TWO RIVER BANCORP
Form 10-Q
May 15, 2015
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

____

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2015

OR

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

For the transition period from _____ to _____

Commission file number: 000-51889

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

New Jersey	20-3700861
(State of Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

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

(732) 389-8722
(Registrant's Telephone Number, Including Area Code)

(Former name, former address and former fiscal year, if changed since last report)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer	Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company)	Smaller reporting company

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

As of May 5, 2015, there were 7,933,015 shares of the registrant's common stock, no par value, outstanding.

TWO RIVER BANCORP

FORM 10-Q

INDEX

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

TWO RIVER BANCORP

CONSOLIDATED BALANCE SHEETS (Unaudited)

(in thousands, except share data)

	March 31, 2015	December 31, 2014
ASSETS		
Cash and due from banks	**$16,515**	$ 18,349
Interest-bearing deposits in bank	**30,699**	17,761
Cash and cash equivalents	**47,214**	36,110
Securities available-for-sale	**43,761**	45,431
Securities held-to-maturity (fair value of $25,893 and $25,407 at March 31, 2015 and December 31, 2014, respectively)	**25,667**	25,280
Restricted investments, at cost	**3,569**	3,029
Loans held for sale	**2,562**	1,589
Loans	**640,172**	627,614
Allowance for loan losses	**(8,082)**	(8,069)
Net loans	**632,090**	619,545
OREO and repossessed assets	**1,603**	1,603
Bank-owned life insurance	**16,960**	16,849
Premises and equipment, net	**5,816**	5,696
Accrued interest receivable	**1,654**	1,636
Goodwill	**18,109**	18,109
Other intangible assets, net of accumulated amortization of $2,068 and $2,049 at March 31, 2015 and December 31, 2014, respectively	**38**	57
Other assets	**5,306**	6,262
TOTAL ASSETS	**$804,349**	$ 781,196
LIABILITIES		
Deposits:		
Non-interest bearing	**$142,291**	$ 140,459
Interest bearing	**513,034**	501,931
Total Deposits	**655,325**	642,390
Securities sold under agreements to repurchase	**20,770**	23,290
Accrued interest payable	**105**	46
Long-term debt	**28,000**	16,000
Other liabilities	**4,970**	5,538

Total Liabilities	**709,170**	687,264
SHAREHOLDERS' EQUITY		
Preferred stock, no par value; 6,500,000 shares authorized;		
Preferred stock, Series B, none issued or outstanding	**-**	-
Preferred stock, Series C, $1,000 liquidation preference per share; 12,000 shares authorized; 6,000 issued and outstanding at March 31, 2015, and December 31, 2014, respectively	**6,000**	6,000
Common stock, no par value; 25,000,000 shares authorized;		
Issued – 8,181,656 and 8,167,296 at March 31, 2015 and December 31, 2014, respectively		
Outstanding – 7,925,456 and 7,939,684 at March 31, 2015 and December 31, 2014, respectively	**72,632**	72,527
Retained earnings	**18,691**	17,501
Treasury stock, at cost; 256,200 shares and 227,612 shares at March 31, 2015 and December 31, 2014, respectively	**(1,995)**	(1,751)
Accumulated other comprehensive loss	**(149)**	(345)
Total Shareholders' Equity	**95,179**	93,932
TOTAL LIABILITIES and SHAREHOLDERS’ EQUITY	**$804,349**	$781,196

See notes to the unaudited consolidated financial statements.

TWO RIVER BANCORP

CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)

For the Three Months Ended March 31, 2015 and 2014

(in thousands, except per share data)

	Three Months Ended March 31,	
	2015	**2014**
INTEREST INCOME:		
Loans, including fees	**$7,346**	$7,097
Securities:		
Taxable	**217**	256
Tax-exempt	**98**	113
Interest bearing deposits	**15**	14
Total Interest Income	**7,676**	7,480
INTEREST EXPENSE:		
Deposits	**735**	735
Securities sold under agreements to repurchase	**16**	15
Borrowings	**153**	121
Total Interest Expense	**904**	871
Net Interest Income	**6,772**	6,609
PROVISION FOR LOAN LOSSES	**90**	283
Net Interest Income after Provision for Loan Losses	**6,682**	6,326
NON-INTEREST INCOME:		
Service fees on deposit accounts	**148**	182
Mortgage banking	**143**	59
Other loan fees	**41**	133
Earnings from investment in bank-owned life insurance	**111**	115
Gain on sale of SBA loans	**176**	160
Gain on sale of securities	**15**	-
Other income	**142**	122
Total Non-Interest Income	**776**	771
NON-INTEREST EXPENSES:		
Salaries and employee benefits	**3,018**	2,862
Occupancy and equipment	**977**	888
Professional	**214**	214
Insurance	**94**	80
FDIC insurance and assessments	**91**	122
Advertising	**100**	78
Data processing	**118**	95
Outside services fees	**123**	119

Amortization of identifiable intangibles	**19**	28
OREO and repossessed asset expenses, impairments and sales, net	**(2)**	(139)
Loan workout expenses	**86**	88
Other operating	**323**	357
Total Non-Interest Expenses	**5,161**	4,792
Income before Income Taxes	**2,297**	2,305
INCOME TAX EXPENSE	**854**	855
Net Income	**1,443**	1,450
Preferred stock dividends	**(15)**	(30)
Net income available to common shareholders	**$1,428**	$1,420
EARNINGS PER COMMON SHARE:		
Basic	**$0.18**	$0.18
Diluted	**$0.18**	$0.17
Weighted average common shares outstanding:		
Basic	**7,937**	7,974
Diluted	**8,137**	8,154

See notes to the unaudited consolidated financial statements.

4

TWO RIVER BANCORP

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)

For the Three Months Ended March 31, 2015 and 2014

(in thousands)

	Three Months Ended March 31,	
	2015	**2014**
Net income	**$1,443**	$1,450
Other comprehensive income:		
Reclassification adjustment for gains on sales of securities recognized in income, net of income tax expense 2015: $6; 2014 $0	**(9)**	-
Unrealized holdings gains on securities available-for-sale, net of income tax expense 2015: $132; 2014 $70	**205**	115
Other comprehensive income	**196**	115
Total comprehensive income	**$1,639**	$1,565

See notes to the unaudited consolidated financial statements.

TWO RIVER BANCORP

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (Unaudited)

For the Three Months Ended March 31, 2015 and 2014

(dollars in thousands, except per share data)

		Common Stock				**Accumulated Other**	**Total**
	Preferred Stock	**Outstanding shares**	**Amount**	**Retained Earnings**	**Treasury Stock**	**Comprehensive Income (loss)**	**Shareholders' Equity**
Balance, January 1, 2015	$6,000	7,939,684	$72,527	$17,501	$(1,751)	$(345)	$93,932
Net income	-	-	-	1,443	-	-	1,443
Other comprehensive income	-	-	-	-	-	196	196
Dividends on preferred stock, Series C	-	-	-	(15)	-	-	(15)
Stock-based compensation expense	-	-	54	-	-	-	54
Cash dividends on common stock ($0.03 per share)	-	-	-	(238)	-	-	(238)
Options exercised	-	7,988	37	-	-	-	37
Tax benefit of exercised stock options	-	-	2	-	-	-	2

Common stock repurchased	-	(28,588)	-	-	(244)	-	(244)
Restricted stock awards	-	5,000	-	-	-	-	-
Employee stock purchase program	-	1,372	12	-	-	-	12
Balance, March 31, 2015	$6,000	7,925,456	$72,632	$18,691	$(1,995)	$(149)	$95,179
Balance, January 1, 2014	12,000	8,036,368	72,191	12,474	(554)	(684)	95,427
Net income	-	-	-	1,450	-	-	1,450
Other comprehensive income	-	-	-	-	-	115	115
Dividends on preferred stock, Series C	-	-	-	(30)	-	-	(30)
Stock-based compensation expense	-	-	45	-	-	-	45
Cash dividends on common stock ($0.02 per share)	-	-	-	(160)	-	-	(160)
Options exercised	-	3,020	15	-	-	-	15
Tax benefit of exercised stock options	-	-	2	-	-	-	2
Common stock repurchased	-	(110,400)	-	-	(862)	-	(862)
Restricted stock awards	-	5,000	-	-	-	-	-
	-	1,471	11	-	-	-	11

Employee stock purchase program							
Balance, March 31, 2014	$12,000	7,935,459	$72,264	$13,734	$(1,416)	$(569)	$96,013

See notes to the unaudited consolidated financial statements.

TWO RIVER BANCORP

CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

For the Three Months Ended March 31, 2015 and 2014

	Three Months Ended March 31,	
	2015	**2014**
	(in thousands)	
Cash flows from operating activities:		
Net income	**$1,443**	$1,450
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	**182**	133
Provision for loan losses	**90**	283
Intangible amortization	**19**	28
Net amortization of securities premiums and discounts	**94**	46
Earnings from investment in bank-owned life insurance	**(111)**	(115)
Proceeds on sale of loans held for sale	**8,291**	883
Originated loans held for sale	**(9,124)**	(1,016)
Gain on sale of loans held for sale	**(140)**	(57)
Net realized gain on sale of OREO and repossessed assets	**-**	(155)
Stock based compensation expense	**54**	45
Net realized gain on sale of securities available for sale	**(15)**	-
Gain from sale of SBA loans	**(176)**	(160)
(Increase) decrease in assets:		
Accrued interest receivable	**(18)**	41
Other assets	**924**	261
Increase (decrease) in liabilities:		
Accrued interest payable	**59**	(34)
Other liabilities	**(568)**	(92)
Net cash provided by operating activities	**1,004**	1,541
Cash flows from investing activities:		
Purchase of securities available for sale	**(1,500)**	(2,993)
Purchase of securities held to maturity	**(1,478)**	(1,511)
Proceeds from repayments, calls and maturities of securities available for sale	**1,854**	1,389
Proceeds from repayments, calls and maturities of securities held to maturity	**1,056**	4,561
Proceeds from sales of securities available for sale	**1,500**	-
Proceeds from sale of SBA loans	**1,751**	2,091
Net (increase) decrease in loans	**(14,210)**	8,185
Purchases of premises and equipment	**(302)**	(306)
Purchase of restricted investments, net	**(540)**	
Improvements on OREO	**-**	(206)
Proceeds from sale of OREO and repossessed assets	**-**	769

Net cash (used in) provided by investing activities	**(11,869)**	11,979
Cash flows from financing activities:		
Net increase (decrease) in deposits	**12,935**	(5,590)
Net (decrease) increase in securities sold under agreements to repurchase	**(2,520)**	340
Proceeds from long-term debt	**12,000**	-
Cash dividends paid - preferred stock	**(15)**	(30)
Cash dividends paid – common stock	**(238)**	(160)
Proceeds from employee stock purchase plan	**12**	11
Proceeds from exercise of stock options	**37**	15
Common stock repurchased	**(244)**	(862)
Tax benefit of stock options exercised	**2**	2
Net cash provided by (used in) financing activities	**21,969**	(6,274)
Net increase in cash and cash equivalents	**11,104**	7,246
Cash and cash equivalents – beginning	**36,110**	47,865
Cash and cash equivalents - ending	**$47,214**	$55,111
Supplementary cash flow information:		
Interest paid	**$845**	$905
Income taxes paid	**$250**	$450

See notes to the unaudited consolidated financial statements.

