requirement, and establish criteria that instruments must meet to be considered common equity tier 1 capital, additional tier 1 capital or tier 2 capital. The new minimum capital to risk-adjusted assets requirements are a common equity tier 1 capital ratio of 4.5% (6.5% to be considered "well capitalized") and a tier 1 capital ratio of 6.0%, increased from 4.0% (and increased from 6.0% to 8.0% to be considered "well capitalized"); the total capital ratio remains at 8.0% under the new rules (10.0% to be considered "well capitalized").

Under the new rules, in order to avoid limitations on capital distributions (including dividend payments and certain discretionary bonus payments to executive officers), a banking organization must hold a capital conservation buffer comprised of common equity tier 1 capital above its minimum risk-based capital requirements in an amount greater than 2.5% of total risk-weighted assets. The new minimum capital requirements are effective on January 1, 2015. The capital contribution buffer requirements phase in over a three-year period beginning January 1, 2016.

The July 2013 final rules include three significant changes from the June 2012 proposals: (i) the final rules do not change the current risk weighting for residential mortgage exposures; (ii) the final rules permit institutions, other than certain large institutions, to elect to continue to treat certain components of accumulated other comprehensive income as permitted under the current general risk-based capital rules, and not reflect unrealized gains and losses on available-for-sale securities in common equity tier 1 calculations; and (iii) the final rules permit institutions with less than $15.0 billion in assets to grandfather certain non-qualifying capital instruments (including trust preferred securities) issued prior to May 19, 2009 into tier 1 capital.

The Company and the Bank will continue to analyze these new rules and their effects on the business, operations and capital levels of the Company and the Bank.

Note 17 – Fair Value of Financial Instruments

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

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

An asset's or liability's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. For financial assets measured at fair value on a recurring basis, the fair value measurements by level within the fair value hierarchy used at December 31, 2013 and 2012 are as follows:

Description	**(Level 1) Quoted Prices in Active Markets for Identical Assets**	**(Level 2) Significant Other Observable Inputs**	**(Level 3) Significant Unobservable Inputs**	**Total**
	(In Thousands)			
<u>At December 31, 2013</u>				
Securities available for sale:				

U.S. Government agency securities	**$-**	**$ 3,451**	**$ -**	**$3,451**
Municipal securities	**-**	**1,362**	**-**	**1,362**
GSE: Residential mortgage-backed securities	**-**	**14,519**	**-**	**14,519**
U.S. Government collateralized residential mortgage obligations	**-**	**19,352**	**-**	**19,352**
Corporate debt securities, primarily financial institutions	**-**	**4,074**	**-**	**4,074**
CRA mutual fund	**2,335**	**-**	**-**	**2,335**
Total	**$2,335**	**$ 42,758**	**$ -**	**$45,093**

At December 31, 2012

Securities available for sale:

Municipal securities	$-	$ 1,310	$ -	$1,310
GSE: Residential mortgage-backed securities	-	20,374	-	20,374
U.S. Government collateralized residential mortgage obligations		22,996	-	22,996
Corporate debt securities, primarily financial institutions	-	3,627	28	3,655
CRA mutual fund	2,421	-	-	2,421
Total	$2,421	$ 48,307	$ 28	$50,756

Note 17 – Fair Value of Financial Instruments (Continued)

The following table presents a reconciliation of the securities available for sale measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the periods presented:

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3) Securities available for sale	
	2013	**2012**
	(In Thousands)	
Beginning balance, January 1	**$ 28**	$ 89
Total gains/(losses):		
Included in earnings	**-**	(80)
Included in other comprehensive income	**-**	19
Reclassification adjustment for gain on sales of securities recognized in income	**(28)**	-
Ending Balance, December 31	**$ -**	$ 28

For assets measured at fair value on a nonrecurring basis, the fair value measurements by level within the fair value hierarchy used at December 31, 2013 and 2012 are as follows:

Description	**(Level 1) Quoted Prices in Active Markets for**	**(Level 2) Significant Other Observable Inputs**	**(Level 3) Significant Unobservable Inputs**	**Total**

