

TWO RIVER BANCORP
Form 10-Q
November 13, 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 September 30, 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

(I.R.S. Employer Identification No.)

of Incorporation or Organization)

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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	Smaller reporting company

(Do not check if a 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 November 9, 2015, there were 7,922,776 shares of the registrant's common stock, no par value, outstanding.

TWO RIVER BANCORP

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PART I. FINANCIAL INFORMATION**Item 1. Financial Statements****TWO RIVER BANCORP****CONSOLIDATED BALANCE SHEETS (Unaudited)****(in thousands, except share data)**

	September 30, 2015	December 31, 2014
ASSETS		
Cash and due from banks	\$ 20,756	\$ 18,349
Interest-bearing deposits in bank	22,142	17,761
Cash and cash equivalents	42,898	36,110
Securities available for sale, at fair value	35,676	45,431
Securities held to maturity (fair value of \$42,923 and \$25,407 at September 30, 2015 and December 31, 2014, respectively)	42,851	25,280
Restricted investments, at cost	3,554	3,029
Loans held for sale	1,909	1,589
Loans	675,584	627,614
Allowance for loan losses	(8,429)	(8,069)
Net loans	667,155	619,545
OREO and repossessed assets	495	1,603
Bank-owned life insurance	17,184	16,849
Premises and equipment, net	5,204	5,696
Accrued interest receivable	1,767	1,636
Goodwill	18,109	18,109
Other intangible assets, net of accumulated amortization of \$2,087 and \$2,049 at September 30, 2015 and December 31, 2014, respectively	19	57
Other assets	5,448	6,262
TOTAL ASSETS	\$ 842,269	\$ 781,196
LIABILITIES		
Deposits:		
Non-interest bearing	\$ 151,958	\$ 140,459
Interest bearing	538,707	501,931
Total Deposits	690,665	642,390
Securities sold under agreements to repurchase	21,303	23,290
Accrued interest payable	49	46
Long-term debt	26,500	16,000
Other liabilities	6,112	5,538

Total Liabilities	744,629	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 September 30, 2015, and December 31, 2014, respectively	6,000	6,000
Common stock, no par value; 25,000,000 shares authorized;		
Issued – 8,202,266 and 8,167,296 at September 30, 2015 and December 31, 2014, respectively		
Outstanding – 7,918,266 and 7,939,684 at September 30, 2015 and December 31, 2014, respectively	72,830	72,527
Retained earnings	21,298	17,501
Treasury stock, at cost; 284,000 shares and 227,612 shares at September 30, 2015 and December 31, 2014, respectively	(2,248)	(1,751)
Accumulated other comprehensive loss	(240)	(345)
Total Shareholders' Equity	97,640	93,932
TOTAL LIABILITIES and SHAREHOLDERS' EQUITY	\$ 842,269	\$ 781,196

See notes to the unaudited consolidated financial statements.

TWO RIVER BANCORP**CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)****For the Three and Nine Months Ended September 30, 2015 and 2014****(in thousands, except per share data)**

	Three Months Ended		Nine Months Ended	
	September 30, 2015	2014	September 30, 2015	2014
INTEREST INCOME:				
Loans, including fees	\$7,834	\$7,299	\$22,720	\$21,578
Securities:				
Taxable	178	233	607	732
Tax-exempt	188	109	412	326
Interest bearing deposits	18	14	58	51
Total Interest Income	8,218	7,655	23,797	22,687
INTEREST EXPENSE:				
Deposits	799	713	2,325	2,176
Securities sold under agreements to repurchase	19	17	51	47
Borrowings	155	121	468	365
Total Interest Expense	973	851	2,844	2,588
Net Interest Income	7,245	6,804	20,953	20,099
PROVISION FOR LOAN LOSSES	120	-	400	521
Net Interest Income after Provision for Loan Losses	7,125	6,804	20,553	19,578
NON-INTEREST INCOME:				
Service fees on deposit accounts	142	166	433	526
Mortgage banking	327	54	613	160
Other loan fees	32	69	112	310
Earnings from investment in bank-owned life insurance	112	116	335	347
Gain on sale of SBA loans	32	106	309	384
Net realized gain on sale of securities	9	19	37	19
Gain on sale of premises and equipment	-	-	208	-
Other income	182	182	506	450
Total Non-Interest Income	836	712	2,553	2,196
NON-INTEREST EXPENSES:				
Salaries and employee benefits	3,198	2,842	9,318	8,581
Occupancy and equipment	964	868	2,940	2,594
Professional	272	191	718	572
Insurance	74	77	249	231
FDIC insurance and assessments	119	113	324	373
Advertising	120	128	365	294
Data processing	110	95	352	283
Outside services fees	131	119	376	348
Amortization of identifiable intangibles	10	19	38	67

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OREO and repossessed asset expenses, impairment and sales, net	(137)	(7)	(161)	(72)
Loan workout expenses	65	59	278	217
Other operating	382	318	1,049	1,030
Total Non-Interest Expenses	5,308	4,822	15,846	14,518
Income before Income Taxes	2,653	2,694	7,260	7,256
INCOME TAX EXPENSE	961	1,006	2,664	2,698
Net Income	1,692	1,688	4,596	4,558
Preferred stock dividend	(15)	(30)	(45)	(90)
Net Income Available to Common Shareholders	\$1,677	\$1,658	\$4,551	\$4,468
EARNINGS PER COMMON SHARE:				
Basic	\$0.21	\$0.21	\$0.57	\$0.56
Diluted	\$0.21	\$0.20	\$0.56	\$0.55
Weighted average common shares outstanding:				
Basic	7,930	7,923	7,932	7,939
Diluted	8,130	8,105	8,130	8,116
See notes to the unaudited consolidated financial statements.				

TWO RIVER BANCORP**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)****For the Three and Nine Months Ended September 30, 2015 and 2014****(in thousands)**

	Three Months Ended	
	September 30, 2015	2014
Net income	\$1,692	\$1,688
Other comprehensive income:		
Reclassification adjustment for net realized gain on sales of securities recognized in income, net of income tax 2015: \$3; 2014: \$8	(6)	(11)
Unrealized holdings gains on securities available for sale, net of income tax 2015: \$94; 2014: \$16	144	23
Other comprehensive income	138	12
Total comprehensive income	\$1,830	\$1,700
	Nine Months Ended	
	September 30, 2015	2014
Net income	\$4,596	\$4,558
Other comprehensive income:		
Reclassification adjustment for net realized gain on sales of securities recognized in income, net of income tax 2015: \$14; 2014: \$8	(23)	(11)
Unrealized holdings gains on securities available for sale, net of income tax 2015: \$81; 2014: \$208	128	313
Other comprehensive income	105	302
Total comprehensive income	\$4,701	\$4,860

See notes to the unaudited consolidated financial statements.

TWO RIVER BANCORP**CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (Unaudited)****For the Nine Months Ended September 30, 2015 and 2014****(dollars in thousands, except per share data)**

	Common Stock					Accumulated	Total
	Preferred	Outstanding	Amount	Retained	Treasury	Other	Shareholders'
	Stock	Shares		Earnings	Stock	Comprehensive	Equity
						Loss	
Balance, January 1, 2015	\$ 6,000	7,939,684	\$72,527	\$ 17,501	\$ (1,751)	\$ (345)	\$ 93,932
Net income	-	-	-	4,596	-	-	4,596
Other comprehensive income	-	-	-	-	-	105	105
Dividends on preferred stock, Series C	-	-	-	(45)	-	-	(45)
Stock-based compensation expense	-	-	154	-	-	-	154
Cash dividends on common stock (\$0.095 per share)	-	-	-	(754)	-	-	(754)
Options exercised	-	25,397	103	-	-	-	103
Tax benefit of exercised stock options	-	-	6	-	-	-	6
Common stock repurchased	-	(56,388)	-	-	(497)	-	(497)
Restricted stock awards	-	5,000	-	-	-	-	-
Employee stock purchase program	-	4,573	40	-	-	-	40
Balance, September 30, 2015	\$ 6,000	7,918,266	\$72,830	\$ 21,298	\$ (2,248)	\$ (240)	\$ 97,640
Balance, January 1, 2014	\$ 12,000	8,036,368	\$72,191	\$ 12,474	\$ (554)	\$ (684)	\$ 95,427

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Net income	-	-	-	4,558	-	-	4,558
Other comprehensive income	-	-	-	-	-	302	302
Dividends on preferred stock, Series C	-	-	-	(90)	-	-	(90)
Stock-based compensation expense	-	-	120	-	-	-	120
Cash dividends on common stock (\$0.08 per share)	-	-	-	(637)	-	-	(637)
Options exercised	-	27,397	112	-	-	-	112
Tax benefit of exercised stock options	-	-	6	-	-	-	6
Common stock repurchased	-	(150,900)	-	-	(1,197)	-	(1,197)
Restricted stock awards	-	15,000	-	-	-	-	-
Employee stock purchase program	-	4,501	36	-	-	-	36
Balance, September 30, 2014	\$ 12,000	7,932,366	\$72,465	\$ 16,305	\$(1,751)	\$ (382)	\$ 98,637

See notes to the unaudited consolidated financial statements.