TWO RIVER BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 1 – BASIS OF PRESENTATION

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

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial information and pursuant to the rules and regulations of the Securities and Exchange Commission (the "SEC"), including the instructions to Form 10-Q and Article 8 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for full year financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation have been included and are of a normal, recurring nature. Operating results for the three months ended March 31, 2015 are not necessarily indicative of the results that may be expected for the year ending December 31, 2015. These consolidated financial statements should be read in conjunction with the consolidated financial statements and the notes thereto for the year ended December 31, 2014 included in the Company's Annual Report on Form 10-K filed with the SEC on March 31, 2015 (the "2014 Form 10-K"). For a description of the Company's significant accounting policies, refer to Note 1 of the Notes to Consolidated Financial Statements in the 2014 Form 10-K.

The Company has evaluated events and transactions occurring subsequent to the balance sheet date of March 31, 2015 for items that should potentially be recognized or disclosed in these consolidated financial statements.

NOTE 2 – NEW ACCOUNTING STANDARDS

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 Company adopted ASU 2014-01 effective January 1, 2015, and the adoption did not have a material impact on our financial position or results of operation.

ASU 2014-09: In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers*. This ASU establishes a comprehensive revenue recognition standard for virtually all industries under U.S. GAAP, including those that previously followed industry-specific guidance such as real estate, construction and software industries. The revenue standard's core principle is built on the contract between a vendor and a customer for the provision of goods and services. It attempts to depict the exchange of rights and obligations between the parties in the pattern of revenue recognition based on the consideration to which the vendor is entitled. The guidance in this ASU for public companies is effective for the annual periods beginning after December 15, 2016, including interim periods therein. The Company will be evaluating the provisions of ASU 2014-09 and will be closely monitoring developments and additional guidance to determine the potential impact the new standard will have on our financial position or results of operation.

ASU 2014-11: In June 2014, the FASB issued ASU 2014-11, *Transfers and Servicing: Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures.* The amendments in this ASU establish two accounting changes. First, repurchase-to-maturity transactions will be accounted for as secured borrowing transactions on the balance sheet, rather than sales. Second, for repurchase financing arrangements, the amendments require separate accounting for a transfer of a financial asset executed contemporaneously with Significant Accounting and Reporting Matters – Second Quarter 2014 (or in contemplation of) a repurchase agreement with the same counterparty, which also will generally result in secured borrowing accounting for the repurchase agreement. The guidance in this ASU for public companies is effective for the first interim or annual period beginning after December 31, 2014. The Company adopted ASU 2014-11 effective January 1, 2015, and the adoption did not have a material impact on our financial position or results of operation.

NOTE 2 – NEW ACCOUNTING STANDARDS (Continued)

ASU 2014-12: In June 2014 the FASB issued ASU 2014-12, *Stock Compensation: Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period*. The amendments in this ASU requires that a performance target included in a share-based payment award that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. Therefore, such performance target should not be reflected in estimating the grant-date fair value of the award. A reporting entity should apply existing guidance in Topic 718 as it relates to the award with performance conditions that affect vesting. The guidance in this ASU are effective for annual periods and interim periods with those annual periods beginning after December 15, 2015. The implementation of ASU 2014-12 is not expected to have a material impact on our financial position or results of operation.

NOTE 3 – GOODWILL

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, 2014. Based on the results of the step one goodwill impairment analysis, the Company determined that there was no impairment on the current goodwill balance of $18,109,000.

NOTE 4 – EARNINGS PER COMMON SHARE

Basic earnings per common share is calculated by dividing net income available to common shareholders by the weighted average number of shares of common stock outstanding excluding restricted stock awards outstanding during the period. Diluted earnings per common share reflects additional shares of common stock that would have been outstanding if dilutive potential shares of common stock had been issued relating to outstanding stock options and restricted stock awards. Potential shares of common stock issuable upon the exercise of stock options are determined using the treasury stock method.

The following table sets forth the computations of basic and diluted earnings per common share:

	Three Months Ended March 31, (in thousands, except per share data)	
	2015	**2014**
Net income	**$1,443**	$1,450
Preferred stock dividend	**(15)**	(30)
Net income applicable to common shareholders	**$1,428**	$1,420
Weighted average common shares outstanding	**7,936,935**	7,974,220
Effect of dilutive securities and stock options	**200,285**	179,790
Weighted average common shares outstanding used to calculate diluted earnings per share	**8,137,220**	8,154,010
Basic earnings per common share	**$0.18**	$0.18
Diluted earnings per common share	**$0.18**	$0.17

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 would be anti-dilutive and, therefore, would not be included in the diluted earnings per common share calculation were 9,100 for the three month period ended March 31, 2015, as compared to 157,000 for the three month period ended March 31, 2014.

10

NOTE 5 – SECURITIES

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

(in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
March 31, 2015:				
Securities available-for-sale:				
U.S. Government agency securities	$ 2,739	$ 4	$ -	$ 2,743
Municipal securities	514	10	-	524
U.S. Government-sponsored enterprises ("GSE") – residential mortgage-backed securities	20,283	106	(54)	20,335
U.S. Government collateralized residential mortgage obligations	15,612	71	(226)	15,457
Corporate debt securities, primarily financial institutions	2,494	5	(176)	2,323
`	41,642	196	(456)	41,382
Community Reinvestment Act ("CRA") mutual fund	2,359	20	-	2,379
	$ 44,001	$ 216	$ (456)	$ 43,761
Securities held-to-maturity:				
Municipal securities	$ 17,515	$ 466	$ (18)	$ 17,963
GSE – Residential mortgage-backed securities	3,261	32	(12)	3,281
U.S. Government collateralized residential mortgage obligations	3,073	3	(7)	3,069
Corporate debt securities, primarily financial institutions	1,818	-	(238)	1,580
	$ 25,667	$ 501	$ (275)	$ 25,893

NOTE 5 – SECURITIES (Continued)

(in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2014:				
Securities available-for-sale:				
U.S. Government agency securities	$ 2,715	$ 1	$ (7)	$ 2,709
Municipal securities	515	7	-	522
GSE – Residential mortgage-backed securities	21,403	31	(113)	21,321
U.S. Government collateralized residential mortgage obligations	16,419	53	(349)	16,123
Corporate debt securities, primarily financial Institutions	2,494	4	(187)	2,311
	43,546	96	(656)	42,986
CRA mutual fund	2,447	-	(2)	2,445
	$ 45,993	$ 96	$ (658)	$ 45,431
Securities held-to-maturity:				
Municipal securities	$ 18,138	$ 450	$ (33)	$ 18,555
GSE – Residential mortgage-backed securities	2,100	19	(20)	2,099
U.S. Government collateralized residential mortgage obligations	3,225	-	(25)	3,200
Corporate debt securities, primarily financial institutions	1,817	-	(264)	1,553
	$ 25,280	$ 469	$ (342)	$ 25,407

The amortized cost and fair value of the Company's debt securities at March 31, 2015, 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	**$500**	**$499**	**$6,609**	**$6,618**

Due in one year through five years	**2,739**	**2,743**	**3,299**	**3,382**
Due in five years through ten years	**1,514**	**1,520**	**2,835**	**2,952**
Due after ten years	**994**	**828**	**6,590**	**6,591**
	5,747	**5,590**	**19,333**	**19,543**
GSE – Residential mortgage-backed securities	**20,283**	**20,335**	**3,261**	**3,281**
U.S. Government collateralized residential mortgage obligations	**15,612**	**15,457**	**3,073**	**3,069**
	$41,642	**$41,382**	**$25,667**	**$25,893**

The Company had 1 security sale totaling $1,500,000 in which the Company recorded a gross realized gain of $15,000 during the three months ended March 31, 2015 and no securities sales during the three months ended March 31, 2014.

NOTE 5 – SECURITIES (Continued)

Certain of the Company's GSE residential mortgage-backed securities and U.S. Government collateralized residential mortgage obligations, totaling $27,218,000 and $31,945,000 at March 31, 2015 and December 31, 2014, 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 March 31, 2015 and December 31, 2014:

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
March 31, 2015:	(in thousands)					
Municipal securities	$1,405	$ (11)	$493	$ (7)	$1,898	$ (18)
GSE – Residential mortgage-backed securities	3,146	(14)	4,677	(52)	7,823	(66)
U.S. Government collateralized residential mortgage obligations	-	-	9,766	(233)	9,766	(233)
Corporate debt securities, primarily financial institutions	499	-	2,898	(414)	3,397	(414)
Total Temporarily Impaired Securities	$5,050	$ (25)	$17,834	$ (706)	$22,884	$ (731)

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
December 31, 2014:	(in thousands)					
U.S. Government agency securities	$-	$ -	$1,232	$ (7)	$1,232	$ (7)
Municipal securities	6,802	(8)	1,994	(25)	8,796	(33)
GSE – Residential mortgage-backed securities	12,512	(37)	6,125	(96)	18,637	(133)
U.S. Government collateralized residential mortgage obligations	4,459	(23)	10,102	(351)	14,561	(374)
Corporate debt securities, primarily financial institutions	-	-	2,860	(451)	2,860	(451)

CRA mutual fund	2,445	(2)	-	-	2,445	(2)
Total Temporarily Impaired Securities	$26,218	$ (70)	$22,313	$ (930)	$48,531	$ (1,000)

The Company had 32 securities in an unrealized loss position at March 31, 2015. 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 reflects a widening of spreads due to the liquidity and credit concerns in the financial markets. The Company may, if conditions warrant it, elect to sell debt securities at a loss and redeploy the proceeds into other investments in an effort to improve returns, risk profile and overall portfolio diversification. The Company will recognize any losses when the decision is made. At March 31, 2015, 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 March 31, 2015, 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 March 31, 2015. These four securities have an amortized cost value of $2.8 million and a fair value of $2.4 million at March 31, 2015.

NOTE 6 – LOANS RECEIVABLE AND ALLOWANCE FOR LOAN LOSSES

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.

Generally, loans held for sale are designated at time of origination, generally consist of newly originated fixed rate residential loans and are recorded at the lower of aggregate cost or estimated fair value in the aggregate. The Company did not transfer any impaired loans from held for investment to held for sale during the three months ended March 31, 2015 and 2014. Transfers from held for investment are infrequent and occur at fair value less costs to sell, with any charge-off to allowance for loan losses. Gains are recognized on a settlement-date basis and are determined by the difference between the net sales proceeds and the carrying value of the loans, including any net deferred fees or costs.

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.

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 March 31, 2015 and December 31, 2014, 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 6 – LOANS RECEIVABLE AND ALLOWANCE FOR LOAN LOSSES (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 accompany 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.

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.

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.

NOTE 6 – LOANS RECEIVABLE AND ALLOWANCE FOR LOAN LOSSES (Continued)

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 classified 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.