	Identical **Assets** **(In Thousands)**			
At December 31, 2013				
Impaired loans with an allowance recorded	**$-**	**$ -**	**$ 5,536**	**$5,536**
Impaired loans net of partial charge-offs	**-**	**-**	**473**	**473**
Foreclosed and repossessed assets	**-**	**-**	**2,771**	**2,771**
At December 31, 2012				
Impaired loans with an allowance recorded	$-	$ -	$ 6,246	$6,246
Foreclosed and repossessed assets	-	-	1,752	1,752

The following valuation techniques were used to measure fair value of assets in the tables above:

Impaired loans – Impaired loans measured at fair value are those loans in which the Company has measured impairment generally based on the fair value of the loan's collateral. This method of fair value measurement is used on all of the Company's impaired loans. Fair value is generally determined based upon either independent third party appraisals of the properties or discounted cash flows based upon the expected proceeds. The appraisals may be adjusted by management for qualitative factors such as economic conditions and estimated liquidation expenses. At December 31, 2013, there were no discounts applied to appraisal values as all impaired appraisals were current. The liquidation expenses range from 7.0% to 16.0% (weighted average of 9.8 %). These assets are included as Level 3 fair values, based upon the lowest level of input that is significant to the fair value measurements.

Note 17 – Fair Value of Financial Instruments (Continued)

Other Real Estate Owned ("OREO") and Repossessed Assets – Real estate properties acquired through, or in lieu of, loan foreclosure and repossessed assets pledged as collateral are carried at fair value less cost to sell. Fair value is based upon the appraised value of the collateral, adjusted by management for factors such as economic conditions and other market factors. The discount range and liquidation expenses for collateral adjustments to OREO and repossessed assets range from 6.7% to 35.0% (weighted average of 18.0%). These assets are included in Level 3 fair value based upon the lowest level of input that is significant to the fair value measurement. At December 31, 2013, foreclosed and repossessed assets totaling $2,771,000 as compared to $1,752,000 at December 31, 2012, were acquired through foreclosure and are carried at fair value less estimated selling costs based on current appraisals.

The following information should not be interpreted as an estimate of the fair value of the entire Company since a fair value calculation is only provided for a limited portion of the Company's assets and liabilities. Due to a wide range of valuation techniques and the degree of subjectivity used in making the estimates, comparisons between the Company's disclosures and those of other companies may not be meaningful. The following methods and assumptions were used to estimate the fair values of the Company's financial instruments at December 31, 2013 and December 31, 2012:

***Cash and Cash Equivalents (carried at cost)*:**

The carrying amounts reported in the balance sheet for cash and short-term instruments approximate those assets' fair values.

***Securities*:**

The fair value of securities available-for-sale (carried at fair value) and held to maturity (carried at amortized cost) are determined by obtaining quoted market prices on nationally recognized securities exchanges (Level 1), or matrix pricing (Level 2), which is a mathematical technique used widely in the industry to value debt securities without relying exclusively on quoted market prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted prices. For certain securities which are not traded in active markets or are subject to transfer restrictions, valuations are adjusted to reflect illiquidity and/or non-transferability, and such adjustments are generally based on available market evidence (Level 3). In December 2013, the Company sold its one pooled trust preferred security. This security was classified as a Level 3 investment at December 31, 2012. Management's best estimate of fair value consists of both internal and external support on the Level 3 investment. Internal cash flow models project expected future interest and principal receivables due to our security based on the application of assumptions, including default probabilities, on the underlying preferred securities. The models then apply the resulting distributions from the underlying securities through the liability model, according to the deal's "priority of payments." For fair value purposes, a present value formula is then applied to our security's cash flows, steeply discounting the cash flows in accordance with the level of risk a reasonable market participant may demand for an investment such as ours. Due to the subordination of the security, discount margins contemplated in the valuation at December 31, 2012 ranged from Libor +15% to Libor +25%, with a midpoint of Libor +20%. The resultant fair values have been validated by means of comparison to indicative exit pricing obtained from broker/dealers (where available) were used to support the fair value of the Level 3 investment.