TWO RIVER BANCORP**CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)****For the Nine Months Ended September 30, 2015 and 2014****(in thousands)**

	Nine Months Ended	
	September 30, 2015	2014
Cash flows from operating activities:		
Net income	\$ 4,596	\$ 4,558
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	592	436
Provision for loan losses	400	521
Intangible amortization	38	67
Net amortization of securities premiums and discounts	380	151
Earnings from investment in bank-owned life insurance	(335)	(347)
Proceeds on sale of loans held for sale	27,946	5,699
Originated loans held for sale	(27,668)	(6,491)
Gain on sale of loans held for sale	(598)	(154)
Net realized gain on sale of OREO and repossessed assets	(107)	(176)
Stock based compensation expense	154	120
Net realized gain on sale of securities available for sale	(37)	(19)
	(309)	(384)

Gain on sale of SBA loans		
Gain on sale of premises and equipment	(208)	-
(Increase) decrease in assets:		
Accrued interest receivable	(131)	162
Other assets	743	355
Increase (decrease) increase in liabilities:		
Accrued interest payable	3	(11)
Other liabilities	574	650
Net cash provided by operating activities	6,033	5,137
Cash flows from investing activities:		
Purchase of securities available for sale	(20,707)	(10,752)
Purchase of securities held to maturity	(19,721)	(4,923)
Proceeds from repayments, calls and maturities of securities available for sale	6,131	5,930
Proceeds from repayments, calls and maturities of securities held to maturity	2,008	6,649
Proceeds from sales of securities available for sale	24,306	5,577
Proceeds from sale of SBA loans	3,665	4,449
Proceeds from sale of loans held for sale	5,727	-
Net increase in loans	(57,245)	(17,052)
Redemption (purchase) of restricted investments, net	(525)	181
Purchases of premises and equipment	(817)	(1,506)
Proceeds from sale of premises and equipment	925	-
	-	(207)

Improvements on OREO			
Proceeds from sale of OREO and repossessed assets	1,367		2,500
Net cash used in investing activities	(54,886)	)	(9,154)
Cash flows from financing activities:			
Net increase (decrease) in deposits	48,275		(5,684)
Net increase in securities sold under agreements to repurchase	(1,987)	)	9,122
Proceeds of long-term debt	12,000		-
Repayment of long-term debt	(1,500)	)	(1,500)
Cash dividends paid - preferred stock	(45)	)	(90)
Cash dividends paid - common stock	(754)	)	(637)
Proceeds from employee stock purchase plan	40		36
Proceeds from exercise of stock options	103		112
Common stock repurchased	(497)	)	(1,197)
Tax benefit of options exercised	6		6
Net cash provided by financing activities	55,641		168
Net increase (decrease) in cash and cash equivalents	6,788		(3,849)
Cash and cash equivalents – beginning	36,110		47,865
Cash and cash equivalents - ending	\$ 42,898		\$ 44,016
Supplementary cash flow information:			
Interest paid	\$ 2,841		\$ 2,599
Income taxes paid	2,133		2,215
Supplementary schedule of non-cash activities:			
Transfer of loans held for investment to	\$ 5,614		\$ -

loans held for sale OREO acquired in settlement of loans	152	415
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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 and nine months ended September 30, 2015 are not necessarily indicative of the results that may be expected for the year ended 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 September 30, 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. In August 2015, the FASB approved a one-year delay of the effective date of this standard. The deferral would require public entities to apply the standard for annual reporting periods beginning after December 15, 2017. Public companies would be permitted to elect to early adopt for annual reporting periods beginning after December 15, 2016. 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 (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 is 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, 2015, using the fair value of the reporting unit based on the income approach and market approach. The income approach uses a dividend discount analysis. This approach calculates cash flows based on anticipated financial results assuming a change of control transaction. This change of control assumes that an acquirer will achieve an expected base level of earnings, achieve integration cost savings and incur certain transaction costs (including such items as legal and financial advisors fees, contract cancellations, severance and employment obligations, and other transaction costs). The present value of all excess cash flows generated by the Company (above the minimum tangible capital ratio) plus the present value of a terminal sale value is calculated to arrive at the fair value for the income approach.

The market approach is used to calculate the fair value of a company by calculating median earnings and book value pricing multiples for recent actual acquisitions of companies of similar size and performance and then applying these multiples to our community banking reporting unit. No company or transaction in the analysis is identical to our community banking reporting unit and, accordingly, the results of the analysis are only indicative of comparable value. This technique uses historical data to create a current pricing level and is thus a trailing indicator. Results of the

market approach need to be understood in this context, especially in periods of rapid price change and market uncertainty. The Company applied the market valuation approach to our then current stock price adjusted by an appropriate control premium and also to a peer group adjusted by an appropriate control premium.

Based on the results of the step one goodwill impairment analysis, the Company determined that there was no impairment on the current goodwill balance of \$18,109,000 at September 30, 2015.

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, warrants and restricted stock awards. Potential shares of common stock issuable upon the exercise of stock options and warrants 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		Nine Months Ended	
	September 30,		September 30,	
	2015	2014	2015	2014
	(dollars in thousands, except per share data)			
Net income	\$1,692	\$1,688	\$4,596	\$4,558
Preferred stock dividend	(15	) (30	(45	) (90
Net income applicable to common shareholders	\$1,677	\$1,658	\$4,551	\$4,468
Weighted average common shares outstanding	7,929,876	7,922,510	7,932,100	7,939,224
Effect of dilutive securities and stock options	199,665	182,484	198,156	176,402
Weighted average common shares outstanding used to calculate diluted earnings per share	8,129,541	8,104,994	8,130,256	8,115,626
Basic earnings per common share	\$0.21	\$0.21	\$0.57	\$0.56
Diluted earnings per common share	\$0.21	\$0.20	\$0.56	\$0.55

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 9,129 for the three and nine month periods ended September 30, 2015, respectively, as compared to 13,231 and 23,231 for the three and nine month periods ended September 30, 2014.

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
September 30, 2015:				
Securities available for sale:				
U.S. Government agency securities	\$ 1,241	\$ 6	\$ -	\$ 1,247
Municipal securities	510	9	-	519
U.S. Government-sponsored enterprises ("GSE") – residential mortgage-backed securities	15,559	14	(107)	15,466
U.S. Government collateralized residential mortgage obligations	13,880	25	(196)	13,709
Corporate debt securities, primarily financial institutions	2,491	4	(156)	2,339
	33,681	58	(459)	33,280
Community Reinvestment Act ("CRA") mutual fund	2,385	11	-	2,396
	\$ 36,066	\$ 69	\$ (459)	\$ 35,676
Securities held to maturity:				
Municipal securities	\$ 33,311	\$ 406	\$ (101)	\$ 33,616
GSE – residential mortgage-backed securities	4,024	21	(20)	4,025
U.S. Government collateralized residential mortgage obligations	3,697	4	(8)	3,693
Corporate debt securities, primarily financial institutions	1,819	-	(230)	1,589
	\$ 42,851	\$ 431	\$ (359)	\$ 42,923

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 September 30, 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	\$-	\$-	\$6,041	\$6,049
Due in one year through five years	3,072	3,083	3,728	3,811

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Due in five years through ten years	175	176	3,134	3,211
Due after ten years	995	846	22,227	22,134
	4,242	4,105	35,130	35,205
GSE – residential mortgage-backed securities	15,559	15,466	4,024	4,025
U.S. Government collateralized residential mortgage obligations	13,880	13,709	3,697	3,693
	\$33,681	\$33,280	\$42,851	\$42,923

The Company had two securities sales in which the Company recorded gross realized gains and losses of \$9,000 and \$0, respectively, during the three months ended September 30, 2015 as compared to one security sale during the three months ended September 30, 2014. For the nine months ended September 30, 2015, the Company had 19 securities sales in which it recorded gross realized gains and losses of \$70,000 and \$33,000, respectively, as compared to five securities sales during the nine months ended September 30, 2014.

NOTE 5 – SECURITIES (Continued)

Certain of the Company's GSE residential mortgage-backed securities and U.S Government collateralized residential mortgage obligations, totaling \$32,141,000 and \$31,945,000 at September 30, 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 September 30, 2015 and December 31, 2014:

	Less than 12 Months		12 Months or More		Total	
	Fair	Unrealized	Fair	Unrealized	Fair	Unrealized
	Value	Losses	Value	Losses	Value	Losses
	(in thousands)					
September 30, 2015:						
Municipal securities	\$9,392	\$ (93)	\$492	\$ (8)	\$9,884	\$ (101)
GSE – residential mortgage-backed securities	8,954	(50)	6,399	(77)	15,353	(127)
U.S. Government collateralized residential mortgage obligations	4,711	(13)	7,306	(191)	12,017	(204)
Corporate debt securities, primarily financial institutions	-	-	2,928	(386)	2,928	(386)
Total Temporarily Impaired Securities	\$23,057	\$ (156)	\$17,125	\$ (662)	\$40,182	\$ (818)

	Less than 12 Months		12 Months or More		Total	
	Fair	Unrealized	Fair	Unrealized	Fair	Unrealized
	Value	Losses	Value	Losses	Value	Losses
	(in thousands)					
December 31, 2014:						
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)
	-	-	2,860	(451)	2,860	(451)

Corporate debt securities, primarily financial institutions

CRA mutual fund	2,445	(2)	-	-	2,445	(2)
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Total Temporarily Impaired Securities	\$26,218	\$	(70)	\$22,313	\$	(930)	\$48,531	\$	(1,000)
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The Company had 50 securities in an unrealized loss position at September 30, 2015. In management's opinion, the unrealized losses in corporate debt, U.S. Government collateralized residential mortgage obligations, municipals 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 September 30, 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 Ba1. As of September 30, 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 September 30, 2015. These four securities have an amortized cost value of \$2.8 million and a fair value of \$2.4 million at September 30, 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 and nine months ended September 30, 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 September 30, 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."