The components of the loan portfolio held for investment at March 31, 2015 and December 31, 2014 are as follows:

	March 31, 2015	**December 31, 2014**
	(In Thousands)	
Commercial and industrial	**$98,867**	$96,514
Real estate – construction	**89,833**	89,145
Real estate – commercial	**389,222**	383,777
Real estate – residential	**36,002**	30,808
Consumer	**26,932**	28,095
	640,856	628,339
Allowance for loan losses	**(8,082)**	(8,069)
Unearned fees	**(684)**	(725)

Net Loans	**$632,090**	$619,545

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 tables present the classes of the loan portfolio summarized by the past due status as of March 31, 2015 and December 31, 2014:

	30-59 Days Past Due	**60-89 Days Past Due**	**90 Days & Greater**	**Total Past Due**	**Current**	**Total Loans Receivable**	**Loans Receivable >90 Days and Accruing**
March 31, 2015:			**(In Thousands)**				
Commercial and industrial	**$484**	**$ -**	**$150**	**$634**	**$98,233**	**$ 98,867**	**$ -**
Real estate – construction	**-**	**-**	**379**	**379**	**89,454**	**89,833**	**-**
Real estate – commercial	**-**	**-**	**3,016**	**3,016**	**386,206**	**389,222**	**-**
Real estate – residential	**792**	**-**	**694**	**1,486**	**34,516**	**36,002**	**-**
Consumer	**-**	**-**	**211**	**211**	**26,721**	**26,932**	**-**
Total	**$1,276**	**$ -**	**$4,450**	**$5,726**	**$635,130**	**$ 640,856**	**$ -**

NOTE 6 – LOANS RECEIVABLE AND ALLOWANCE FOR LOAN LOSSES (Continued)

December 31, 2014:	**30-59 Days Past Due**	**60-89 Days Past Due**	**90 Days & Greater**	**Total Past Due**	**Current**	**Total Loans Receivable**	**Loans Receivable >90 Days and Accruing**
			(In Thousands)				
Commercial and industrial	$ -	$ -	$ 119	$ 119	$ 96,395	$ 96,514	**$ -**
Real estate – construction	-	-	407	407	88,738	89,145	**-**
Real estate – commercial	254	-	4,722	4,976	378,801	383,777	**-**
Real estate – residential	-	-	694	694	30,114	30,808	**-**
Consumer	-	-	295	295	27,800	28,095	**-**
Total	$ 254	$ -	$ 6,237	$ 6,491	$ 621,848	$ 628,339	**$ -**

The following table presents non-accrual loans by classes of the loan portfolio at March 31, 2015 and December 31, 2014:

	March 31, 2015	**December 31, 2014**
	(In Thousands)	
Commercial and industrial	**$ 150**	$ 119
Real estate – construction	**379**	407
Real estate – commercial	**3,016**	4,722
Real estate – residential	**694**	694
Consumer	**211**	295
Total	**$ 4,450**	$ 6,237

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 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.

NOTE 6 – LOANS RECEIVABLE AND ALLOWANCE FOR LOAN LOSSES (Continued)

The following table presents newly troubled debt restructured loans that occurred during the three months ended March 31, 2015 and 2014:

	Three months ended March 31, 2015		
Troubled Debt Restructuring:	**Number of Contracts**	**Pre-Modification Outstanding Recorded Investment**	**Post-Modification Outstanding Recorded Investment**
	(Dollars in Thousands)		
Commercial and industrial	**1**	**$ 48**	**$ 48**
Total	**1**	**$ 48**	**$ 48**

	Three months ended March 31, 2014		
Troubled Debt Restructuring:	**Number of Contracts**	**Pre-Modification Outstanding Recorded Investment**	**Post-Modification Outstanding Recorded Investment**
	(Dollars in Thousands)		
Commercial and industrial	2	$ 515	$ 515
Real estate – construction	1	190	190
Real estate – commercial	4	2,319	2,319
Total	7	$ 3,024	$ 3,024

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.

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 March 31, 2015, generally involve a temporary reduction in interest rate or a modification of a loan's amortization schedule. The Company has not extended maturities, recast legal documents and/or forgiven any interest or principal.

As of March 31, 2015, loans modified in a troubled debt restructuring totaled $17.7 million, including $14.5 million that are current, $872,000 that are 30-59 days past due, none that are 60-89 days past due and five non-accrual loans totaling $2.3 million. As a result of our impairment evaluation, there was no allowance required on any of our loans classified as troubled debt restructuring as of March 31, 2015.

NOTE 6 – LOANS RECEIVABLE AND ALLOWANCE FOR LOAN LOSSES (Continued)

The following tables represent financing receivables 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 the three months ended March 31, 2015 and 2014:

	Three months ended March 31, 2015		
Troubled Debt Restructuring That Subsequently Defaulted:	**Number of Contracts**		**Recorded Investment**
	(Dollars in Thousands)		
Commercial and industrial	-	$	-
Real estate – construction	-		-
Real estate – commercial	-		-
Real estate – residential	-		-
Consumer	-		-
Total	-	$	-

	Three months ended March 31, 2014		
Troubled Debt Restructuring That Subsequently Defaulted:	**Number of Contracts**		**Recorded Investment**
	(Dollars in Thousands)		
Commercial and industrial	1	$	17
Real estate – construction	-		-
Real estate – commercial	3		2,543
Real estate – residential	-		-
Consumer	-		-

Total	4	$ 2,560

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 6 – LOANS RECEIVABLE AND ALLOWANCE FOR LOAN LOSSES (Continued)

The following tables summarize information in regards to impaired loans by loan portfolio class at or for the three months ended March 31, 2015 and at or for the year ended December 31, 2014:

	At or for the three months ended March 31, 2015				
March 31, 2015:	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	**$1,121**	**$ 1,121**	**$ -**	**$ 1,103**	**$ 12**
Real estate – construction	**6,076**	**6,076**	**-**	**6,762**	**70**
Real estate – commercial	**11,124**	**12,057**	**-**	**11,089**	**94**
Real estate – residential	**1,082**	**1,082**	**-**	**1,083**	**5**
Consumer	**429**	**429**	**-**	**435**	**2**
With an allowance recorded:					
Commercial and industrial	**$-**	**$ -**	**$ -**	**$ -**	**$ -**
Real estate – construction	**-**	**-**	**-**	**-**	**-**
Real estate – commercial	**-**	**-**	**-**	**-**	**-**
Real estate – residential	**-**	**-**	**-**	**-**	**-**
Consumer	**-**	**-**	**-**	**-**	**-**
Total:					
Commercial and industrial	**$1,121**	**$ 1,121**	**$ -**	**$ 1,103**	**$ 12**
Real estate – construction	**6,076**	**6,076**	**-**	**6,762**	**70**
Real estate – commercial	**11,124**	**12,057**	**-**	**11,089**	**94**
Real estate – residential	**1,082**	**1,082**	**-**	**1,083**	**5**
Consumer	**429**	**429**	**-**	**435**	**2**
	$19,832	**$ 20,765**	**$ -**	**$ 20,472**	**$ 183**

NOTE 6 – LOANS RECEIVABLE AND ALLOWANCE FOR LOAN LOSSES (Continued)

	As of December 31, 2014			For the three months ended March 31, 2014	
	Recorded Investment, Net of Charge-offs	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
	(In Thousands)				
December 31, 2014:					
With no related allowance recorded:					
Commercial and industrial	$1,052	$ 1,052	$ -	$146	$ 2
Real estate – construction	6,324	6,324	-	6,749	82
Real estate – commercial	8,235	9,166	-	10,984	86
Real estate – residential	1,083	1,083	-	974	10
Consumer	610	610	-	944	5
With an allowance recorded:					
Commercial and industrial	$-	$ -	$ -	$531	$ 6
Real estate – construction	1,866	1,866	44	2,527	31
Real estate – commercial	3,352	3,352	154	7,042	62
Real estate – residential	-	-	-	-	-
Consumer	-	-	-	-	-
Total:					
Commercial and industrial	$1,052	$ 1,052	$ -	$677	$ 8
Real estate – construction	8,190	8,190	44	9,276	113
Real estate – commercial	11,587	12,518	154	18,026	148
Real estate – residential	1,083	1,083	-	974	10
Consumer	610	610	-	944	5
	$22,522	$ 23,453	$ 198	$29,897	$ 284

The following tables present the classes of the loan portfolio summarized by the aggregate pass rating and the classified ratings of special mention, substandard and doubtful within the Company's internal risk rating system as of

March 31, 2015 and December 31, 2014:

March 31, 2015:	**Pass**	**Special Mention**	**Substandard**	**Doubtful**	**Total**
	(In Thousands)				
Commercial and industrial	**$94,628**	**$3,279**	**$ 960**	**$ -**	**$98,867**
Real estate – construction	**81,937**	**2,432**	**5,464**	**-**	**89,833**
Real estate – commercial	**380,487**	**4,615**	**4,120**	**-**	**389,222**
Real estate – residential	**35,208**	**-**	**794**	**-**	**36,002**
Consumer	**26,463**	**40**	**429**	**-**	**26,932**
Total	**$618,723**	**$10,366**	**$ 11,767**	**$ -**	**$640,856**

NOTE 6 – LOANS RECEIVABLE AND ALLOWANCE FOR LOAN LOSSES (Continued)

December 31, 2014:	Pass	Special Mention	Substandard	Doubtful	Total
	(In Thousands)				
Commercial and industrial	$92,225	$3,395	$ 894	$ -	$96,514
Real estate – construction	79,030	2,443	7,672	-	89,145
Real estate – commercial	372,761	4,652	6,364	-	383,777
Real estate – residential	30,013	-	795	-	30,808
Consumer	27,538	40	517	-	28,095
Total	$601,567	$10,530	$ 16,242	$ -	$628,339

The following tables present the balance in the allowance for loan losses at March 31, 2015 and December 31, 2014 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**		
March 31, 2015:	**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	**$1,023**	**$ -**	**$1,023**	**$98,867**	**$ 1,121**	**$ 97,746**
Real estate – construction	**1,508**	**-**	**1,508**	**89,833**	**6,076**	**83,757**
Real estate – commercial	**4,586**	**-**	**4,586**	**389,222**	**11,124**	**378,098**
Real estate – residential	**262**	**-**	**262**	**36,002**	**1,082**	**34,920**
Consumer	**535**	**-**	**535**	**26,932**	**429**	**26,503**

Unallocated	**168**	**-**	**168**	**-**	**-**	**-**
Total	**$8,082**	**$ -**	**$8,082**	**$640,856**	**$ 19,832**	**$ 621,024**

	Allowance for Loan Losses			Loans Receivable		
December 31, 2014:	**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	$1,044	$ -	$1,044	$96,514	$ 1,052	$ 95,462
Real estate – construction	1,454	44	1,410	89,145	8,190	80,955
Real estate – commercial	4,624	154	4,470	383,777	11,587	372,190
Real estate – residential	223	-	223	30,808	1,083	29,725
Consumer	565	-	565	28,095	610	27,485
Unallocated	159	-	159	-	-	-
Total	$8,069	$ 198	$7,871	$628,339	$ 22,522	$ 605,817

NOTE 6 – LOANS RECEIVABLE AND ALLOWANCE FOR LOAN LOSSES (Continued)

During the second quarter of 2014, certain types of loans were reclassified due to their purpose and overall risk characteristics. Therefore, balances on certain loans within the allowance for loan losses as of March 31, 2014 were reclassified to conform to the March 31, 2015 presentation.

The following table presents the change in the allowance for loan losses by classes of loans for the three months ended March 31, 2015 and 2014:

Allowance for Loan Losses	**Commercial and Industrial**	**Real Estate - Construction**	**Real Estate - Commercial**	**Real Estate - Residential**	**Consumer**	**Unallocated**	**Total**
			(In Thousands)				
Beginning balance, January 1, 2015	**$ 1,044**	**$ 1,454**	**$4,624**	**$ 223**	**$ 565**	**$ 159**	**$8,069**
Charge-offs	**-**	**-**	**-**	**-**	**(80)**	**-**	**(80)**
Recoveries	**2**	**-**	**-**	**-**	**1**	**-**	**3**
Provision	**(23)**	**54**	**(38)**	**39**	**49**	**9**	**90**
Ending balance, March 31, 2015	**$ 1,023**	**$ 1,508**	**$4,586**	**$ 262**	**$ 535**	**$ 168**	**$8,082**

Allowance for Loan Losses	**Commercial and Industrial**	**Real Estate - Construction**	**Real Estate - Commercial**	**Real Estate - Residential**	**Consumer**	**Unallocated**	**Total**
			(In Thousands)				
Beginning balance, January 1, 2014	$ 990	$ 1,634	$4,325	$ 190	$ 594	$ 139	$7,872
Charge-offs	-	-	(609)	-	(40)	-	(649)
Recoveries	40	-	-	20	1	-	61
Provision	(18)	(1)	350	7	(17)	(38)	283

Ending balance, March 31, 2014	$ 1,012	$ 1,633	$4,066	$ 217	$ 538	$ 101	$7,567

NOTE 7 – STOCK BASED COMPENSATION 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 9,129 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 Community Partners 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 March 31, 2015, the number of shares of Company common stock remaining and available for future issuance under the Plan is 220,397 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.