***Restricted Investments (carried at cost)*:**

The carrying amount of restricted investment in Federal Home Loan Bank stock, Atlantic Central Bankers Bank stock and Solomon Hess SBA Loan Fund approximates fair value, and considers the limited marketability of such securities.

Loans Receivable (carried at cost):

The fair values of loans, excluding collateral dependent impaired loans, are estimated using discounted cash flow analyses, using market rates at the balance sheet date that reflect the credit and interest rate-risk inherent in the loans, including liquidity. Projected future cash flows are calculated based upon contractual maturity or call dates, projected repayments and prepayments of principal. The valuation of the loan portfolio reflects discounts that the Company believes are consistent with transactions occurring in the marketplace for both performing and distressed loan types. The carrying value that fair value is compared to is net of the allowance for loan losses and other associated premiums and discounts. Generally, for variable rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying values. Due to the significant judgment involved in evaluating credit quality risk, loans are classified within level 3 of the fair value hierarchy.

Note 17 – Fair Value of Financial Instruments (Continued)

Accrued Interest Receivable and Payable (carried at cost):

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

Deposit Liabilities (carried at cost):

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

Securities Sold Under Agreements to Repurchase (carried at cost):

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

Long-term Debt (carried at cost):

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

Off-Balance Sheet Financial Instruments (disclosed at cost):

Fair values for the Company's off-balance sheet financial instruments (lending commitments and letters of credit) are based on fees currently charged in the market to enter into similar agreements, taking into account, the remaining terms of the agreements and the counterparties' credit standing. The fair values of such fees are not material at December 31, 2013 and 2012.

Note 17 – Fair Value of Financial Instruments (Continued)

The estimated fair values of the Company's financial instruments at December 31, 2013 and 2012 were as follows:

(in thousands)	Fair Value Measurements at December 31, 2013				
	Carrying Amount	Estimated Fair Value	(Level 1) Quoted Prices in Active Markets for Identical Assets	(Level 2) Significant Other Observable Inputs	(Level 3) Significant Unobservable Inputs
Financial assets:					
Cash and cash equivalents	$47,865	$47,865	$47,865	$ -	$ -
Securities available for sale	45,093	45,093	2,335	42,758	-
Securities held to maturity	28,670	28,343	-	28,343	-
Restricted investments	3,278	3,278	-	-	3,278
Loans receivable	594,944	583,847	-	-	583,847
Accrued interest receivable	1,760	1,760	-	239	1,521
Financial liabilities:					
Deposits	633,449	633,724	-	633,724	-
Securities sold under agreements to repurchase	18,440	18,440	-	18,440	-
Long-term debt	17,500	18,497	-	18,497	-
Accrued interest payable	66	66	-	66	-
Off-balance sheet financial instruments:					
Commitments to extend credit and outstanding letters of credit	-	-	-	-	-

(in thousands)	Fair Value Measurements at December 31, 2012				
	Carrying	Estimated	(Level 1)	(Level 2)	(Level 3)

	Amount	Fair Value	Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs	Significant Unobservable Inputs
Financial assets:					
Cash and cash equivalents	$48,546	$48,546	$48,546	$ -	$ -
Securities available for sale	50,756	50,756	2,421	48,307	28
Securities held to maturity	21,586	21,935	-	21,935	-
Restricted investments	3,040	3,040	-	-	3,040
Loans receivable	563,463	565,653	-	-	565,653
Accrued interest receivable	1,884	1,884	-	237	1,647
Financial liabilities:					
Deposits	606,770	608,329	-	608,329	-
Securities sold under agreements to repurchase	16,710	16,710	-	16,710	-
Long-term debt	13,500	14,921	-	14,921	-
Accrued interest payable	70	70	-	70	-
Off-balance sheet financial instruments:					
Commitments to extend credit and outstanding letters of credit	-	-	-	-	-