The Company, for the most part, 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 at September 30, 2015 and December 31, 2014 are as follows:

	September 30, 2015 (In Thousands)	December 31, 2014
Commercial and industrial	\$96,807	\$96,514
Real estate – construction	98,355	89,145
Real estate – commercial	415,525	383,777
Real estate – residential	37,761	30,808
Consumer	27,703	28,095
	676,151	628,339

Allowance for loan losses	(8,429	)	(8,069)
Unearned fees	(567	)	(725)
Net Loans	\$667,155		\$619,545	

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

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 September 30, 2015 and December 31, 2014:

							Loans
	30-59 Days Past Due	60-89 Days Past Due	90 Days & Greater	Total Past Due	Current	Total Loans Receivable	Receivable >90 Days and Accruing
(In Thousands)							
September 30, 2015:							
Commercial and industrial	\$ -	\$ 111	\$ 31	\$ 142	\$ 96,665	\$ 96,807	\$ -
Real estate – construction	-	150	-	150	98,205	98,355	-
Real estate – commercial	60	119	2,622	2,801	412,724	415,525	-
Real estate – residential	-	255	542	797	36,964	37,761	-
Consumer	195	-	-	195	27,508	27,703	-
Total	\$ 255	\$ 635	\$ 3,195	\$ 4,085	\$ 672,066	\$ 676,151	\$ -

							Loans
	30-59 Days Past Due	60-89 Days Past Due	90 Days & Greater	Total Past Due	Current	Total Loans Receivable	Receivable >90 Days and Accruing
(In Thousands)							
December 31, 2014:							
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 September 30, 2015 and December 31, 2014:

	September 30, 2015	December 31, 2014
	(In Thousands)	
Commercial and industrial	\$ 142	\$ 119
Real estate – construction	-	407
Real estate – commercial	2,801	4,722
Real estate – residential	542	694
Consumer	195	295
Total	\$3,680	\$ 6,237

Loans whose terms are modified are classified as troubled debt restructurings (“TDRs”) if the Company grants such borrowers concessions and it is deemed that those borrowers are experiencing financial difficulty. Concessions granted under a TDR generally involve a temporary reduction in interest rate or a modification of a loan’s amortization schedule. Non-accrual TDRs 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. 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.

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

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

While there were no troubled debt restructured loans that occurred during the three months ended September 30, 2015 and 2014, the following tables present newly troubled debt restructured loans that occurred during the nine months ended September 30, 2015 and 2014:

Nine months ended September 30, 2015

	Pre-Modification		Post-Modification
	Number of	Outstanding Contracts Recorded	Outstanding Recorded Investment
	Investment (Dollars in Thousands)		
Troubled Debt Restructuring:			
Commercial and industrial	6	\$ 3,227	\$ 3,227

Nine months ended September 30, 2014

Number of Contracts	Pre-Modification		Post-Modification	
	Outstanding		Outstanding	
	Recorded		Recorded	
	Investment		Investment	
	Recorded		Recorded	

Investment
(Dollars in Thousands)

Troubled Debt Restructuring:

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 TDRs 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.

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

All the loans identified as troubled debt restructured as of September 30, 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 September 30, 2015, TDRs totaled \$12.9 million, including \$11.3 million that are current and five non-accrual loans totaling \$1.6 million. As a result of our impairment evaluation, there was no allowance required on any of our loans classified as TDR as of September 30, 2015.

There were no financing receivables modified as TDRs 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 and nine months ended September 30, 2015:

	Three months ended September 30, 2014
Troubled Debt Restructuring That Subsequently Defaulted:	Recorded Number of Investment Contracts (Dollars in Thousands)
Real estate – commercial	1 \$ 738

	Nine months ended September 30, 2014
Troubled Debt Restructuring That Subsequently Defaulted:	Recorded Number of Investment Contracts

(Dollars in
Thousands)

Commercial and industrial
Real estate – commercial

1 \$ 17
4 3,281

Total

5 \$ 3,298

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

It is the Company's policy to classify a TDR 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.

The following tables summarize information in regards to impaired loans by loan portfolio class at September 30, 2015 and December 31, 2014, and for the three and nine months ended September 30, 2015 and 2014, respectively:

	As of September 30, 2015			For the three months ended		For the nine months ended	
				September 30, 2015		September 30, 2015	
	Recorded	Unpaid	Related	Average	Interest	Average	Interest
	Investment,	Principal	Allowance	Recorded	Income	Recorded	Income
	Net of	Balance		Investment	Recognized	Investment	Recognized
	Charge-offs						
	(In Thousands)						
September 30, 2015:							
With no related allowance recorded:							
Commercial and industrial	\$4,143	\$ 4,143	\$ -	\$4,215	\$ 49	\$4,016	\$ 124
Real estate – construction	3,874	3,874	-	4,111	41	4,390	145
Real estate – commercial	5,619	6,552	-	5,986	32	5,963	100
Real estate – residential	926	926	-	927	5	928	14
Consumer	408	408	-	413	2	423	7
With an allowance recorded:							
Commercial and industrial	-	-	-	-	-	-	-
Real estate – construction	-	-	-	-	-	-	-
Real estate – commercial	-	-	-	-	-	-	-
Real estate – residential	-	-	-	-	-	-	-
Consumer	-	-	-	-	-	-	-
Total:							
Commercial and industrial	4,143	4,143	-	4,215	49	4,016	124
Real estate – construction	3,874	3,874	-	4,111	41	4,390	145
Real estate – commercial	5,619	6,552	-	5,986	32	5,963	100
Real estate – residential	926	926	-	927	5	928	14

Consumer	408	408	-	413	2	423	7
	\$14,970	\$ 15,903	\$ -	\$15,652	\$ 129	\$15,720	\$ 390

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

	As of December 31, 2014			For the three months ended		For the nine months ended	
				September 30, 2014		September 30, 2014	
	Recorded	Unpaid	Related	Average	Interest	Average	Interest
	Investment,	Principal	Allowance	Recorded	Income	Recorded	Income
	Net of	Balance		Investment	Recognized	Investment	Recognized
	Charge-offs						
	(In Thousands)						
December 31, 2014:							
With no related allowance recorded:							
Commercial and industrial	\$ 1,052	\$ 1,052	\$ -	\$ 119	\$ -	\$ 125	\$ 2
Real estate – construction	6,324	6,324	-	4,662	69	8,532	321
Real estate – commercial	8,235	9,166	-	7,108	46	7,768	156
Real estate – residential	1,083	1,083	-	1,423	9	1,117	21
Consumer	610	610	-	771	32	907	42
With an allowance recorded:							
Commercial and industrial	-	-	-	454	5	494	17
Real estate – construction	1,866	1,866	44	1,949	16	1,953	48
Real estate – commercial	3,352	3,352	154	5,369	41	5,357	123
Real estate – residential	-	-	-	-	-	-	-
Consumer	-	-	-	-	-	-	-
Total:							
Commercial and industrial	1,052	1,052	-	573	5	619	19
Real estate – construction	8,190	8,190	44	6,611	85	10,485	369
Real estate – commercial	11,587	12,518	154	12,477	87	13,125	279
Real estate – residential	1,083	1,083	-	1,423	9	1,117	21
Consumer	610	610	-	771	32	907	42
	\$ 22,522	\$ 23,453	\$ 198	\$ 21,855	\$ 218	\$ 26,253	\$ 730

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 September 30, 2015 and December 31, 2014:

	Pass	Special Mention	Substandard	Doubtful	Total
(In Thousands)					
September 30, 2015:					
Commercial and industrial	\$92,389	\$ 164	\$ 4,254	\$ -	\$96,807
Real estate – construction	94,482	1,839	2,034	-	98,355
Real estate – commercial	407,116	4,709	3,700	-	415,525
Real estate – residential	37,121	-	640	-	37,761
Consumer	27,258	39	406	-	27,703
Total	\$658,366	\$ 6,751	\$ 11,034	\$ -	\$676,151

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

	Pass	Special Mention	Substandard	Doubtful	Total
	(In Thousands)				
December 31, 2014:					
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 September 30, 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			
	Balance		Balance			
	Related to		Related to		Balance	Balance
	Loans		Loans		Individually	Collectively
	Balance Individually		Collectively	Balance	Evaluated for	Evaluated for
	Evaluated		Evaluated		Impairment	Impairment
	for		for			
	Impairment		Impairment			
	(In Thousands)					
September 30, 2015:						
Commercial and industrial	\$908	\$ -	\$908	\$96,807	\$ 4,143	\$ 92,664
Real estate – construction	1,879	-	1,879	98,355	3,874	94,481
Real estate – commercial	4,981	-	4,981	415,525	5,619	409,906
Real estate – residential	275	-	275	37,761	926	36,835
Consumer	273	-	273	27,703	408	27,295
Unallocated	113	-	113	-	-	-

Total	\$8,429	\$	-	\$8,429	\$676,151	\$	14,970	\$	661,181
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	Allowance for Loan Losses			Loans Receivable		
	Balance		Balance			
	Related to	Related to		Balance	Balance	
	Loans	Loans		Individually	Collectively	
	Balance Individually	Collectively	Balance	Evaluated	Evaluated	
	Evaluated	Evaluated		for	for	
	for	for		Impairment	Impairment	
	Impairment	Impairment				
		(In Thousands)				
December 31, 2014:						
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)

The following tables present the change in the allowance for loan losses by classes of loans for the three and nine months ended September 30, 2015 and 2014:

Allowance for Loan Losses	Commercial and Industrial	Real Estate Construction	Real Estate Commercial (In Thousands)	Real Estate - Residential	Consumer		Unallocated Total
Beginning balance, July 1, 2015	\$ 923	\$ 1,704	\$4,933	\$ 301	\$ 328	\$ 106	\$8,295
Charge-offs	-	-	-	-	-	-	-
Recoveries	3	10	-	-	1	-	14
Provision	(18)	165	48	(26)	(56)	7	120
Ending balance, September 30, 2015	\$ 908	\$ 1,879	\$4,981	\$ 275	\$ 273	\$ 113	\$8,429

Allowance for Loan Losses	Commercial and Industrial	Real Estate Construction	Real Estate Commercial (In Thousands)	Real Estate - Residential	Consumer		Unallocated Total
Beginning balance, January 1, 2015	\$ 1,044	\$ 1,454	\$4,624	\$ 223	\$ 565	\$ 159	\$8,069
Charge-offs	-	-	-	-	(80)	-	(80)
Recoveries	7	29	-	-	4	-	40
Provision	(143)	396	357	52	(216)	(46)	400
Ending balance, September 30, 2015	\$ 908	\$ 1,879	\$4,981	\$ 275	\$ 273	\$ 113	\$8,429

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

Allowance for Loan Losses	Commercial and Industrial	Real Estate - Construction	Real Estate - Commercial	Real Estate - Residential	Consumer	Unallocated	Total
			(In Thousands)				
Beginning balance, July 1, 2014	\$ 1,161	\$ 1,786	\$3,913	\$ 215	\$ 588	\$ 141	\$7,804
Charge-offs	-	-	-	-	(87)	-	(87)
Recoveries	404	-	175	4	1	-	584
Provision	(590)	85	459	(7)	47	6	-
Ending balance, September 30, 2014	\$ 975	\$ 1,871	\$4,547	\$ 212	\$ 549	\$ 147	\$8,301

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	-	-	(667)	-	(127)	-	(794)
Recoveries	451	-	177	29	45	-	702
Provision	(466)	237	712	(7)	37	8	521
Ending balance, September 30, 2014	\$ 975	\$ 1,871	\$4,547	\$ 212	\$ 549	\$ 147	\$8,301

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 thereunder.

On March 20, 2007, the Board of Directors adopted the Two River Bancorp 2007 Equity Incentive Plan (the “Plan”), which was approved by the Company’s shareholders at the 2007 annual meeting. This plan provides that the Compensation Committee of the Board of Directors (the “Committee”) may grant to those individuals who are eligible under the terms of the Plan stock options, shares of restricted stock, or such other equity incentive awards as the Committee may determine. As of September 30, 2015, the number of shares of Company common stock remaining and available for future issuance under the Plan is 217,397 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 of the Company, and to consultants and other persons who provide substantial services to the Company.

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.

NOTE 7 – STOCK BASED COMPENSATION PLANS (Continued)

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

On May 11, 2015, the Committee awarded an officer an ISO to purchase an aggregate of 3,000 shares of Company's common stock. These options are scheduled to vest 20% per year over five years beginning May 11, 2016. These options were granted with an exercise price of \$9.02 per share as determined in accordance with the Plan.

Stock based compensation expense related to stock option grants was approximately \$22,000 and \$79,000 during the three and nine months ended September 30, 2015, respectively, as compared to \$22,000 and \$102,000 for the same three and nine month periods in 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 \$233,000 as of September 30, 2015 and will be recognized, on a weighted-average basis, over the subsequent 2.4 years.

The following table presents information regarding the Company's outstanding stock options at September 30, 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	3,000	9.02		
Options exercised	(25,397)	) 4.01		
Options forfeited	(5,068)	) 6.56		
Options outstanding, September 30, 2015	422,042	\$ 4.96	5.4 years	\$1,739,383
Options exercisable, September 30, 2015	301,439	\$ 4.28	4.5 years	\$1,463,887
Option price range at September 30, 2015	\$3.01 to \$13.56			

The total intrinsic value of options exercised during the three and nine months ended September 30, 2015 was \$48,000 and \$121,000, respectively. Cash received from such exercises was \$39,000 and \$103,000, respectively. A tax benefit of \$3,000 and \$6,000 was recognized during the three and nine months ended September 30, 2015, respectively. The total intrinsic value of options exercised during the three and nine months ended September 30, 2014 was \$20,000 and \$116,000, respectively. Cash received from such exercises was \$30,000 and \$112,000, respectively. A tax benefit of \$2,000 and \$6,000 was recognized during the three and nine months ended September 30, 2014, respectively.

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

The following weighted average assumptions were used to estimate the fair value of the stock options granted on May 11, 2015:

Dividend yield	1.33 %
Expected volatility	27.67 %
Risk-free interest rate	2.00 %
Expected life (in years)	7.5
Weighted average fair value of options granted	\$2.16

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

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.

NOTE 7 – STOCK BASED COMPENSATION PLANS (Continued)

Total unrecognized compensation cost related to restricted stock options under the Plan as of September 30, 2015 and 2014, was \$128,000 and \$145,000, respectively, and will be recognized, on a weighted-average basis, over the subsequent 3.8 years.

For the three and nine month periods ended September 30, 2015, the Company recorded \$24,000 and \$75,000 expense for stock based compensation expense, related to restricted stock grants, as compared to \$11,000 and \$18,000 for the three and nine month periods ended September 30, 2014 and is included in salaries and employee benefits on the statement of operations. There was no deferred tax benefit recognized during the three and nine month periods ended September 30, 2015 and 2014 related to the restricted stock compensation.

The following table summarizes information about restricted stock at September 30, 2015:

	Number of Shares	Weighted Average Price
Unvested at December 31, 2014	25,084	\$ 7.98
Restricted stock earned	(11,000)	8.14
Restricted stock granted	5,000	8.30
Unvested at September 30, 2015	19,084	\$ 7.98

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 September 30, 2015, the Company had \$4,068,000 of commercial and similar letters of credit. Management believes that the current amount of the liability as of September 30, 2015 for guarantees under standby letters of credit issued is not material.

NOTE 9 – BORROWINGS

At September 30, 2015 and December 31, 2014, long-term debt consisted of advances from the FHLB, which amounted to \$26.5 million and \$16.0 million, respectively. These advances had an average interest rate of 2.28% and 2.89% at September 30, 2015 and December 31, 2014, respectively. These advances are contractually scheduled for repayment as follows:

	September 30, 2015 (dollars in thousands)	December 31, 2014	Rate	Original Term	Maturity
Fixed Rate Note	\$7,500	\$ 7,500	3.97%	10 years	November 2017
Fixed Rate Note	-	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 years	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
	\$26,500	\$ 16,000			

In September 2015, the FHLB issued a \$20.1 million municipal deposit letter of credit in the name of Two River Community Bank naming the NJ Department of Banking and Insurance as beneficiary. The letter of credit will take the place of securities previously pledged to the state for the Bank's municipal deposits.

NOTE 9 – BORROWINGS (Continued)

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 \$36.0 million in unsecured credit facilities with three 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 \$51.4 million based on the current loan collateral pledged of \$98.1 million at September 30, 2015.

The Bank enters into Sweep Account Agreements with certain of its deposit account holders for repo sweep arrangements under which funds in excess of a predetermined amount are removed from each such depositor's account at the end of each banking day, and the Bank's obligation to restore those funds to the account at the beginning of the following banking day is evidenced by an integrated retail repurchase agreement (a "Repurchase Agreement") secured by a collateral interest in favor of the depositor in certain government securities held by a third party custodian. The Bank's obligation to restore the funds under the Repurchase Agreements is accounted for as a collateralized financing arrangement (i.e., secured borrowings), and not as a sale and subsequent repurchase of securities. The obligation to restore the funds to each account is reflected as a liability in the Company's consolidated statements of condition, while the securities underlying the repurchase agreements remain in the respective investment securities asset accounts. There is no offsetting or netting of the investment securities assets against the Repurchase Agreement obligation.

The following table presents the contractual maturities of the Repurchase Agreements as of September 30, 2015, disaggregated by the class of collateral pledged:

	Maturity of Repurchase Agreements			
	Overnight	Up to 30	Over 30	Total
	and	to 90	90	
	30	days	days	
	Continuous	days	days	
(dollars in thousands)				
September 30, 2015:				
Class of Collateral Pledged:				
U.S. Government agency securities	\$1,247	\$ -	\$ -	\$ -
GSE – residential mortgage-backed securities	13,643	-	-	-
U.S. Government collateralized residential mortgage obligations	15,873	-	-	-
Total	\$30,763	\$ -	\$ -	\$ -
Gross amount of recognized liabilities for repurchase agreements and securities lending				\$21,303
Amounts related to agreements not included in offsetting disclosure				\$9,460

The potential risks associated with the Repurchase Agreements and related pledged collateral, including obligations arising from a decline in the fair value of the pledged collateral, are minimal due to the fact that the Repurchase Agreements pertain to overnight borrowings and therefore not subject to fluctuations in fair market value.

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.