NOTE 7 – STOCK BASED COMPENSATION PLANS (Continued)

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.

During the first quarter of 2015, there were no stock option grants awarded to either directors or officers.

Stock based compensation expense related to the stock option grants was approximately $28,000 and $42,000 during the three months ended March 31, 2015 and 2014, 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 $278,000 as of March 31, 2015 and will be recognized over the subsequent 2.8 years.

The following table presents information regarding the Company’s outstanding stock options at March 31, 2015:

	Number of Shares	Weighted Average Price	Weighted Average Remaining Life	Aggregate Intrinsic Value
Options outstanding, December 31, 2014	449,507	$ 4.90		
Options granted	-	-		
Options exercised	(7,988)	4.54		
Options forfeited	(5,068)	6.56		
Options outstanding, March 31, 2015	436,451	$ 4.89	5.9 years	$1,706,539
Options exercisable, March 31, 2015	310,299	$ 4.23	5.0 years	$1,433,706
Option price range at March 31, 2015	$3.01 to $13.56			

The total intrinsic value of options exercised during the three months ended March 2015 and 2014 was $30,000 and $8,000, respectively. Cash received from such exercises was $37,000 and $15,000, respectively. There was a $2,000 tax benefit recognized during the three months ended March 31, 2015 and 2014, respectively.

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

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 January 15, 2015, the Company awarded 5,000 shares of the Company's restricted common stock. These awards are scheduled to vest 20% per year over five years beginning January 15, 2016.

Total unrecognized compensation cost related to restricted stock options under the Plan as of March 31, 2015 and 2014, was $179,000 and $78,000, respectively, and will be recognized over the subsequent 1.6 years.

Compensation expense related to restricted stock was $26,000 and $3,000 for the three month periods ended March 31, 2015 and 2014, respectively, and is included in salaries and employee benefits on the statement of operations. There was no deferred tax benefit recognized during the three month periods ended March 31, 2015 and 2014 related to the restricted stock compensation.

NOTE 7 – STOCK BASED COMPENSATION PLANS (Continued)

The following table summarizes information about restricted stock at March 31, 2015 (share amounts in thousands):

	Number of Shares	Weighted Average Price
Unvested at December 31, 2014	25,084	$ 7.98
Restricted stock earned	(1,000)	(7.50)
Granted	5,000	8.30
Unvested at March 31, 2015	29,084	$ 8.05

NOTE 8 – GUARANTEES

The Company does not issue any guarantees that would require liability recognition or disclosure, other than its standby letters of credit. Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Generally, all letters of credit, when issued, have expiration dates within one year. The credit risks involved in issuing letters of credit are essentially the same as those that are involved in extending loan facilities to customers. The Company generally holds collateral and/or personal guarantees supporting these commitments. As of March 31, 2015, the Company had $4,300,000 of commercial and similar letters of credit. Management believes that the current amount of the liability as of March 31, 2015 for guarantees under standby letters of credit issued is not material.

NOTE 9 – BORROWINGS

At March 31, 2015 and December 31, 2014, long-term debt consisted of advances from the FHLB, which amounted to $28.0 million and $16.0 million, respectively. These advances had an average interest rate of 2.26% and 2.89% at March 31, 2015 and December 31, 2014, respectively. These advances are contractually scheduled for repayment as follows:

	March 31, 2015	December 31, 2014	Rate	Original Term	Maturity
	(dollars in thousands)				
Fixed Rate Note	**$7,500**	$ 7,500	**3.97 %**	**10 years**	**November 2017**
Fixed Rate Note	**1,500**	1,500	**2.00 %**	**5 years**	**August 2015**
Fixed Rate Note	**1,500**	1,500	**2.41 %**	**6 years**	**August 2016**
Fixed Rate Note	**1,500**	1,500	**2.71 %**	**7 years**	**August 2017**
Fixed Rate Note	**2,000**	2,000	**1.28 %**	**4 years**	**October 2017**
Fixed Rate Note	**2,000**	2,000	**1.65 %**	**5 years**	**October 2018**
Fixed Rate Note	**2,700**	-	**0.60 %**	**1 year**	**January 2016**
Fixed Rate Note	**1,000**	-	**0.97 %**	**2 years**	**January 2017**
Fixed Rate Note	**1,300**	-	**1.31 %**	**3 years**	**January 2018**
Fixed Rate Note	**1,800**	-	**1.59 %**	**4 years**	**January 2019**
Fixed Rate Note	**2,700**	-	**1.81 %**	**5 years**	**January 2020**
Fixed Rate Note	**2,500**	-	**2.03 %**	**6 years**	**January 2021**
	$28,000	$ 16,000			

The Bank utilizes its account relationship with Atlantic Community Bankers Bank to borrow funds through its Federal funds borrowing line in an aggregate amount up to $10.0 million. The Bank also has $26.0 million in unsecured credit facilities with two correspondent banks. These borrowings are priced on a daily basis. The Company had no borrowings outstanding on these lines. The Bank also has a remaining borrowing capacity with the FHLB of approximately $39.9 million based on the current loan collateral pledged of $73.6 million at March 31, 2015.

NOTE 10 – FAIR VALUE MEASUREMENTS

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 assets 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 March 31, 2015 and December 31, 2014 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**

At March 31, 2015:	**(in thousands)**				
Securities available-for-sale:					
U.S. Government agency securities	**$-**	**$ 2,743**	**$**	**-**	**$2,743**
Municipal securities	**-**	**524**		**-**	**524**
GSE: Residential mortgage-backed securities	**-**	**20,335**		**-**	**20,335**
U.S. Government collateralized residential mortgage Obligations	**-**	**15,457**		**-**	**15,457**
Corporate debt securities, primarily financial institutions	**-**	**2,323**		**-**	**2,323**
CRA mutual fund	**2,379**	**-**		**-**	**2,379**
Total	**$2,379**	**$ 41,382**	**$**	**-**	**$43,761**
At December 31, 2014:					
Securities available-for-sale:					
U.S. Government agency securities	$-	$ 2,709	$	-	$2,709
Municipal securities	-	522		-	522
GSE: Residential mortgage-backed securities	-	21,321		-	21,321
U.S. Government collateralized residential mortgage Obligations	-	16,123		-	16,123
Corporate debt securities, primarily financial institutions	-	2,311		-	2,311
CRA mutual fund	2,445	-		-	2,445
Total	$2,445	$ 42,986	$	-	$45,431

NOTE 10 – FAIR VALUE MEASUREMENTS (Continued)

As of March 31, 2015, there were no securities available-for-sale measured at fair value on a recurring basis using significant unobservable inputs (Level 3).

For assets measured at fair value on a nonrecurring basis, the fair value measurements by level within the fair value hierarchy used at March 31, 2015 and December 31, 2014 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)			
At March 31, 2015:				
Impaired loans with an allowance recorded	**$-**	**$ -**	**$ -**	**$-**
Impaired loans net of partial charge-offs	**-**	**-**	**2,122**	**2,122**
OREO	-	-	**1,603**	**1,603**
At December 31, 2014:				
Impaired loans with an allowance recorded	$-	$ -	$ 5,020	$5,020
Impaired loans net of partial charge-offs	-	-	2,140	2,140
OREO	-	-	1,603	1,603

The Company's policy is to recognize transfers between levels as of the beginning of the period. There were no transfers between Levels 1, 2 and 3 for the three months ended March 31, 2015.

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 March 31, 2015 and December 31, 2014, there were no discounts applied to appraisal values as all impaired appraisals were current. At March 31, 2015, there were no liquidation expenses applied while at December 31, 2014, the liquidation expenses range from 5.0% to 6.0% (weighted average of 5.3%). These assets are included as Level 3 fair values, based upon the lowest level of input that is significant to the fair value measurements.

Other Real Estate Owned ("OREO") – Real estate properties acquired through, or in lieu of, loan foreclosure 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 for collateral adjustment to OREO ranges from 6.0% to 14.5% (weighted average of 12.0%). 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 March 31, 2015 and December 31, 2014, OREO totaling $1,603,000 were acquired through foreclosure and are carried at fair value less estimated selling costs based on current appraisals. At March 31, 2015 and December 31, 2014, the Company had $1.3 million of residential real estate held in OREO. As of March 31, 2015, the Company had not initiated any foreclosure proceedings on residential mortgage loans collateralized by real estate properties.

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 March 31, 2015 and December 31, 2014:

***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.

NOTE 10 – FAIR VALUE MEASUREMENTS (Continued)

***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). At March 31, 2015 and December 31, 2014, there were no Level 3 securities.

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

The carrying amount of restricted investment in Federal Home Loan Bank stock, Atlantic Community 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.

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 March 31, 2015 and December 31, 2014.

NOTE 10 – FAIR VALUE MEASUREMENTS (Continued)

The estimated fair values of the Company's financial instruments at March 31, 2015 and December 31, 2014 were as follows:

	Fair Value Measurements at March 31, 2015				
(in thousands)	**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	**$47,214**	**$47,214**	**$47,214**	**$ -**	**$ -**
Securities available-for-sale	**43,761**	**43,761**	**2,379**	**41,382**	**-**
Securities held-to-maturity	**25,667**	**25,893**	**-**	**25,893**	**-**
Restricted stock	**3,569**	**3,569**	**-**	**-**	**3,569**
Loans held for sale	**2,562**	**2,611**	**-**	**-**	**2,611**
Loans receivable, net	**632,090**	**630,333**	**-**	**-**	**630,333**
Accrued interest receivable	**1,654**	**1,654**	**-**	**231**	**1,423**
Financial liabilities:					
Deposits	**655,325**	**656,130**	**-**	**656,130**	**-**
Securities sold under agreements to repurchase	**20,770**	**20,770**	**-**	**20,770**	**-**
Long-term debt	**28,000**	**28,783**	**-**	**28,783**	**-**
Accrued interest payable	**105**	**105**	**-**	**105**	**-**

(in thousands)	**Fair Value Measurements at December 31, 2014**				
	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	$36,110	$36,110	$36,110	$ -	$ -
Securities available-for-sale	45,431	45,431	2,445	42,986	-
Securities held-to-maturity	25,280	25,407	-	25,407	-
Restricted stock	3,029	3,029	-	-	3,029
Loans available for sale	1,589	1,619	-	-	1,619
Loans receivable, net	619,545	615,141	-	-	615,141
Accrued interest receivable	1,636	1,636	-	245	1,391
Financial liabilities:					
Deposits					
Securities sold under agreements to repurchase	642,390	641,967	-	641,967	-
Long-term debt	23,290	23,290	-	23,290	-
Accrued interest payable	16,000	16,776	-	16,776	-
	46	46	-	46	-

29

NOTE 11 – 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. On December 15, 2014, the Company redeemed $6.0 million (6,000 shares) of the outstanding SBLF Preferred Shares. The shares were redeemed at their liquidation value of $1,000 per share plus accrued dividends through December 14, 2014.