Note 18 – Shareholders' Equity

Small Business Lending Fund Preferred Stock. On August 11, 2011, the Company received $12 million under the Small Business Lending Fund ("SBLF"), created as part of the Small Business Jobs Act. The SBLF provided Tier 1 capital to community banks with assets of $10 billion or less, and the terms of this capital contain incentives for making small business loans, defined as certain loans of up to $10 million to businesses with up to $50 million in annual revenues. In exchange for the $12 million, the Company issued to the U.S. Department of the Treasury ("Treasury") 12,000 shares of its Non-Cumulative Perpetual Preferred Stock, Series C, having a $1,000 liquidation preference per share (the "SBLF Preferred Shares"). The SBLF Preferred Shares qualify as Tier 1 capital.

Dividend rates on the SBLF Preferred Shares were determined by the bank's lending practices with small business loans. The Company used a portion of the proceeds of the SBLF funds to redeem the full $9.0 million of its outstanding shares of Senior Preferred Stock, Series A, (the "TARP Preferred Shares"), previously issued to the Treasury under the Troubled Asset Relief Program Capital Purchase Plan ("TARP CPP"). The TARP Preferred Shares, issued under TARP CPP, qualified as Tier 1.

The terms of the SBLF Preferred Shares impose limits on the ability of the Company to pay dividends and repurchase shares of common stock. Under the terms of the SBLF Preferred Shares, no repurchases may be effected, and no dividends may be declared or paid on preferred shares ranking pari passu with the SBLF Preferred Shares, junior preferred shares, or other junior securities (including the common stock) during the current quarter and for the next three quarters following the failure to declare and pay dividends on the SBLF Preferred Shares, except that, in any such quarter in which the dividend is paid, dividend payments on shares ranking pari passu may be paid to the extent necessary to avoid any resulting material covenant breach.

Under the terms of the SBLF Preferred Shares, the Company may only declare and pay a dividend on the common stock or other stock junior to the SBLF Preferred Shares, or repurchase shares of any such class or series of stock, if, after payment of such dividend, the dollar amount of the Company's Tier 1 Capital would be at least $54.4 million, excluding any subsequent net charge-offs and any redemption of the SBLF Preferred Shares (the "Tier 1 Dividend Threshold").

After 10 years, if the SBLF Preferred Shares are not redeemed, the dividend rate will increase to the highest possible dividend rate as permitted by the Company's regulators. Dividends are payable quarterly on January 1, April 1, July 1 and October 1 of each year. During the quarters ended March 31, June 30, September 30 and December 31, 2013, the dividend rate on the SBLF Preferred Shares was 3.511%, 2.000%, and 1.000% for both September and December quarters, respectively, and will remain fixed at 1.000% for two years, when it will increase to 9.00%.

On January 24, 2013, the Company announced that the Board of Directors approved and authorized a share repurchase program (the “Repurchase Program”). The program authorized the repurchase of up to 5% of the outstanding shares of the Company’s common stock, or approximately 399,200 shares based on the 7,983,778 shares outstanding as of December 31, 2012, provided that the aggregate amount that the Company could spend on such repurchases was limited to $2.2 million. A total of 76,712 shares for a total of $554,000 was spent under this program through December 31, 2013.

On January 24, 2014, the Company announced that its Board of Directors approved an extension of the Repurchase Program from January 24, 2014 to December 31, 2014. In extending the Repurchase Program, the Board of Directors has authorized the Company’s to spend up to an additional $2.0 million on the repurchase of stock.