NOTE 10 – FAIR VALUE MEASUREMENTS (Continued)

For financial assets measured at fair value on a recurring basis, the fair value measurements by level within the fair value hierarchy used at September 30, 2015 and December 31, 2014 are as follows:

Description	(Level 1)	Quoted (Level 2) Prices	Significant (Level 3)	Total	
		in Active Markets for Identical Assets	Other Observable Inputs		Significant Unobservable Inputs
	(in thousands)				
<u>At September 30, 2015:</u>					
Securities available for sale:					
U.S. Government agency securities	\$-	\$ 1,247	\$ -	\$1,247	
Municipal securities	-	519	-	519	
GSE - residential mortgage-backed securities	-	15,466	-	15,466	
U.S. Government collateralized residential mortgage obligations	-	13,709	-	13,709	
Corporate debt securities, primarily financial institutions	-	2,339	-	2,339	
CRA mutual fund	2,396	-	-	2,396	
Total	\$2,396	\$ 33,280	\$ -	\$35,676	
<u>At December 31, 2014:</u>					
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	

As of September 30, 2015 and December 31, 2014, 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 September 30, 2015 and December 31, 2014 are as follows:

Description	(Level 1)	(Level 2)	(Level 3)	Total
	Quoted Prices	Significant in Other	Significant Unobservable Inputs	
Markets for Identical Assets (in thousands)				

At September 30, 2015:

Impaired loans net of partial charge-offs	\$-	\$ -	\$ 1,404	\$1,404
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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
Foreclosed and repossessed assets	-	-	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 and nine months ended September 30, 2015 and 2014.

NOTE 10 – FAIR VALUE MEASUREMENTS (Continued)

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 September 30, 2015 and December 31, 2014, there were no discounts applied to appraisal values as all impaired appraisals were current. At September 30, 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. At December 31, 2014, the discount range and liquidation expenses for collateral adjustments to OREO and repossessed assets range 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 December 31, 2014, OREO totaling \$1,603,000, was acquired through foreclosure and is carried at fair value less estimated selling costs based on current appraisals. At September 30, 2015, there was one residential loan for \$152,000 held in OREO while at December 31, 2014, the Company had \$1.3 million. As of September 30, 2015, the Company initiated foreclosure proceedings on one residential mortgage loan collateralized by a real estate property in the amount of \$542,000.

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 September 30, 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.

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 September 30, 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.

NOTE 10 – FAIR VALUE MEASUREMENTS (Continued)

Accrued Interest Receivable and Payable (carried at cost):

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

Deposit Liabilities (carried at cost):

The fair values disclosed for demand deposits (e.g., interest and noninterest checking, 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 September 30, 2015 and December 31, 2014.

The estimated fair values of the Company's financial instruments at September 30, 2015 and December 31, 2014 were as follows:

Fair Value Measurements at September 30, 2015					
(Level 1)					
(in thousands)	Carrying Amount	Estimated Fair Value	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	\$42,898	\$ 42,898	\$ 42,898	\$ -	\$ -
Securities available for sale	35,676	35,676	2,396	33,280	-
Securities held to maturity	42,851	42,923	-	42,923	-
Restricted stock	3,554	3,554	-	-	3,554
Loans held for sale	1,909	1,947	-	-	1,947
Loans receivable, net	667,155	661,593	-	-	661,593
Accrued interest receivable	1,767	1,767	-	361	1,406
Financial liabilities:					
Deposits	\$ 690,665	\$ 691,649	\$ -	\$ 691,649	\$ -
Securities sold under agreements to repurchase	21,303	21,303	-	21,303	-
Long-term debt	26,500	27,192	-	27,192	-
Accrued interest payable	49	49	-	49	-

NOTE 10 – FAIR VALUE MEASUREMENTS (Continued)**Fair Value Measurements at December 31, 2014
(Level 1)**

(in thousands)	Carrying Amount	Estimated Fair Value	Quoted Prices	(Level 2)	(Level 3)
			in Active Markets for Identical Assets	Significant	Significant
				Other Observable Inputs	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 held 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	642,390	641,967	-	641,967	-
Securities sold under agreements to repurchase	23,290	23,290	-	23,290	-
Long-term debt	16,000	16,776	-	16,776	-
Accrued interest payable	46	46	-	46	-

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 capital.

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

In 2021, 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 July 2013, the federal bank regulatory agencies adopted 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.

NOTE 11 –SHAREHOLDERS’ EQUITY (Continued)

These revisions generally implemented higher minimum capital requirements, added a new common equity Tier 1 capital requirement, and established criteria that instruments must meet to be considered common equity Tier 1 capital, additional Tier 1 capital or Tier 2 capital. The new minimum capital to risk-adjusted assets requirements are a common equity Tier 1 capital ratio of 4.5% (6.5% to be considered “well capitalized”) and a Tier 1 capital ratio of 6.0%, increased from 4.0% (and increased from 6.0% to 8.0% to be considered “well capitalized”); the total capital ratio remains at 8.0% under the new rules (10.0% to be considered “well capitalized”).

Under the new rules, in order to avoid limitations on capital distributions (including dividend payments and certain discretionary bonus payments to executive officers), a banking organization must hold a capital conservation buffer comprised of common equity Tier 1 capital above its minimum risk-based capital requirements in an amount greater than 2.5% of total risk-weighted assets. The new minimum capital requirements were effective on January 1, 2015 for the Bank and the Company. 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 September 30, 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.

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 September 30, 2015, the Company purchased 27,800 shares at an average price, including commission, of \$9.08 under this program. During the nine months ended September 30, 2015, the Company repurchased 56,388 shares at an average price, including commission, of \$8.80 for a total of \$497,000 of common stock repurchased under this program.

NOTE 12 – SUBSEQUENT EVENT

On October 21, 2015, the Board of Directors declared a quarterly cash dividend of \$0.035 per share to common shareholders of record at the close of business on November 13, 2015, payable on December 4, 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 to common shareholders of \$1.68 million, or \$0.21 per diluted share, for the third quarter of 2015, compared to \$1.66 million, or \$0.20 per diluted share, for the same period in 2014, an increase of \$19,000, or 1.1%. Our 2015 results for the third quarter were positively affected by an increase in net interest income primarily due to higher average loans and higher non-interest income, along with a lower effective tax rate, partially offset by higher non-interest expenses and a higher provision for loan losses. The annualized return on average assets was 0.79% for the three months ended September 30, 2015 as compared to 0.87% for the same period in 2014. The annualized return on average shareholders' equity was 6.95% for the three month period ended September 30, 2015 as compared to 6.85% for the three month period ended September 30, 2014.

For the nine months ended September 30, 2015, the Company reported net income available to common shareholders of \$4.55 million, or \$0.56 per diluted share, an increase of \$83,000, or 1.9%, over the \$4.47 million, or \$0.55 per diluted share, reported for the same period in 2014. Our 2015 results for the first nine months were positively affected by an increase in net interest income (primarily due to higher average loans), higher non-interest income, and a lower provision for loan losses, which were partially offset by an increase in non-interest expenses primarily due to higher salary and benefits and occupancy expenses. The annualized return on average assets was 0.75% for the nine month period ended September 30, 2015 as compared to 0.80% for the nine month period ended September 30, 2014. The annualized return on average shareholders' equity was 6.44% for the nine month period ended September 30, 2015 as compared to 6.31% for the nine month period ended September 30, 2014. Tangible book value per common share rose to \$9.28 at September 30, 2015 as compared to \$8.63 at September 30, 2014, as disclosed in the Non-GAAP Financial Measures table.

Net interest income increased by \$441,000, or 6.5%, for the quarter ended September 30, 2015 from the same period in 2014. Average earning assets totaled \$787.9 million, an increase of \$77.3 million, or 10.9%, from the quarter ended September 30, 2014, primarily due to an increase in average loans. The Company reported a net interest margin of 3.65% for the quarter ended September 30, 2015, compared to 3.65% for the previous quarter and 3.80% in the third quarter of 2014. The decline from 2014 was largely due to margin compression.

Net interest income increased by \$854,000, or 4.2%, for the nine months ended September 30, 2015 from the same period in 2014, primarily as a result of an increase in average loans and a higher level of average non-interest bearing demand deposits. The Company reported a net interest margin of 3.69% for the nine months ended September 30, 2015, a decrease of 11 basis points when compared to the 3.80% reported for the nine months ended September 30, 2014. The decline was primarily the result of the maturity, prepayment or contractual repricing of loans and securities during this extended period of lower rates.

The provision for loan losses for the three months ended September 30, 2015 totaled \$120,000, as compared to no provision for the corresponding 2014 period. No provision for loan losses was required in the 2014 period as a result

of non-recurring net loan recoveries of \$497,000 during that period. The provision for loan losses for the nine months ended September 30, 2015 was \$400,000, as compared to a provision for loan losses of \$521,000 for the corresponding 2014 period. The lower 2015 provision was due primarily to overall improvements in asset quality. The Company considers a number of factors in determining the amount of the provision, including our assessment of the current state of the local/regional and national 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 September 30, 2015 totaled \$836,000, an increase of \$124,000, or 17.4%, compared to the same period in 2014. Non-interest income for the period included higher residential mortgage banking revenue of \$273,000 due to higher origination volume and a \$113,000 gain on the sale of \$5.6 million of residential adjustable rate mortgage ("ARM") loans in September, which was partially offset by a \$74,000 reduction in gains on SBA loan sales. Additionally, other loan fees declined \$37,000 due to lower loan prepayment fees. Non-interest income for the nine months ended September 30, 2015 totaled \$2.6 million, an increase of \$357,000, or 16.3%, compared to the same period in 2014. This increase was largely due to a \$453,000 increase in mortgage banking revenue and a \$208,000 gain on the sale of a branch property. These increases were partially offset by decreases of \$198,000 and \$93,000 in other loan fees and service fees on deposit accounts, respectively.