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. Since July 1, 2013, the dividend rate on the SBLF Preferred Shares has been 1.00% and will remain fixed at 1.00% until February 2016, when it will increase to 9.00%. The Company intends to redeem its remaining $6.0 million (6,000 shares) of SBLF Preferred Shares in advance of the dividend rate increase in 2016.

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. As of January 1, 2015, 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, which amount must be greater than 2.5% of total risk-weighted assets at January 1, 2019. The capital contribution buffer requirements phase in over a three-year period beginning January 1, 2016. Additionally, the Company determined, as permitted under Basel III, to opt-out of including accumulated other comprehensive income in regulatory capital.

As of March 31, 2015, the Company and the Bank remains well-capitalized and each would have a capital conservation buffer greater than 2.5%

On January 24, 2013, the Board of Directors authorized a share repurchase program to repurchase outstanding shares of the Company's common stock. A total of 227,612 shares for a total of approximately $1.8 million were repurchased under this program, which expired on December 31, 2014.

NOTE 11 – SHAREHOLDERS' EQUITY (Continued)

On December 18, 2014, the Company announced that its Board of Directors approved a new share repurchase program. Under this new program, the Company may repurchase up to $2.0 million of its common stock from January 1, 2015 to December 31, 2015. During the three months ended March 31, 2015, the Company repurchased 28,588 shares at an average price, including commission, of $8.53 for a total of $244,000 under this program.

NOTE 12 – SUBSEQUENT EVENT

On April 15, 2015, the Board of Directors declared a quarterly cash dividend to $0.03 per share to common shareholders of record at the close of business on May 8, 2015, payable on May 29, 2015.

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

Forward-Looking Statements

This report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). The Private Securities Litigation Reform Act of 1995 provides a "safe harbor" for forward looking statements. Such statements are not historical facts and include expressions about management's confidence and strategies and management's expectations about new and existing programs and products, relationships, opportunities, taxation, technology and market conditions. When used in this and in our future filings with the SEC in our press releases and in oral statements made with the approval of an authorized executive officer, the words or phrases "will," "will likely result," "could," "anticipates," "believes," "continues," "expects," "plans," "will continue," "is anticipated," "estimated," "project" or " similar 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 that could cause actual results to differ materially from historical earnings and those presently anticipated or projected.

Factors that may cause actual results to differ from those results, expressed or implied, include, but are not limited to, those discussed under "Business," "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the 2014 Form 10-K, under this Item 2, and in our other filings with the SEC.

Although management has taken certain steps to mitigate any negative effect of these factors, significant unfavorable changes could severely impact the assumptions used and have an adverse effect on profitability. The Company undertakes no obligation to publicly revise any forward-looking statements to reflect anticipated or unanticipated events or circumstances occurring after the date of such statements.

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 "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.

The following information should be read in conjunction with the consolidated financial statements and the related notes thereto included in the 2014 Form 10-K and in this Form 10-Q.

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

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. 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.

Overview

The Company reported net income available to common shareholders of $1.43 million, or $0.18 per diluted share, for the first quarter of 2015, compared to $1.42 million, or $0.17 per diluted share, for the same period in 2014, an increase of $8,000, or 0.6%. The increase was primarily due to higher net interest income along with a lower provision for loan losses and lower preferred stock dividends, partially offset by higher non-interest expenses. During the first quarter of 2014, the Company reported a $155,000 non-recurring net gain on the sale of OREO properties and repossessed assets ($93,000, or $0.01 per diluted share, after-tax). The annualized return on average assets was 0.74% for the three months ended March 31, 2015 as compared to 0.78% for the same period in 2014. The annualized return on average shareholders' equity was 6.20% for the three month period ended March 31, 2015 as compared to 6.13% for the three month period ended March 31, 2014. Tangible book value per common share rose to $8.96 at March 31, 2015 as compared to $8.29 at March 31, 2014, as disclosed in the Non-GAAP Financial Measures table.

Net interest income increased by $163,000, or 2.5%, for the quarter ended March 31, 2015 from the same period in 2014. Average earning assets totaled $728.6 million, an increase of $28.2 million, or 4.0%, from the quarter ended March 31, 2014, primarily due to an increase in average loans. The Company reported a net interest margin of 3.77% for the quarter ended March 31, 2015, a decrease of 6 basis points when compared to the 3.83% reported for the quarter ended March 31, 2014 but an increase of 2 basis points when compared to the 3.75% for the quarter ended December 31, 2014. The 2 basis point improvement on a linked quarter basis was largely due to $54,000 of interest recognized on the transfer of a non-accrual loan back to accrual status during the first quarter of 2015. The decline from the first quarter of 2014 was primarily the result of the maturity, prepayment and contractual re-pricing of loans and investment securities during this extended period of low interest rates.

The provision for loan losses for the three months ended March 31, 2015 was $90,000, as compared to a provision for loan losses of $283,000 for the corresponding 2014 period. The decrease in our provision when compared to the same prior-year period was primarily due to significantly lower net loan charge offs during the first quarter of 2015 coupled with improvements in overall asset quality, which lowered the need for specific reserves. The Company’s provision considers a number of factors, including our assessment of the current state of the economy, allowances related to impaired loans and loan growth. The provision for the comparable 2014 period considered the same factors.

Non-interest income for the quarter ended March 31, 2015 totaled $776,000, an increase of $5,000, or 0.6%, compared to the same period in 2014. Non-interest income for the period included an $84,000, or 142%, increase in residential mortgage banking revenue due to higher origination volume, and higher gains on the sale of SBA loans. These increases were partially offset by lower service fees on deposit accounts and a $92,000 decrease in other loan fees due to lower loan prepayment fees. On a linked quarter basis, non-interest income increased 5.4% from $736,000 in the fourth quarter of 2014.

Non-interest expense for the quarter ended March 31, 2015 totaled $5.16 million, an increase of $369,000, or 7.7%, compared to the same period in 2014. The increase was primarily due to higher salary and benefits expenses of $156,000 resulting from both annual merit increases and commissions from higher residential mortgage banking volume during the quarter. Additionally, OREO and repossessed asset expenses, impairments and sales, net, increased $137,000 due to the aforementioned non-recurring $155,000 net gain on the sale of OREO and repossessed assets in 2014. On a linked quarter basis, non-interest expense remained largely flat.

Total assets at March 31, 2015 were $804.3 million, an increase of 3.0% from $781.2 million at December 31, 2014. Total loans at March 31, 2015 were $640.2 million, an increase of 2.0% from the $627.6 million recorded at December 31, 2014. Total deposits were $655.3 million at March 31, 2015, an increase of 2.0% from the $642.4 million at December 31, 2014. Core checking deposits at March 31, 2015 decreased $4.9 million, or 1.9%, to $251.1 million from year-end 2014, largely due to seasonality, while savings accounts, money market deposits, and time deposits increased $17.8 million, or 4.6%. The Company has continued to focus on building non-interest bearing deposits, as this lowers the institution’s cost of funds. Additionally, its savings accounts and other interest-bearing deposit products provide an efficient and cost-effective source to fund loan originations.

At March 31, 2015, the Company’s allowance for loan losses was $8.1 million, compared with $8.1 million at December 31, 2014. The allowance for loan losses as a percentage of total loans at March 31, 2015 was 1.26%, compared to 1.29% at December 31, 2014. Non-performing assets at March 31, 2015 as a percentage of total assets improved to 0.75%, compared to 1.00% at December 31, 2014 and 1.26% at March 31, 2014. Non-performing assets decreased to $6.1 million at March 31, 2015 as compared to $7.8 million at December 31, 2014 and $9.6 million at March 31, 2014.

RESULTS OF OPERATIONS

The Company’s principal source of revenue is net interest income, which is the difference between interest income on 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. The Company’s net income is also affected by its provision for loan losses, other income and other expenses. Other income consists primarily of service charges, commissions and fees, earnings from investment in life insurance and gains on security sales, while other expenses are primarily comprised of salaries and employee benefits, occupancy costs and other operating expenses.

The following table provides information on our performance ratios for the dates indicated.

	For the Three months ended March 31, 2015	2014
Return on average assets	**0.74 %**	0.78 %
Return on average tangible assets (1)	**0.76 %**	0.79 %
Return on average shareholders' equity	**6.20 %**	6.13 %
Return on average tangible shareholders' equity (1)	**7.67 %**	7.57 %
Net interest margin	**3.77 %**	3.83 %
Average equity to average assets	**11.93 %**	12.65 %
Average tangible equity to average tangible assets (1)	**9.87 %**	10.50 %

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

	As of and for the Three months ended March 31, 2015	2014
Total shareholders' equity	**$95,179**	$96,013
Less: preferred stock	**(6,000)**	(12,000)
Common shareholders' equity	**$89,179**	$84,013
Less: goodwill and other intangible assets	**(18,147)**	(18,224)
Tangible common shareholders' equity	**$71,032**	$65,789
Common shares outstanding	**7,925**	7,935
Book value per common share	**$11.25**	$10.59
Book value per common share	**$11.25**	$10.59
Effect of intangible assets	**(2.29)**	(2.30)
Tangible book value per common share	**$8.96**	$8.29
Return on average assets	**0.74 %**	0.78 %
Effect of intangible assets	**0.02 %**	0.01 %
Return on average tangible assets	**0.76 %**	0.79 %
Return on average equity	**6.20 %**	6.13 %
Effect of average intangible assets	**1.47 %**	1.44 %
Return on average tangible equity	**7.67 %**	7.57 %
Average equity to average assets	**11.93 %**	12.65 %
Effect of average intangible assets	**(2.06 %)**	(2.15 %)

Average tangible equity to average tangible assets	**9.87 %**	10.50 %

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 “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.

Three months ended March 31, 2015 compared to March 31, 2014

Net Interest Income

Net interest income for the quarter ended March 31, 2015 totaled $6.77 million, an increase of $163,000, or 2.4%, compared to $6.61 million for the corresponding period in 2014. Average interest earning assets for the first quarter 2015 were $728.6 million, an increase of $28.2 million, or 4.0%, from $700.4 million for the same period in 2014, primarily due to an increase in average loan balances in the loan portfolio. The net interest margin and net interest spread decreased to 3.77% and 3.61%, respectively, for the three months ended March 31, 2015 from 3.83% and 3.67%, respectively, for the three months ended March 31, 2014, primarily resulting from the maturity, prepayment or contractual repricing of loans and investment securities in this extended period of low interest rates.

Total interest income for the three months ended March 31, 2015 increased by $196,000, or 2.6%. The increase in interest income was primarily due to a volume related increase in interest income of $318,000, partially offset by a rate related decrease in interest income of $122,000 for the first quarter of 2015 as compared to the same prior year period.

Interest and fees on loans increased $249,000, or 3.5%, to $7.3 million for the three months ended March 31, 2015 compared to $7.1 million for the corresponding period in 2014. Volume related increases of $326,000 were partially offset by rate related decreases of $77,000. The average balance of the loan portfolio for the three months ended March 31, 2015 increased by $27.6 million, or 4.6%, to $628.4 million from $600.8 million for the corresponding period in 2014. The average annualized yield on the loan portfolio was 4.74% for the quarter ended March 31, 2015 compared to 4.79% for the quarter ended March 31, 2014. Additionally, the average balance of total non-accrual loans, which amounted to $4.5 million and $5.9 million at March 31, 2015 and 2014, respectively, impacted the Company's loan yield for both periods presented.