Note 19 – Condensed Financial Statements of Parent Company

Condensed financial information pertaining to the parent company, Two River Bancorp, is as follows:

Condensed Balance Sheets

	December 31,	
	2013	**2012**
	(In Thousands)	
Assets		
Cash and cash equivalents	**$308**	$114
Investments in subsidiaries	**95,037**	91,904
Other assets	**113**	25
Total assets	**$95,458**	$92,043
Liabilities and Shareholders' Equity		
Other liabilities	**$31**	$78
Shareholders' equity	**95,427**	91,965
Total liabilities and shareholders' equity	**$95,458**	$92,043

Condensed Statements of Operations

	December 31,	
	2013	**2012**
	(In Thousands)	
Other operating expenses	**$154**	$175
Loss before income taxes	**(154)**	(175)
Income tax expense	**2**	2
Loss before undistributed income of subsidiaries	**(156)**	(177)
Equity in undistributed income of subsidiaries	**5,315**	4,992
Net income	**$5,159**	$4,815

Preferred stock dividend	**(261)**	(448)
Income to common shareholders	**$4,898**	$4,367

Note 19 – Condensed Financial Statements of Parent Company (Continued)

Condensed Statements of Cash Flows

	December 31, 2013 (In Thousands)	**2012**
Cash flows from operating activities:		
Net income	**$ 5,159**	$ 4,815
Adjustments to reconcile net income to net cash provided by operating activities:		
Equity in undistributed net income of subsidiaries	**(5,315)**	(4,992)
Stock option compensation expense	**154**	175
Other, net	**1,059**	191
Net cash provided by operating activities	**1,057**	189
Cash flows from investing activities:	**-**	-
Cash flows from financing activities:		
Proceeds from exercise of stock options	**395**	124
Tax benefit of stock options exercised	**61**	13
Proceeds from employee stock purchase program	**44**	46
Common stock repurchased	**(554)**	-
Cash dividends paid on common stock	**(484)**	-

Dividends paid on preferred stock	**(325)**	(448)
Net cash used in financing activities	**(863)**	(265)
Net increase (decrease) in cash and cash equivalents	**194**	(76)
Cash and cash equivalents at beginning of period	**114**	190
Cash and cash equivalents at end of year	**$ 308**	$ 114

Note 20 – Summary of Quarterly Results (Unaudited)

The following summarizes the consolidated results of operations during 2013 and 2012, on a quarterly basis, for Two River Bancorp. Note that certain balances may not cross-foot due to rounding.

(in thousands, except per share data):

	2013 Fourth Quarter	Third Quarter	Second Quarter	First Quarter
Interest income	$ 7,667	$ 7,473	$ 7,648	$ 7,528
Interest expense	909	918	942	1,030
Net interest income	6,758	6,555	6,706	6,498
Provision for loan losses	200	250	280	180
Net interest income after provision for loan losses	6,558	6,305	6,426	6,318
Non-interest income	636	681	567	821
Non-interest expense	4,974	4,797	5,105	5,304
Income before income taxes	2,220	2,189	1,888	1,835
Income taxes	806	809	683	675
Net income	1,414	1,380	1,205	1,160
Preferred stock dividends	(30)	(66)	(60)	(105)
Income available to common shareholders	$ 1,384	$ 1,314	$ 1,145	$ 1,055
Per common share data:				
Basic earnings	$ 0.17	$ 0.16	$ 0.14	$ 0.13
Diluted earnings	$ 0.17	$ 0.16	$ 0.14	$ 0.13

	2012 Fourth Quarter	Third Quarter	Second Quarter	First Quarter
Interest income	$ 7,761	$ 7,730	$ 7,608	$ 7,739
Interest expense	1,113	1,126	1,157	1,222
Net interest income	6,648	6,604	6,451	6,517
Provision for loan losses	430	330	270	350

Net interest income after provision for loan losses	6,218	6,274	6,181	6,167
Non-interest income	703	606	761	557
Non-interest expense	4,963	4,919	5,063	4,902
Income before income taxes	1,958	1,961	1,879	1,822
Income taxes	718	727	693	667
Net income	1,240	1,234	1,186	1,155
Preferred stock dividends & discount accretion	(130)	(31)	(150)	(137)
Income available to common shareholders	$1,110	$1,203	$1,036	$1,018
Per common share data:				
Basic earnings	$0.14	$0.15	$0.13	$0.13
Diluted earnings	$0.14	$0.15	$0.13	$0.13