Non-interest expense for the quarter ended September 30, 2015 totaled \$5.31 million, an increase of \$486,000, or 10.1%, compared to the same period in 2014. The increase was due primarily to a \$356,000 increase in salary and benefit expenses due primarily to the hiring of additional key personnel in its commercial and residential lending groups along with both annual merit increases and commissions paid for higher residential mortgage banking volume generated during the quarter. Occupancy and equipment expenses increased \$96,000 due primarily to the opening of our new Freehold and Cranford, New Jersey branches along with increased expenses associated with computer and technology upgrades. Additionally, professional costs increased by \$81,000 due in part to higher recruitment costs and legal expenses. These increases were partially offset by lower net expenses of \$130,000 related to OREO and repossessed asset expenses, impairments, and sales due to a \$104,000 gain from the sale of an OREO property during the current period. For the nine month period ended September 30, 2015, non-interest expense totaled \$15.8 million, an increase of \$1.3 million, or 9.1%, compared to the same period in 2014. This was due primarily to an increase of \$737,000 in salaries and employee benefits due to similar reasons cited above, while occupancy and equipment expenses increased \$346,000 due primarily to the aforementioned branch openings and technology upgrades. Additionally, professional fees increased by \$146,000 compared to the same period in 2014. OREO and repossessed asset expenses, impairments, and sales and loan workout costs decreased \$28,000.

Total assets at September 30, 2015 were \$842.3 million, an increase of 7.8% from the \$781.2 million at December 31, 2014. Total loans at September 30, 2015 were \$675.6 million, an increase of \$48.0 million, or 7.6%, from the \$627.6 million reported at December 31, 2014. Total deposits at September 30, 2015 were \$690.7 million, an increase of \$48.3 million, or 7.5%, from the \$642.4 million at December 31, 2014. Core checking deposits at September 30, 2015 increased \$30.0 million, or 11.7%, to \$285.9 million when compared to year-end 2014, while savings accounts, money market and time deposits increased \$18.3 million, or 4.7%.

The Company's allowance for loan losses was \$8.4 million at September 30, 2015, compared with \$8.1 million at December 31, 2014. The allowance for loan losses as a percentage of total loans at September 30, 2015 was 1.25%, compared with 1.29% at December 31, 2014. Non-performing assets at September 30, 2015 as a percentage of total assets were 0.50%, a decrease from 1.00% at December 31, 2014. Non-performing assets decreased to \$4.2 million at September 30, 2015 as compared to \$7.8 million at December 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 and loan 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		For the	
	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
Return on average assets	0.79%	0.87%	0.75%	0.80%
Return on average tangible assets (1)	0.80%	0.89%	0.76%	0.82%
Return on average equity	6.95%	6.85%	6.44%	6.31%
Return on average tangible equity (1)	8.55%	8.42%	7.94%	7.78%
Net interest margin	3.65%	3.80%	3.69%	3.80%
Average equity to average assets	11.32%	12.73%	11.59%	12.63%
Average tangible equity to average tangible assets (1)	9.40%	10.61%	9.60%	10.50%

(1)The following table provides the reconciliation of non-GAAP financial measures for the dates indicated:

(dollars in thousands)	For the		For the	
	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
Total shareholders' equity	\$97,640	\$98,637	\$97,640	\$98,637
Less: preferred stock	(6,000)	(12,000)	(6,000)	(12,000)
Common shareholders' equity	\$91,640	\$86,637	\$91,640	\$86,637
Less: goodwill and other intangible assets	(18,128)	(18,185)	(18,128)	(18,185)
Tangible common shareholders' equity	\$73,512	\$68,452	\$73,512	\$68,452
Common shares outstanding (in thousands)	7,918	7,932	7,918	7,932
Book value per common share	\$11.57	\$10.92	\$11.57	\$10.92
Book value per common share	\$11.57	\$10.92	\$11.57	\$10.92
Effect of intangible assets	(2.29)	(2.29)	(2.29)	(2.29)
Tangible book value per common share	\$9.28	\$8.63	\$9.28	\$8.63
Return on average assets	0.79 %	0.87 %	0.75 %	0.80 %
Effect of intangible assets	0.01 %	0.02 %	0.01 %	0.02 %
Return on average tangible assets	0.80 %	0.89 %	0.76 %	0.82 %
Return on average equity	6.95 %	6.85 %	6.44 %	6.31 %
Effect of average intangible assets	1.60 %	1.57 %	1.50 %	1.47 %
Return on average tangible equity	8.55 %	8.42 %	7.94 %	7.78 %
Average equity to average assets	11.30 %	12.73 %	11.59 %	12.63 %
Effect of intangible assets	(1.90)%	(2.12)%	(1.99)%	(2.13)%
Average tangible equity to average tangible assets	9.40 %	10.61 %	9.60 %	10.50 %

This Report contains certain financial information determined by methods other than in accordance with 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 September 30, 2015 compared to September 30, 2014

Net Interest Income

Net interest income for the quarter ended September 30, 2015 totaled \$7.25 million, an increase of \$441,000, or 6.5%, from the same period in 2014. This increase was largely due to an increase in average loans of \$66.9 million funded by a higher level of average core checking NOW deposits and non-interest bearing demand deposits of \$31.6 million and \$15.0 million, respectively, from the same period in 2014. Additionally, time deposits increased \$25.7 million or 32.4%, due to increases in both brokered and deposits obtained through the use of deposit listing services (“Listed Service CDs”) as the Company took advantage of extending the maturity of its CD portfolio by utilizing a ladder strategy of both types of funding during the first quarter of 2015. These positives were partially offset by the 13 basis point decline in our quarterly yield on interest-earning assets from the same period in 2014.

The net interest margin and net interest spread decreased to 3.65% and 3.50%, respectively, for the three months ended September 30, 2015 from 3.80% and 3.63%, respectively for the same period in 2014, primarily resulting from the maturity, prepayment and contractual re-pricing of loans and investment securities during this extended period of lower interest rates.

Total interest income for the three months ended September 30, 2015 increased by \$563,000, or 7.4%, from the same period last year. The increase in interest income was primarily due to a volume related increase in interest income of \$835,000, partially offset by a rate related decrease in interest income of \$272,000 for the third quarter of 2015 as compared to the same prior year period.

Interest and fees on loans increased \$535,000, or 7.3%, to \$7.8 million for the three months ended September 30, 2015 compared to \$7.3 million for the corresponding period in 2014. Volume related increases of \$798,000 were partially offset by rate related decreases of \$263,000. The average balance of the loan portfolio for the three months ended September 30, 2015 increased by \$66.9 million, or 10.9%, to \$679.3 million from \$612.4 million for the corresponding period in 2014. The average annualized yield on the loan portfolio was 4.58% for the quarter ended September 30, 2015 compared to 4.73% for the quarter ended September 30, 2014. Additionally, the average balance of non-accrual loans during the three month periods ended September 30, 2015 and 2014 of \$3.6 million and \$6.5 million, respectively, impacted the Company's loan yield for both periods presented.

Interest income on investment securities totaled \$366,000 for the three months ended September 30, 2015 compared to \$342,000 for the three months ended September 30, 2014, an increase of \$24,000, or 7.0%. For the three months ended September 30, 2015, investment securities had an average balance of \$80.5 million with an average annualized yield of 1.82% compared to an average balance of \$73.0 million with an average annualized yield of 1.87% for the three months ended September 30, 2014.

Interest income on interest bearing deposits was \$18,000 for the three months ended September 30, 2015, representing an increase of \$4,000, or 28.6%, from \$14,000 for the three months ended September 30, 2014. For the three months ended September 30, 2015, interest bearing deposits had an average balance of \$28.1 million as compared to an average balance of \$25.2 million for the same period in 2014. The average annualized yield was 0.25% and 0.22% for the third quarter of 2015 and 2014, respectively.

Interest expense on interest-bearing liabilities amounted to \$973,000 for the three months ended September 30, 2015 compared to \$851,000 for the corresponding period in 2014, an increase of \$122,000, or 14.3%. This increase in interest expense was comprised of a \$205,000 volume-related increase primarily resulting from deposit growth, partially offset by a rate-related decrease of \$83,000.

The Bank continues to focus on developing core deposit relationships. The average balance of interest-bearing liabilities increased to \$600.8 million for the three months ended September 30, 2015 from \$530.5 million for the same period last year, an increase of \$70.3 million, or 13.3%. Average NOW accounts increased \$31.5 million from \$110.5 million with an average annualized cost of 0.47% during the third quarter of 2014, to \$142.0 million with an average annualized cost of 0.40% during the third quarter of 2015. These average balance increases were partially offset by decreases in average savings deposits of \$1.6 million over this same period while the average annualized cost increased by 1 basis point as well as an increase of \$25.7 in our average time deposit balances while the average annualized cost declined by 8 basis points. During the third quarter of 2015, our average demand deposits totaled \$149.4 million, an increase of \$15.0 million, or 11.2%, over the same period last year. For the three months ended September 30, 2015 and 2014, the average annualized cost for all interest-bearing liabilities was unchanged at 0.64%.

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 third quarter of 2015 were \$23.9 million, with an average interest rate of 0.32%, compared to \$20.8 million, with an average interest rate of 0.32%, for the third quarter of 2014.

The Company also utilizes FHLB term borrowings as an additional funding source. The average balance of such borrowings for the third quarter of 2015 and 2014 was at \$27.3 million and \$16.8 million, respectively, with an average interest rate of 2.26% and 2.86%, 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.