Interest income on investment securities totaled $315,000 for the three months ended March 31, 2015 compared to $369,000 for the three months ended March 31, 2014, a decrease of $54,000, or 14.6%. This decrease was primarily attributable to a decrease in rate related activity. For the three months ended March 31, 2015, investment securities had an average balance of $73.2 million with an average annualized yield of 1.72% compared to an average balance of $75.0 million with an average annualized yield of 1.97% for the three months ended March 31, 2014.

Interest income on interest bearing deposits was $15,000 for the three months ended March 31, 2015, representing an increase of $1,000, or 7.1%, from $14,000 for the three months ended March 31, 2014. For the three months ended March 31, 2015, interest bearing deposits had an average balance of $27.0 million and an average annualized yield of 0.23% as compared to an average balance of $24.6 million and an average annualized yield of 0.23% for the same period in 2014.

Interest expense on interest-bearing liabilities amounted to $904,000 for the three months ended March 31, 2015 compared to $871,000 for the corresponding period in 2014, an increase of $33,000, or 3.8%. This increase in interest expense was comprised of a $108,000 volume related increase, partially offset by a $75,000 rate related decrease.

The Bank continues to focus on developing core deposit relationships. The average balance of interest-bearing liabilities increased to $556.9 million for the three months ended March 31, 2015 from $535.7 million for the same period last year, an increase of $21.2 million, or 4.0%. Our average NOW accounts increased $4.0 million from $109.0 million with an average annualized rate of 0.44% during the first quarter of 2014, to $113.0 million with an average annualized rate of 0.44% during the first quarter of 2015. Average time deposits increased $12.2 million from $84.1 million with an average annualized rate of 1.53% for the first quarter of 2014 to $96.3 million with an average annualized rate of 1.31% for the first quarter of 2015. These average balance increases were partially offset by a decrease in average savings deposits of $6.1 million over this same period while the average annualized rate rose by 1 basis point and our average money market deposits decreased by $0.9 million while the average annualized rate remained the same. During the first quarter of 2015, our average demand deposits totaled $134.5 million, an increase of $12.7 million, or 10.4%, over the same period last year. For the three months ended March 31, 2015, the average annualized cost for all interest-bearing liabilities was 0.66%, which was unchanged when compared to the three months ended March 31, 2014.

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 our customers as an alternative to other insured deposits. Average balances of repurchase agreements for the first quarter of 2015 were $21.2 million, with an average interest rate of 0.30%, compared to $18.1 million, with an average interest rate of 0.34%, for the first quarter of 2014.

The Company also utilizes FHLB term borrowings as an additional funding source. The average balance of such borrowings for the first quarter of 2015 and 2014 was $26.4 million and $17.5 million, respectively, with an average interest rate of 2.35% and 2.80%, respectively.

The following tables reflect, 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 expenses 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 margin on interest-earning assets. Yields on tax-exempt assets have not been calculated on a fully tax-exempt basis.

	Three Months Ended March 31, 2015				**Three Months Ended March 31, 2014**			
(dollars in thousands)	**Average Balance**	**Interest Income/ Expense**	**Average Yield/ Rate**		**Average Balance**	**Interest Income/ Expense**	**Average Yield/ Rate**	
ASSETS								
Interest Earning Assets:								
Interest bearing deposits in banks	**$26,962**	**$ 15**	**0.23**	%	$24,610	$ 14	0.23	%
Investment securities	**73,238**	**315**	**1.72**	%	75,014	369	1.97	%
Loans, net of unearned fees (1) (2)	**628,418**	**7,346**	**4.74**	%	600,814	7,097	4.79	%
Total Interest Earning Assets	**728,618**	**7,676**	**4.27**	%	700,438	7,480	4.33	%
Non-Interest Earning Assets:								
Allowance for loan losses	**(8,086)**				(8,003)			
All other assets	**70,761**				65,942			
Total Assets	**$791,293**				$758,377			
LIABILITIES & SHAREHOLDERS' EQUITY								
Interest-Bearing Liabilities:								
NOW deposits	**$112,963**	**122**	**0.44**	%	$109,018	118	0.44	%
Savings deposits	**228,768**	**273**	**0.48**	%	234,883	271	0.47	%
Money market deposits	**71,245**	**28**	**0.16**	%	72,098	29	0.16	%
Time deposits	**96,345**	**312**	**1.31**	%	84,139	317	1.53	%
Repurchase agreements	**21,174**	**16**	**0.30**	%	18,098	15	0.34	%
Borrowings	**26,400**	**153**	**2.35**	%	17,500	121	2.80	%
Total Interest Bearing Liabilities	**556,895**	**904**	**0.66**	%	535,736	871	0.66	%
Non-Interest Bearing Liabilities:								
Demand deposits	**134,536**				121,784			
Other liabilities	**5,449**				4,910			
Total Non-Interest Bearing Liabilities	**139,985**				126,694			
Shareholders' Equity	**94,413**				95,947			

Total Liabilities and Shareholders' Equity	**$791,293**		$758,377	
NET INTEREST INCOME	**$ 6,772**		$ 6,609	
NET INTEREST SPREAD (3)		**3.61 %**		3.67 %
NET INTEREST MARGIN (4)		**3.77 %**		3.83 %

(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 and the weighted average cost of average interest bearing liabilities.
(4) The interest rate margin is calculated by dividing annualized net interest income by average interest earning assets.

37

Analysis of Changes in Net Interest Income

The following table sets forth for the periods indicated a summary of changes in interest earned and interest paid resulting from changes in volume and changes in rates:

	Three Months Ended March 31, 2015 Compared to Three Months Ended March 31, 2014 Increase (decrease) due to change in		
	Volume	**Rate**	**Net**
	(in thousands)		
Interest Earned On:			
Interest bearing deposits in banks	$1	$-	$1
Investment securities	(9)	(45)	(54)
Loans, net of unearned fees	326	(77)	249
Total Interest Income	318	(122)	196
Interest Paid On:			
NOW deposits	4	-	4
Savings deposits	(7)	9	2
Money market deposits	-	(1)	(1)
Time deposits	46	(51)	(5)
Repurchase agreements	3	(2)	1
Borrowings	62	(30)	32
Total Interest Expense	108	(75)	33
Net Interest Income	$210	$(47)	$163

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

The provision for loan losses for the three months ended March 31, 2015 was $90,000, as compared to a provision for loan losses of $283,000 for the corresponding 2014 period. The decrease of $193,000 in our provision for the quarter was due primarily to a decrease in net charge-offs from $588,000 in the first quarter of 2014 to $77,000 in the first quarter of 2015 coupled with improvements in overall asset quality, which lowered the need for specific reserves. The $90,000 provision for three months ended March 31, 2015 was driven by a number of factors, including the level of charge-offs and recoveries, our assessment of the current state of the economy, allowances related to impaired loans and loan activity. The provision for the comparable 2014 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 $8.1 million, or 1.26% of total loans at March 31, 2015, as compared to $8.1 million, or 1.29% at December 31, 2014.

In management's opinion, the level of allowance for loan losses, totaling $8.1 million at March 31, 2015, is appropriate to adequately provide for known and inherent risks 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 its 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

For the three months ended March 31, 2015, non-interest income amounted to $776,000 compared to $771,000, an increase of $5,000, or 0.6%, for the corresponding period in 2014. Non-interest income for the period included an $84,000, or 142%, increase in residential mortgage banking revenue due to higher origination volume, and higher gains on the sale of SBA loans. These increases were partially offset by lower service fees on deposit accounts and a $92,000 decrease in other loan fees due to lower loan prepayment fees. On a linked quarter basis, non-interest income increased 5.4% from $736,000 in the fourth quarter of 2014.

Non-Interest Expenses

Non-interest expenses for the three months ended March 31, 2015 increased $369,000 or 7.7%, to $5.2 million compared to $4.8 million for the three months ended March 31, 2014. This increase was primarily due to higher salaries and benefits of $156,000 resulting from both annual merit increases and commissions from higher residential mortgage banking volume during the quarter. Additionally, OREO and repossessed asset expenses, impairments and sales, net, increased $137,000 due to a non-recurring $155,000 net gain on the sale of OREO and repossessed assets in 2014. Occupancy and equipment expense increased $89,000 primarily due to the opening of our new branch in Cranford, NJ, on January 8, 2015 along with increased expense associated with computer and technology upgrades.

Income Taxes

The Company recorded income tax expense of $854,000 for the three months ended March 31, 2015 compared to $855,000 for the three months ended March 31, 2014. The effective tax rate for the three months ended March 31, 2015 and 2014 was 37.2% and 37.1%, respectively.

FINANCIAL CONDITION

Assets

At March 31, 2015, our total assets were $804.3 million, an increase of $23.1 million, or 3.0%, over total assets of $781.2 million at December 31, 2014. At March 31, 2015, total loans were $640.2 million, an increase of $12.6 million, or 2.0%, from the $627.6 million reported at December 31, 2014. Investment securities, including restricted stock, were $73.0 million at March 31, 2015 as compared to $73.7 million at December 31, 2014, a decrease of $0.7 million, or 0.9%. At March 31, 2015, cash and cash equivalents totaled $47.2 million compared to $36.1 million at December 31, 2014, an increase of $11.1 million, or 30.7%. Our liquidity position continued to remain strong. Goodwill totaled $18.1 million at both March 31, 2015 and December 31, 2014.

Liabilities

Total deposits increased $12.9 million, or 2.0%, to $655.3 million at March 31, 2015, from $642.4 million at December 31, 2014. Deposits are the Company's primary source of funds. The Company anticipates loan demand to increase during 2015 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 FHLB advances, brokered CDs and deposits obtained through the use of deposit listing services ("Listed Service CDs"), at opportune times during changing rate cycles. The Company continues to experience a 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 loan growth, the Company intends to use the most cost-effective funding mix available within the market area.

Securities Portfolio

Investment securities, including restricted stock, totaled $73.0 million at March 31, 2015 compared to $73.7 million at December 31, 2014, a decrease of $0.7 million, or 0.9%. During the three months ended March 31, 2015, investment securities purchases amounted to $3.0 million, while investment securities sales amounted to $1.5 million in which the Company recorded a net gain on sale of $15,000 as compared to none in the same period in 2014. There were $2.9 million in repayments, calls, and maturities during the first quarter of 2015.

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 March 31, 2015, the Company maintained $23.6 million of GSE mortgage-backed securities in the investment portfolio and $18.5 million of U.S. Government collateralized residential mortgage obligations, all of which are current as to payment of principal and interest and are performing in accordance with the terms set forth in their respective prospectuses. Municipal securities are evaluated by a review of the credit ratings of the underlying issuer, any changes in such ratings that have occurred, adverse conditions relating to the security or its issuer, as well as other factors.

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 $2.4 million at March 31, 2015. The unrealized loss on these securities is related to general market conditions, the widening of interest rate spread and downgrades in credit ratings.

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 March 31, 2015, all of these securities are current with their scheduled interest payments. Future deterioration in the cash flow of these instruments or the credit quality of the financial institution issuers could result in additional 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.

Loan Portfolio

The following table summarizes total loans outstanding, by loan category and amount as of March 31, 2015 and December 31, 2014.