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

TWO RIVER BANCORP

Date: March 31, 2014 By: /s/ WILLIAM D. MOSS
William D. Moss
President and Chief Executive Officer

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

Signature	Capacity	Date
/s/ FRANK J. PATOCK, JR. Frank J. Patock, Jr.	Chairman of the Board	March 31, 2014
/s/ CHARLES T. PARTON Charles T. Parton	Vice Chairman of the Board	March 31, 2014
/s/ JAMES M. BOLLERMAN James M. Bollerman	Director	March 31, 2014
/s/ ROBERT E. GREGORY Robert E. Gregory	Director	March 31, 2014
/s/ ROBERT B. GROSSMAN, MD Robert B. Grossman, MD	Director	March 31, 2014
/s/ WILLIAM F. LaMORTE William F. LaMorte	Director	March 31, 2014
/s/ JOSEPH F.X. O'SULLIVAN Joseph F.X. O'Sullivan	Director	March 31, 2014
/s/ JOHN J. PERRI, JR. CPA	Director	March 31, 2014

John J. Perri, Jr. CPA

/s/ WILLIAM STATTER William Statter	Director	March 31, 2014
/s/ ANDREW A. VITALE, CPA Andrew A. Vitale, CPA	Director	March 31, 2014
/s/ ROBIN ZAGER Robin Zager	Director	March 31, 2014

/s/ WILLIAM D. MOSS William D. Moss	President, Chief Executive Officer, Director	March 31, 2014
/s/ A. RICHARD ABRAHAMIAN A Richard Abrahamian	Executive Vice President, Chief Financial Officer (Principal Financial and Accounting Officer)	March 31, 2014

INDEX TO EXHIBITS

Exhibit No.		Description
3.1		Amended and Restated Certificate of Incorporation of the Registrant (incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K filed with the SEC on June 28, 2013)
3.2		By-laws of the Registrant (incorporated by reference to Exhibit 3.2 to the Registrant's Current Report on Form 8-K filed with the SEC on June 28, 2013)
4.1		Specimen certificate representing the Registrant's common stock, no par value per share
4.2		Specimen certificate representing the Registrant's Senior Non-Cumulative Perpetual Stock, Series C, without par value (incorporated by reference to Exhibit 4.1 to the Registrant's Current Report on Form 8-K filed with the SEC on August 12, 2011)
4.3		Shareholder Rights Agreement, dated as of July 20, 2011, between the Registrant and Registrar and Transfer Company (incorporated by reference to Exhibit 4.1 to the Registrant's Current Report on Form 8-K filed with the SEC on July 26, 2011)
4.4		Form of Rights Certificate of the Registrant (incorporated by reference to Exhibit B to Exhibit 4.1 to the Registrant's Current Report on Form 8-K filed with the SEC on July 26, 2011)
10.0	#	Two River Bancorp Employee Stock Purchase Plan (incorporated by referenced to Exhibit 4.3 to Registration Statement No. 333-172335 on Form S-8 filed with the SEC on February 18, 2011)
10.1	#	Amended and Restated Supplemental Executive Retirement Agreement between Two River Community Bank and William D. Moss dated July 1, 2013 (incorporated by reference to Exhibit 10.4 to the Current Report on Form 8-K filed with the SEC on August 23, 2013)
10.2	#	Supplemental Executive Retirement Agreement between Two River Community Bank and Alan B. Turner (incorporated by reference to Exhibit 10.8 to Registration Statement No. 333-129638 on Form S-4 filed with the SEC on November 10, 2005 (the "S-4"))
10.3	#	Two River Community Bank 2003 Incentive Stock Option Plan (incorporated by reference to Exhibit 10.9 to the S-4)
10.4	#	Two River Community Bank 2003 Non-Qualified Stock Option Plan (incorporated by reference to Exhibit 10.10 to the S-4)
10.5	#	Two River Bancorp 2007 Equity Incentive Plan (incorporated by reference to Exhibit A to the Registrant's Definitive Proxy Statement on Schedule 14A filed with the SEC on April 17, 2007)
10.6	#	Form of Incentive Stock Option Agreement under 2007 Equity Incentive Plan (incorporated by reference to Exhibit 10.8 to the Registrant's Annual Report on Form 10-K filed with the SEC on March 29, 2013)