(dollars in thousands)	Three Months Ended			Three Months Ended		
	September 30, 2015			September 30, 2014		
	Interest			Interest		
	Average Balance	Average Income/ Expense	Average Rate	Average Balance	Average Income/ Expense	Average Rate
ASSETS						
Interest Earning Assets:						
Interest bearing deposits in banks	\$28,062	\$ 18	0.25 %	\$25,178	\$ 14	0.22 %
Investment securities	80,533	366	1.82 %	73,012	342	1.87 %
Loans, net of unearned fees (1) (2)	679,279	7,834	4.58 %	612,340	7,299	4.73 %
Total Interest Earning Assets	787,874	8,218	4.14 %	710,530	7,655	4.27 %
Non-Interest Earning Assets:						
Allowance for loan losses	(8,344)			(8,249)		
All other assets	73,829			65,714		
Total Assets	\$853,359			\$767,995		
LIABILITIES & SHAREHOLDERS' EQUITY						
Interest-Bearing Liabilities:						
NOW deposits	\$142,022	143	0.40 %	\$110,462	132	0.47 %
Savings deposits	229,999	278	0.48 %	231,593	272	0.47 %
Money market deposits	72,520	29	0.16 %	71,497	29	0.16 %
Time deposits	105,048	349	1.32 %	79,366	280	1.40 %
Repurchase agreements	23,907	19	0.32 %	20,759	17	0.32 %
Borrowings	27,299	155	2.26 %	16,790	121	2.86 %
Total Interest Bearing Liabilities	600,795	973	0.64 %	530,467	851	0.64 %
Non-Interest Bearing Liabilities:						
Demand deposits	149,381			134,418		
Other liabilities	6,541			5,377		
Total Non-Interest Bearing Liabilities	155,922			139,795		

Shareholders' Equity	96,642		97,733	
Total Liabilities and Shareholders' Equity	\$853,359		\$767,995	
NET INTEREST INCOME	\$ 7,245		\$ 6,804	
NET INTEREST SPREAD (3)		3.50	%	3.63 %
NET INTEREST MARGIN (4)		3.65	%	3.80 %

(1) Included in interest income on loans are loan fees.

(2) Includes non-performing loans.

(3) The interest rate spread is the difference between the weighted average yield on average interest earning assets and the weighted average cost of average interest bearing liabilities.

(4) The interest rate margin is calculated by dividing annualized net interest income by average interest earning assets.

(dollars in thousands)	Nine Months Ended				Nine Months Ended			
	September 30, 2015				September 30, 2014			
	Average		Average		Average		Average	
	Balance	Interest Income/Expense	Rate		Balance	Interest Income/Expense	Rate	
ASSETS								
Interest Earning Assets:								
Interest bearing deposits in banks	\$30,754	\$58	0.25	%	\$27,254	\$51	0.25	%
Investment securities	76,145	1,019	1.78	%	74,008	1,058	1.91	%
Loans, net of unearned fees (1) (2)	652,822	22,720	4.65	%	605,480	21,578	4.76	%
Total Interest Earning Assets	759,721	23,797	4.19	%	706,742	22,687	4.29	%
Non-Interest Earning Assets:								
Allowance for loan losses	(8,192)				(7,991)			
All other assets	72,167				65,907			
Total Assets	\$823,696				\$764,658			
LIABILITIES & SHAREHOLDERS' EQUITY								
Interest-Bearing Liabilities:								
NOW deposits	\$126,284	402	0.43	%	\$110,209	381	0.46	%
Savings deposits	229,516	828	0.48	%	234,062	816	0.47	%
Money market deposits	72,050	86	0.16	%	71,997	88	0.16	%
Time deposits	102,088	1,009	1.32	%	81,864	891	1.46	%
Repurchase agreements	22,340	51	0.31	%	19,221	47	0.33	%
Borrowings	27,236	468	2.30	%	17,264	365	2.83	%
Total Interest Bearing Liabilities	579,514	2,844	0.66	%	534,617	2,588	0.65	%
Non-Interest Bearing Liabilities:								
Demand deposits	142,326				128,226			
Other liabilities	6,380				5,223			
Total Non-Interest Bearing Liabilities	148,706				133,449			
Shareholders' Equity	95,476				96,592			
Total Liabilities and Shareholders' Equity	\$823,696				\$764,658			
NET INTEREST INCOME		\$20,953				\$20,099		
NET INTEREST SPREAD (3)			3.53	%			3.64	%

NET INTEREST MARGIN (4)	3.69 %	3.80 %
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(1) Included in interest income on loans are loan fees.

(2) Includes non-performing loans.

(3) The interest rate spread is the difference between the weighted average yield on average interest earning assets and the weighted average cost of average interest bearing liabilities.

(4) The interest rate margin is calculated by dividing annualized net interest income by average interest earning assets.

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 September 30, 2015 Compared to Three Months Ended September 30, 2014			Nine Months Ended September 30, 2015 Compared to Nine Months Ended September 30, 2014		
	Increase (decrease) due to change in Volume	Rate	Net	Increase (decrease) due to change in Volume	Rate	Net
	(in thousands)			(in thousands)		
Interest Earned On:						
Interest bearing deposits in banks	\$2	\$2	\$4	\$7	\$-	\$7
Investment securities	35	(11)	24	31	(70)	(39)
Loans, net of unearned fees	798	(263)	535	1,687	(545)	1,142
Total Interest Income	835	(272)	563	1,725	(615)	1,110
Interest Paid On:						
NOW deposits	38	(27)	11	56	(35)	21
Savings deposits	(2)	8	6	(16)	28	12
Money market deposits	-	-	-	-	(2)	(2)
Time deposits	91	(22)	69	220	(102)	118
Repurchase agreements	3	(1)	2	8	(4)	4
Borrowings	75	(41)	34	211	(108)	103
Total Interest Expense	205	(83)	122	479	(223)	256
Net Interest Income	\$630	\$(189)	\$441	\$1,246	\$(392)	\$854

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 September 30, 2015 was \$120,000, as compared to no provision for the corresponding 2014 period. During the third quarter of 2014, the Company had net loans recoveries of \$497,000, which resulted in no provision for loan losses in that period. The \$120,000 provision for three months ended September 30, 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 \$8.4 million, or 1.25% of total loans at September 30, 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 \$8.4 million at September 30, 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 September 30, 2015, non-interest income amounted to \$836,000 compared to \$712,000 for the corresponding period in 2014. The increase of \$124,000, or 17.4%, was primarily due to a \$273,000 increase in residential mortgage banking revenue, partially offset by decreases in gains on SBA loan sales of \$74,000 and other loan fees of \$37,000 due to lower loan prepayment fees.

Non-Interest Expenses

Non-interest expense for the quarter ended September 30, 2015 totaled \$5.3 million, an increase of \$486,000, or 10.1%, compared to the same period in 2014. The increase was due primarily to a \$356,000 increase in salary and benefit expenses due primarily to the hiring of additional key personnel in its commercial and residential lending groups along with both annual merit increases and commissions paid for higher residential mortgage banking volume generated during the quarter. Occupancy and equipment expenses increased \$96,000 due primarily to the opening of our new Freehold and Cranford, New Jersey branches along with increased expenses associated with computer and technology upgrades. Additionally, professional fees increased by \$81,000 due primarily to higher recruitment costs and legal expenses. These increases were partially offset by lower net expenses of \$130,000 related to OREO and repossessed asset expenses, impairments, and sales due to a \$104,000 gain from the sale of an OREO property during the current quarter.

Income Taxes

The Company recorded income tax expense of \$961,000 for the three months ended September 30, 2015 compared to \$1.0 million for the three months ended September 30, 2014. The effective tax rates for the three months ended September 30, 2015 and 2014 were 36.2% and 37.3%, respectively, due to a lower level of taxable income during the current period due primarily to a higher level of tax-exempt municipal securities.

Nine months ended September 30, 2015 compared to September 30, 2014

Net Interest Income

Net interest income increased by \$854,000, or 4.2%, for the nine months ended September 30, 2015 from the same period in 2014, primarily as a result of an increase in average loans and higher level of average non-interest bearing demand deposits, partially offset by an 11 basis point contraction yield on the loan portfolio. Average interest earning assets for the nine months ended September 30, 2015, increased \$53.0 million, or 7.5%, from the same period in 2014. The net interest spread and net interest margin decreased to 3.53% and 3.69%, for the nine months ended September 30, 2015 and September 30, 2014, respectively, from 3.64% and 3.80%, respectively, for same prior year period. These decreases were primarily the result of the maturity, prepayment or contractual repricing of loans and securities in this prolonged low interest rate environment.

Total interest income for the nine months ended September 30, 2015 increased by \$1.1 million, or 4.9%. The increase was primarily due to a volume-related increase in interest income of \$1.7 million, partially offset by a \$615,000 rate-related decrease in interest income for the nine months ended September 30, 2015 as compared to the same prior year period.

Interest and fees on loans increased \$1.1 million, or 5.3%, to \$22.7 million for the nine months ended September 30, 2015 compared to \$21.6 million for the corresponding period in 2014. Volume-related increases of \$1.7 million were partially offset by rate-related decreases of \$545,000. The average balance of the loan portfolio for the nine months ended September 30, 2015 increased by \$47.3 million, or 7.8%, to \$652.8 million from \$605.5 million for the corresponding period in 2014. The average annualized yield on the loan portfolio was 4.65% for the nine months ended September 30, 2015 compared to 4.76% for the nine months ended September 30, 2014. Additionally, the average balance of non-accrual loans, which amounted to \$3.7 million and \$6.4 million at September 30, 2015 and 2014, respectively, impacted the Company's loan yield for both periods presented.