	March 31, 2015		**December 31, 2014**	
	Amount	**Percent**	**Amount**	**Percent**
	(in thousands, except for percentages)			
Commercial and industrial	**$98,867**	**15.5 %**	$96,514	15.4 %
Real estate – construction	**89,833**	**14.0 %**	89,145	14.2 %
Real estate – commercial	**389,222**	**60.8 %**	383,777	61.1 %
Real estate – residential	**36,002**	**5.6 %**	30,808	4.9 %
Consumer	**26,932**	**4.2 %**	28,095	4.5 %
Unearned fees	**(684)**	**(0.1 %)**	(725)	(0.1 %)
Total loans	**$640,172**	**100.0 %**	$627,614	100.0 %

For the three months ended March 31, 2015, total loans increased by $12.6 million, or 2.0%, to $640.2 million from $627.6 million at December 31, 2014. The increase was due to growth in commercial real estate, residential, and the commercial and industrial lending sectors during the period, which had accelerated in each month during the first quarter of 2015. 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 2015, recognizing that we will continue to be challenged due in part to both the competitive landscape and pricing pressures in this low rate environment. However, our loan pipeline remains strong as we continue to remain 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 LPOs with a full service branch at an appropriate location within that market. During the second quarter of 2015, we will replace our Freehold, New Jersey LPO with a full service branch to support that market.

During the second quarter of 2014, we replaced our current New Brunswick and East Brunswick LPOs with a full service branch in that market, which opened in April 2014. The Bank will continue to operate two LPOs in the Toms River and Summit, New Jersey markets. All of these LPOs are staffed by experienced seasoned loan officers who are knowledgeable within these markets and have begun to produce positive results.

Commercial and industrial loans increased $2.4 million, or 2.5%, to $98.9 million at March 31, 2015 from $96.5 million at December 31, 2014. Real estate commercial loans increased $5.4 million, or 1.4%, to $389.2 million at March 31, 2015 from $383.8 million at December 31, 2014. Real estate construction loans increased by $688,000, or 0.8%, to $89.8 million at March 31, 2015 from $89.1 million at December 31, 2014, Real estate residential loans, which increased $5.2 million, or 16.9% to $36.0 million at March 31, 2015 from $30.8 million at December 31, 2014. These increases were partially offset by decreases in Consumer loans, which decreased $1.2 million, or 4.3%, to $26.9 million at March 31, 2015 from $28.1 million at December 31, 2014.

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, land development and construction of real estate projects mainly in the Union, Monmouth and Middlesex County, New Jersey market area. 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, 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 to 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 which 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 of 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 to appropriately update the original appraisal assumptions reflecting current market conditions along with providing 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 March 31, 2015 and December 31, 2014, the Company had $4.5 million and $6.2 million in non-accrual loans, respectively. Our non-performing loans are primarily secured by real estate. At March 31, 2015 and December 31, 2014, the Company had no loans past due 90 days or more and still accruing.

The following table summarizes our non-performing assets as of March 31, 2015 and December 31, 2014.

	March 31, 2015	**December 31, 2014**

	(dollars in thousands)			
Non-Performing Assets:				
Non-Accrual Loans:				
Commercial and industrial	**$150**		$ 119	
Real estate-construction	**379**		407	
Real estate-commercial	**3,016**		4,722	
Real estate-residential	**694**		694	
Consumer	**211**		295	
Total Non-Accrual Loans	**4,450**		6,237	
Loans 90 days or more past due and still accruing	**-**		-	
Total Non-Performing Loans	**4,450**		6,237	
Other Real Estate Owned	**1,603**		1,603	
Total Non-Performing Assets	**$6,053**		$ 7,840	
Ratios:				
Non-Performing loans to total loans	**0.70**	**%**	0.99	%
Non-Performing assets to total assets	**0.75**	**%**	1.00	%
Troubled Debt Restructured Loans:				
Performing	**$15,383**		$ 16,284	
Non-performing (included in non-performing assets above)	**2,314**		4,269	

42

Total non-performing loans decreased by $1.8 million from December 31, 2014. At March 31, 2015, fourteen loans comprise the $4.5 million as compared to sixteen loans for the $6.2 million at December 31, 2014. At March 31, 2015, 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 March 31, 2015, non-performing commercial and industrial loans from December 31, 2014, increased by $31,000 during the first quarter of 2015, primarily due to the addition of one new credit. The $150,000 is comprised of two commercial term loans.

At March 31, 2015, non-performing real estate construction loans decreased by $28,000 from December 31, 2014, due to the payoff of one construction loan during the first quarter of 2015.

At March 31, 2015, non-performing real estate commercial loans decreased by $1.7 million from December 31, 2014, due primarily to one loan totaling $1.7 million, which was returned to active status during the first quarter of 2015.

At March 31, 2015, non-performing real estate residential loans were unchanged from December 31, 2014.

At March 31, 2015, non-performing consumer loans decreased by $84,000 from December 31, 2014, primarily due to the charge-off of one loan totaling $80,000.

OREO represents real estate 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 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 March 31, 2015, the Bank had $1.6 million in OREO, which was unchanged from December 31, 2014.

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 TDRs 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 TDR 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 March 31, 2015, loans modified in a troubled debt restructuring totaled $17.7 million as compared to $20.6 million at December 31, 2014, an decrease of $2.9 million. The decrease of $2.9 million was primarily due to pay downs and payoffs. These concessions generally involved a temporary reduction in interest rate or a 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 $17.7 million is comprised of $10.3 million in real estate commercial loans, $5.7 million in real estate construction loans, $1.1 million in commercial and industrial, $388,000 in real estate residential loans and $218,000 in consumer loans. All but four identified TDR’s as of March 31, 2015, are collateral-dependent loans while four loans are cash flow dependent. Of the $17.7 million, none have specific reserves in our ALLL computation. The entire $17.7 million of TDR’s are adequately collateralized requiring no specific reserves.

The $10.3 million in real estate commercial loans identified as TDR’s are all accruing, with the exception of four non-accrual loans totaling $2.2 million. The first non-accrual loan, totaling $1.4 million, is secured by real estate, and is in the early stages of commencing foreclosure proceedings. The second non-accrual loan, totaling $690,000, is secured by real estate and is in the early stages of litigation, although a settlement with the borrower is likely to avert both litigation and foreclosure. The remaining two non-accrual loans total $74,000. The remaining $8.1 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 $5.7 million in real estate construction loans is partially comprised of two relationships, totaling $753,000, which include 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 2015. The remaining $4.9 million are currently being developed, under contract and/or amortizing.

The $1.1 million in commercial and industrial loans are all performing, with the exception of one non-accrual loan totaling $118,000.

The $218,000 in consumer loans and $388,000 in real estate residential loans are all performing.

Potential Problem Loans

Overall credit quality in the portfolio remains strong even though the economic weakness has impacted several potential problem loans. Potential problem loans consist of special mention and substandard loans. At March 31, 2015, the Company had $22.1 million in loans that were risk rated as special mention or substandard. This $22.1 million of special mention and substandard loans represents a decrease of $4.7 million from the $26.8 million reported at December 31, 2014. The change in risk rated loans was attributable to certain loans which were either upgraded due to a variety of changing conditions, including general economic conditions, payoffs and/or conditions applicable to the specific borrower, or due to payoffs and paydowns.

At March 31, 2015, 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

The following table summarizes our allowance for loan losses for the three months ended March 31, 2015 and 2014 and for the year ended December 31, 2014.

	March 31,		**December 31,**
	2015	**2014**	**2014**

	(in thousands, except percentages)		
Balance at beginning of year	**$8,069**	$7,872	$ 7,872
Provision charged to expense	**90**	283	621
Loans charged off, net	**(77)**	(588)	(424)
Balance of allowance at end of period	**$8,082**	$7,567	$ 8,069
Ratio of net charge-offs to average loans outstanding (annualized)	**0.05 %**	0.39 %	0.07 %
Balance of allowance as a percent of loans at period-end	**1.26 %**	1.28 %	1.29 %
Ratio of allowance at period-end to non-performing loans	**181.62 %**	109.03 %	129.37 %

At March 31, 2015, the Company's allowance for loan losses was $8.1 million compared with $8.1 million at December 31, 2014. Loss allowance as a percentage of total loans at March 31, 2015 was 1.26%, compared with 1.29% at December 31, 2014. The Company recorded a $90,000 provision to the allowance for loan losses for the three month period ended March 31, 2015 as compared to $283,000 for the comparable period in 2014. The decrease of $193,000 in our provision for the quarter, was due primarily due to a decrease in net charge-offs from $588,000 during the first quarter of 2014 to $77,000 in the first quarter of 2015. Non-performing loans at March 31, 2015 are either well-collateralized or adequately reserved for in the allowance for loan losses.

Management maintains the allowance for credit losses at a level estimated to absorb probable loan losses of the loan portfolio. The allowance is based on ongoing evaluations of the probable estimated losses inherent in the loan portfolio. Our methodology for evaluating the appropriateness of the allowance includes segmentation of the loan portfolio into its various asset components, tracking the historical levels of criticized loans and delinquencies, and assessing the nature and trends of loan charge-offs. Additionally, the volume of non-performing loans, concentration of risks by size, type, and geography, new products and markets, collateral adequacy, credit policies and procedures, staffing, underwriting consistency, and economic conditions are also taken into consideration. Risks within the loan portfolio are analyzed on a continuous basis by the Bank's senior management, outside independent loan review auditors, directors' loan committee, and board of directors. A risk system, consisting of multiple grading categories, is utilized as an analytical tool to assess risk and set appropriate reserves.

While the overall New Jersey economy remains somewhat constrained by the recovering economic environment, our local economy seems to reflect some strengthening in certain sectors. While we remain optimistic in our growth prospects for lending in 2015, we recognize that we will continue to be challenged due in part to both the competitive landscape and pricing pressures in this low rate environment and as such, prudent risk management practices must be maintained. Along with this conservative approach, we have further stressed our qualitative and quantitative allowance factors to primarily reflect the current state of the economy, the weak housing market and prolonged high levels of unemployment. We apply this process and methodology in a consistent manner and reassess and modify the estimation of methods and assumptions on a regular basis.

We attempt to maintain an allowance for loan losses at a sufficient level to provide for probable losses inherent in the loan portfolio. Risks within the loan portfolio are analyzed on a continuous basis by the Bank's senior management, outside independent loan review consultants, directors' loan committee, and board of directors. The level of the allowance is determined by assigning specific allowances to impaired loans and general allowances 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 or collateral dependent loans and cash flow from operations on cash flow dependent loans. A risk rating system, consisting of multiple grading categories, is utilized as an analytical tool to assess risk and set appropriate reserves. Along with the risk system, senior management evaluates risk characteristics of the loan portfolio under current 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 allowance. These estimates are reviewed at least quarterly, and as adjustments become necessary, they are realized in the periods in which they become known. 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 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. These agencies may require the Company to take additional provisions based on their judgments about information available to them at the time of their examination.

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") implemented for certain executive officers 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 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 were approximately $62,000 for both the three months ended March 31, 2015 and 2014, respectively. 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 $111,000 and $115,000 for the three months ended March 31, 2015 and 2014, respectively.

Premises and Equipment

Premises and equipment totaled approximately $5.8 million and $5.7 million at March 31, 2015 and December 31, 2014, respectively. Depreciation expenses totaled $182,000 and $133,000 for the three months ended March 31, 2015 and 2014, respectively. The increase of $49,000 was primarily due to the opening of our new Cranford branch in the first quarter of 2015.