10.7	#	Form of Non-Qualified Stock Option Agreement under 2007 Equity Incentive Plan
10.8		Securities Purchase Agreement, effective August 11, 2011, between the Registrant and the United States Department of the Treasury (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed with the SEC on August 12, 2011)
10.9	#	First Amendment to the Two River Community Bank Supplemental Executive Retirement Agreement dated January 1, 2005, between Two River Community Bank and Alan B. Turner, effective as of January 1, 2005 (incorporated by reference to Exhibit 10.20 to the Registrant's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2009 filed with the SEC on May 15, 2009)

10.10	#	Employment Agreement dated as of June 1, 2013, among the Registrant, Two River Community Bank and William D. Moss (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed with the SEC on August 23, 2013)
10.11	#	Change in Control Agreement dated as of June 1, 2013, among the Registrant, Two River Community Bank and Alan B. Turner (incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed with the SEC on August 23, 2013)
10.12	#	Second Amendment to the Two River Community Bank Supplemental Executive Retirement Agreement dated March 1, 2010 by and between Two River Community Bank and Alan B. Turner (incorporated by reference to Exhibit 10.17 to the Registrant's Annual Report on Form 10-K filed with the SEC on March 29, 2013)
10.13	#	Third Amendment to the Two River Community Bank Supplemental Executive Retirement Agreement dated June 11, 2010 between Two River Community Bank and Alan B. Turner, effective as of June 1, 2010 (incorporated by reference to Exhibit 10.6 to the Registrant's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2010 filed with SEC on August 16, 2010)
10.14	#	Change in Control Agreement, dated as of June 1, 2013, among the Registrant, Two River Community Bank and A. Richard Abrahamian (incorporated by reference to Exhibit 10.3 to the Registrant's Current Report on Form 8-K filed with SEC on August 23, 2013)
10.15	#	Form of Restricted Stock Agreement
10.16	#	Two River Community Bank 2013 Incentive Bonus Program (incorporated by reference to Exhibit 10.7 to the Registrant's Current Report on Form 8-K filed with SEC on August 23, 2013)
10.17	#	Fourth Amendment to the Two River Community Bank Supplemental Executive Retirement Agreement dated as of June 1, 2013 between Two River Community Bank and Alan B. Turner (incorporated by reference to Exhibit 10.5 to the Registrant's Current Report on Form 8-K filed with SEC on August 23, 2013)
10.18	#	First Amendment to the Two River Community Bank Supplemental Executive Retirement Agreement dated as of June 1, 2013 between Two River Community Bank and A. Richard Abrahamian (incorporated by reference to Exhibit 10.6 to the Registrant's Current Report on Form 8-K filed with SEC on August 23, 2013)
21	*	Subsidiaries of the Registrant
23.1	*	Consent of BDO USA, LLP Independent Registered Public Accounting Firm
23.2	*	Consent of ParenteBeard LLC Independent Registered Public Accounting Firm
31.1	*	Certification of William D. Moss, President and Chief Executive Officer of the Registrant, pursuant to Securities Exchange Act Rule 13a-14(a)
31.2	*	Certification of A. Richard Abrahamian, Chief Financial Officer of the Registrant, pursuant to Securities Exchange Act Rule 13a-14(a)

32	*	Certifications pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of The Sarbanes-Oxley Act of 2002, signed by William D. Moss, President and Chief Executive Officer of the Registrant, and A. Richard Abrahamian, Chief Financial Officer of the Registrant

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101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation Linkbase
101.DEF	XBRL Taxonomy Extension Definition Linkbase
101.LAB	XBRL Taxonomy Extension Label Linkbase
101.PRE	XBRL Taxonomy Extension Presentation Linkbase

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* Filed herewith.

Management contract or compensatory plan or arrangement.