Goodwill and Other Intangible Assets

Intangible assets totaled $18.1 million at March 31, 2015 and $18.2 million at December 31, 2014. The Company's intangible assets at March 31, 2015 were comprised of $18.1 million of goodwill and $38,000 of core deposit intangibles, net of accumulated amortization of $2.1 million. The Company performed its annual goodwill impairment analysis as of September 30, 2014. Based on the results of the step one goodwill impairment analysis, the Company concluded that there was no impairment on the current goodwill balance of $18.1 million. At December 31, 2014, the Company's intangible assets were comprised of $18.1 million of goodwill and $57,000 of core deposit intangibles, net of accumulated amortization of $2.0 million.

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 3, "Goodwill," 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 certificates of deposit ("CDs") 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 March 31, 2015, total deposits amounted to $655.3 million, reflecting an increase of $12.9 million, or 2.0%, from December 31, 2014. Core checking deposits at March 31, 2015 decreased $4.9 million, or 1.9%, to $251.1 million from year-end 2014, largely due to seasonality, while savings accounts, inclusive of money market deposits, increased $8.8 million, or 3.0% and time deposits increased $9.0 million, or 9.9%, over this same period. In light of the low interest rate environment and strong loan pipeline, the Company took advantage of extending the maturity of its CD portfolio by utilizing a laddered strategy of both brokered and Listed Service CDs during the first quarter of 2015. The Bank has continued to focus on building non-interest-bearing deposits, as this lowers our costs of funds. Additionally, our savings accounts and other interest-bearing deposit products 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 CDs $100,000 and over, brokered CDs and Listed Service CDs. Core deposits at March 31, 2015 amounted to $581.9 million and accounted for 88.8% of total deposits, as compared to $571.6 million and 89.0%, at December 31, 2014. During 2015, we continued to price our CDs $100,000 and over at rates that did not exceed our market competition. The balance in our CDs $100,000 and over at March 31, 2015 totaled $45.3 million as compared to $43.2 million at December 31, 2014, an increase of $2.1 million, or 4.9%. At March 31, 2015 the Company had $29.6 million in brokered CDs as compared to $29.0 million at December 31, 2014, with rates ranging from 1.03% to 2.15% with original terms ranging from 30 to 84 months while Listed Service CDs totaled $23.8 million compared to $10.2 million at December 31, 2014 with rates between 0.96% to 2.06% and original terms ranging from 24 to 60 months.

The Company found this strategy of placing both brokered and Listed Service CDs provides a more cost-effective source of longer-term funding, as the rates paid for these type CDs were very competitive with current fixed rate term advances at the Federal Home Loan Bank of New York ("FHLB") without any collateral requirements.

Borrowings

The Bank has unsecured lines of credit totaling $36.0 million with three correspondent financial institutions. These borrowings are priced on a daily basis. The Bank had no borrowings outstanding on these lines. The Bank also has remaining borrowing capacity with the FHLB of approximately $39.9 million based on the current loan collateral pledged of $73.6 million at March 31, 2015.

Short-term borrowings consist of Federal funds purchased and short-term borrowings from the FHLB. At March 31, 2015 and 2014, the Company had no short-term borrowings outstanding.

At March 31, 2015 and December 31, 2014, long-term debt consisted of advances from the FHLB, which amounted to $28.0 million for March 31, 2015 compared to $16.0 million at December 31, 2014. In light of the low interest rate environment and strong loan pipeline, the Company took advantage of securing laddered advances through the FHLB during the first quarter of 2015. The FHLB advances had a weighted average interest rate of 2.26% and 2.89% at March 31, 2015 and December 31, 2014, respectively. These advances are contractually scheduled for repayment as follows:

	March 31, 2015	**December 31, 2014**	**Rate**	**Original Term**	**Maturity**
	(dollars in thousands)				
Fixed Rate Note	**$7,500**	$ 7,500	**3.97 %**	**10 years**	**November 2017**
Fixed Rate Note	**1,500**	1,500	**2.00 %**	**5 years**	**August 2015**
Fixed Rate Note	**1,500**	1,500	**2.41 %**	**6 years**	**August 2016**
Fixed Rate Note	**1,500**	1,500	**2.71 %**	**7 years**	**August 2017**
Fixed Rate Note	**2,000**	2,000	**1.28 %**	**4 years**	**October 2017**
Fixed Rate Note	**2,000**	2,000	**1.65 %**	**5 years**	**October 2018**
Fixed Rate Note	**2,700**	-	**0.60 %**	**1 year**	**January 2016**
Fixed Rate Note	**1,000**	-	**0.97 %**	**2 years**	**January 2017**
Fixed Rate Note	**1,300**	-	**1.31 %**	**3 years**	**January 2018**
Fixed Rate Note	**1,800**	-	**1.59 %**	**4 years**	**January 2019**
Fixed Rate Note	**2,700**	-	**1.81 %**	**5 years**	**January 2020**
Fixed Rate Note	**2,500**	-	**2.03 %**	**6 years**	**January 2021**
	$28,000	$ 16,000			

The maximum amount outstanding of FHLB advances during the three months ended March 31, 2015 and at any month-end during 2014 was $28.0 million and $17.5 million, respectively. The average interest rates paid on FHLB advances was 2.35% and 2.80% during the three months ended March 31, 2015 and 2014, respectively.

Repurchase Agreements

Securities sold under agreements to repurchase, which are classified as secured borrowings, generally mature within one to four days after 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. Securities sold under agreements to repurchase decreased to $20.8 million at March 31, 2015 from $23.3 million at December 31, 2014, a decrease of $2.5 million, or 10.7%.

Liquidity

Liquidity defines the Company's 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 the Company's asset and liability management structure is the level of liquidity available to meet the needs of our customers and requirements of our creditors. The liquidity needs of the Bank are primarily met by cash on hand, Federal funds sold position, maturing investment securities and short-term borrowings on a temporary basis. The Bank invests the funds not needed to meet its cash requirements in overnight Federal funds sold and an interest bearing account with the Federal Reserve Bank of New York. With adequate deposit inflows coupled with the above-mentioned cash resources, management is maintaining short-term assets which we believe are sufficient to meet our liquidity needs.

At March 31, 2015, the Company had $47.2 million in cash and cash equivalents as compared to $36.1 million at December 31, 2014. Cash and cash equivalent balances include $30.7 million and $17.8 million of interest-bearing deposits at the Federal Reserve Bank of New York at March 31, 2015 and December 31, 2014, respectively.

Off-Balance Sheet Arrangements

The Company's financial statements do not reflect off-balance sheet arrangements that are made 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 the Bank's off-balance sheet arrangements as of March 31, 2015 and December 31, 2014:

	March 31, 2015	**December 31, 2014**
	(dollars in thousands)	
Home equity lines of credit	**$19,015**	$ 18,619
Commitments to fund commercial real estate and construction loans	**104,985**	99,802
Commitments to fund commercial and industrial loans and other loans	**43,336**	42,209
Commercial and financial letters of credit	**4,300**	4,754
	$171,636	$ 165,384

Capital

Shareholders' equity increased by approximately $1.3 million, or 1.4%, to $95.2 million at March 31, 2015 compared to $93.9 million at December 31, 2014. Net income for the three month period ended March 31, 2015 added $1.4 million to shareholders' equity. Additionally, stock option compensation expense of $54,000, options exercised of $37,000, $12,000 in employee stock option purchases and $196,000 in after-tax net unrealized gains on securities available for sale during the first quarter of 2015, contributed to the increase. These increases were partially offset by decreases of $15,000 relating to the dividends on the preferred stock Series C, $238,000 in cash dividends on common stock and $244,000 in common stock repurchased. During the three months ended March 31, 2015, the Company repurchased 28,588 shares of common for a total of $244,000 under its share repurchase program.

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.

The Federal Reserve adopted a new policy statement, effective May 15, 2015, that changes the definition of "small bank holding company" from those under $500 million in total assets to those under $1 billion in total assets. Small bank holding companies are not subject to holding company level capital requirements, although their subsidiary banks are still subject to all capital requirements. Since the Company is currently under $1 billion in total assets, this policy statement will give the Company greater flexibility to issue instruments that do not qualify as capital under the Federal Reserve's regulations, if it chooses to do so.

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), Common Equity Tier 1 Capital to Risk Weighted Assets, Tier 1 Capital to Risk Weighted Assets and Total Capital to Risk Weighted Assets. Management believes that, at March 31, 2015, the Company and the Bank met all capital adequacy requirements to which they are subject.

As of March 31, 2015, 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 classification.

The capital ratios of the Company and the Bank, at March 31, 2015 and December 31, 2014, are presented below.

	Company	**Bank**	**Minimum Required For Capital Adequacy Purposes**	**To Be Well Capitalized Under Prompt Corrective Action Regulations***
As of March 31, 2015				

Common Equity Tier 1 Capital to Risk Weighted Assets	10.08	%	10.90	%	4.50	%	6.50	%
Tier 1 Capital to Average Assets (Leverage Ratio)	9.98	%	9.96	%	4.00	%	5.00	%
Tier 1 Capital to Risk Weighted Assets	10.93	%	10.90	%	6.00	%	8.00	%
Total Capital to Risk Weighted Assets	12.08	%	12.05	%	8.00	%	10.00	%
As of December 31, 2014								
Tier 1 Capital to Average Assets (Leverage Ratio)	9.95	%	9.90	%	4.00	%	5.00	%
Tier 1 Capital to Risk Weighted Assets	11.36	%	11.31	%	4.00	%	6.00	%
Total Capital to Risk Weighted Assets	12.57	%	12.51	%	8.00	%	10.00	%

* Applies to the Bank only.

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. As of January 1, 2015, 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, which amount must be greater than 2.5% of total risk-weighted assets at January 1, 2019. The capital contribution buffer requirements phase in over a three-year period beginning January 1, 2016. Additionally, the Company determined, as permitted under Basel III, to opt-out of including accumulated other comprehensive income in regulatory capital.

As of March 31, 2015, the Company and the Bank remains well-capitalized and each would have a capital conservation buffer greater than 2.5%.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Not required.

Item 4. 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 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 principal financial 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 quarterly report. Based upon such evaluation, the Company’s principal executive officer and principal financial officer have concluded that the Company’s disclosure controls and procedures are effective as of the end of the period covered by this quarterly 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 March 31, 2015 that has materially affected, or is reasonably likely to materially affect, the Company’s internal control over financial reporting.

PART II. OTHER INFORMATION

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

Issuer Purchases of Equity Securities

Period	**Total Number of Shares Purchased (1)**	**Average Price Paid Per Share ($)**	**Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs**	**Maximum Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs ($)**
January 1, 2015 through January 31, 2015	-	-	-	2,000,000
February 1, 2015 through February 28, 2015	15,275	8.51	15,275	1,869,396
March 1, 2015 through March 31, 2015	13,313	8.49	13,313	1,756,235
Total	**28,588**	**8.50**	**28,588**	

(1) All shares were repurchased under the Company’s share repurchase program. In December 2014, the Board of Directors approved a new repurchase program, whereby the Company may repurchase up to $2.0 million of its common stock from January 1, 2015 to December 31, 2015.

Item 6. **Exhibits**

31.1	*	Certification of principal executive officer of the Company pursuant to Securities Exchange Act Rule 13a-14(a)
31.2	*	Certification of principal financial officer of the Company 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 the principal executive officer of the Company and the principal financial officer of the Company
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

* Filed herewith.

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: May 15, 2015 By: /s/ WILLIAM D. MOSS
William D. Moss
President and Chief Executive Officer
(Principal Executive Officer)

Date: May 15, 2015 By: /s/ A. RICHARD ABRAHAMIAN
A. Richard Abrahamian
Executive Vice President and Chief Financial Officer
(Principal Financial and Accounting Officer)