Interest income on investment securities totaled \$1.0 million for the nine months ended September 30, 2015, a decrease of \$39,000, or 3.7%, compared to the nine months ended September 30, 2014. For the nine months ended September 30, 2015, investment securities had an average balance of \$76.1 million with an average annualized yield of 1.78% compared to an average balance of \$74.0 million with an average annualized yield of 1.91% for the nine months ended September 30, 2014.

Interest income on interest bearing deposits was \$58,000 for the nine months ended September 30, 2015, representing an increase of \$7,000, or 13.7%, from \$51,000 for the nine months ended September 30, 2014. For the nine months ended September 30, 2015 and 2014, interest bearing deposits had an average balance of \$30.8 million and \$27.3 million, respectively. The average annualized yield was 0.25% for both the nine month periods ended September 30, 2015 and 2014.

Interest expense on interest-bearing liabilities amounted to \$2.8 million for the nine months ended September 30, 2015 compared to \$2.6 million for the corresponding period in 2014, an increase of \$256,000, or 9.9%. This increase in interest expense was comprised of a \$479,000 in volume-related increase primarily resulting from deposit growth, partially offset by \$223,000 in rate-related decreases.

The Bank continues to focus on developing core deposit relationships. The average balance of interest-bearing liabilities increased to \$579.5 million for the nine months ended September 30, 2015 from \$534.6 million for the same period last year, an increase of \$44.9 million, or 8.4%. Our average NOW accounts increased \$16.1 million to \$126.3 million with an average annualized cost of 0.43% during the nine months ended September 30, 2015, from \$110.2 million with an average annualized cost of 0.46% during the same period in 2014. Average time deposits increased by \$20.2 million compared to the same period in 2014. For the nine months ended September 30, 2015, the average annualized cost for all interest-bearing liabilities was 0.66%, compared to 0.65% for the nine months ended September 30, 2014, an increase of 1 basis point. Additionally, our average non-interest bearing demand deposits totaled \$142.3 million, an increase of \$14.1 million, or 11.0%, over the same period last year.

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 nine months ended September 30, 2015 were \$22.3 million, with an average interest rate of 0.31%, compared to \$19.2 million, with an average interest rate of 0.33%, for the nine months ended September 30, 2014.

The Company also utilizes FHLB term borrowings as an additional funding source. The average balance of such borrowings for the nine months ended September 30, 2015 was \$27.2 million with an average interest rate of 2.30% compared to \$17.3 million, with an average interest rate of 2.83%, for the nine months ended September 30, 2014.

Provision for Loan Losses

The provision for loan losses for the nine months ended September 30, 2015 was \$400,000, as compared to a provision for loan losses of \$521,000 for the corresponding 2014 period. The \$121,000 decrease in our provision for the nine months was primarily due to lower net loan charge-offs coupled with improvements in overall asset quality, which lowered the need for specific reserves. The \$400,000 provision for the nine months ended September 30, 2015 was driven by a number of factors, including level of charge-offs and recoveries, our assessment of the current state of the economy, and 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.

Non-Interest Income

Non-interest income for the nine months ended September 30, 2015 totaled \$2.6 million, an increase of \$357,000, or 16.3%, compared to the same period in 2014. This increase was largely due to a \$453,000 increase in mortgage banking revenue and a \$208,000 gain on the sale of a branch property. These increases were partially offset by decreases of \$198,000 in other loan fees due to lower loan prepayment fees and \$93,000 in service fees on deposit accounts.

Non-Interest Expenses

For the nine month period ended September 30, 2015, non-interest expense totaled \$15.8 million, an increase of \$1.3 million, or 9.1%, compared to the same period in 2014. This was due primarily to an increase of \$737,000 in salaries and employee benefits due primarily to the hiring of additional revenue-producing staff to support our growth coupled with both merit increases and commissions paid for higher residential mortgage banking volume generated during the first nine months of 2015. Occupancy and equipment expenses increased \$346,000 due primarily to the opening of our new Freehold and Cranford, New Jersey branches as well as technology upgrades. Additionally, professional fees increased \$146,000 due to higher legal and recruitment costs. These increases were partially offset by a decrease of \$89,000 in OREO and repossessed asset expenses, impairments, and sales primarily due to a \$104,000 gain from the sale of an OREO property during the current quarter.

Income Taxes

The Company recorded income tax expense of \$2.7 million for both the nine months ended September 30, 2015 and 2014. The effective tax rates for the nine months ended September 30, 2015 and 2014 were 36.7% and 37.2%, respectively, due to a lower level of taxable income during the current period due primarily to a higher level of tax-exempt municipal securities.

FINANCIAL CONDITION

Assets

At September 30, 2015, our total assets were \$842.3 million, an increase of \$61.1 million, or 7.8%, from total assets of \$781.2 million at December 31, 2014. At September 30, 2015, our total loans were \$675.6 million, an increase of \$48.0 million, or 7.6%, from the \$627.6 million reported at December 31, 2014. Investment securities, including restricted stock, were \$82.1 million at September 30, 2015 as compared to \$73.7 million at December 31, 2014, an increase of \$8.4 million, or 11.4%. At September 30, 2015, cash and cash equivalents totaled \$42.9 million compared to \$36.1 million at December 31, 2014, an increase of \$6.8 million, or 18.8%. Our liquidity position continued to remain strong. Goodwill totaled \$18.1 million at both September 30, 2015 and December 31, 2014.

Liabilities

Total deposits increased \$48.3 million, or 7.5%, to \$690.7 million at September 30, 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 the remainder of 2015 and beyond and will depend on the expansion and maturation of deposits from our branch network as the primary funding source. As a secondary funding source, the Company intends to utilize borrowed funds, including FHLB advances, brokered CDs and Listed Service CDs at opportune times during changing rate cycles. The Company continues to experience change in the mix of the deposit products through its branch sales efforts, which are targeted to gain market penetration. In order to fund future quality loan demand, the Company intends to use the most cost-effective funding available within the market area.

Securities Portfolio

Investment securities, including restricted stock, totaled \$82.1 million at September 30, 2015 compared to \$73.7 million at December 31, 2014, an increase of \$8.4 million, or 11.4%. During the nine months ended September 30, 2015 and 2014, investment securities and restricted stock purchases amounted to \$40.4 million and \$15.7 million, respectively, while repayments, calls and maturities amounted to \$8.1 million and \$12.6 million, respectively. Additionally, for the nine months ended September 30, 2015 and 2014, there were investment securities sales totaling \$24.3 million and \$5.6 million, in which the Company recorded net gains of \$37,000 for the nine months ended September 30, 2015 compared to \$19,000 in net gains during the same period in 2014.

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 and a limited amount

of corporate debt securities. 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 September 30, 2015, the Company maintained \$19.5 million of GSE mortgage-backed securities in the investment portfolio and \$17.4 million of 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, and 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 Ba1. These securities have an amortized cost value of \$2.8 million and a fair value of \$2.4 million at September 30, 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 September 30, 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 September 30, 2015 and December 31, 2014.

	September 30, 2015			December 31, 2014		
	Amount	Percent		Amount	Percent	
	(in thousands, except for percentages)					
Commercial and industrial	\$96,807	14.3	%	\$96,514	15.4	%
Real estate – construction	98,355	14.6	%	89,145	14.2	%
Real estate – commercial	415,525	61.5	%	383,777	61.1	%
Real estate – residential	37,761	5.6	%	30,808	4.9	%
Consumer	27,703	4.1	%	28,095	4.5	%
Unearned fees	(567)	(0.1	%)	(725)	(0.1	%)
Total loans	\$675,584	100.0	%	\$627,614	100.0	%

For the nine months ended September 30, 2015, total loans increased by \$48.0 million, or 7.6%, to \$675.6 million from \$627.6 million at December 31, 2014. The increase was due to growth in commercial real estate, residential, construction, and commercial and industrial lending. Our local economy seems to reflect some strengthening in certain sectors. As such, we remain optimistic in our growth prospects for lending during the remainder of 2015 and into 2016, 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 contiguous 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, if warranted. During the second quarter of 2015, we replaced our Freehold, New Jersey LPO with a full service branch to support that market. During the second quarter of 2014, we replaced our New Brunswick and East Brunswick LPOs with a full service branch in that market,

which opened in April 2014. The Bank continues to operate two LPOs in the Summit and Toms River, New Jersey markets. Both 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 \$293,000, or 0.3%, to \$96.8 million at September 30, 2015 from \$96.5 million at December 31, 2014. Real estate residential loans increased \$7.0 million, or 22.7% to \$37.8 million at September 30, 2015 from \$30.8 million at December 31, 2014. Real estate commercial loans increased by \$31.7 million, or 8.3%, to \$415.5 million at September 30, 2015 from \$383.8 million at December 31, 2014. Real estate construction loans increased by \$9.2 million, or 10.3%, to \$98.4 million. These increases were partially offset by a decrease in Consumer loans of \$392,000, or 1.4%, to \$27.7 million at September 30, 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), 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 September 30, 2015 and December 31, 2014, the Company had \$3.7 million and \$6.2 million in non-accrual loans, respectively. Our non-performing loans are primarily secured by real estate. At September 30, 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 September 30, 2015 and December 31, 2014.

**September
30,
2015** **December
31, 2014**
(dollars in
thousands)

Non-Performing Assets:

Non-Accrual Loans:

Commercial and industrial	\$142	\$ 119
Real estate-construction	-	407
Real estate-commercial	2,801	4,722
Real estate – residential	542	694
Consumer	195	295
Total Non-Accrual Loans	3,680	6,237
Loans 90 days or more past due and still accruing	-	-
Total Non-Performing Loans	3,680	6,237
Other Real Estate Owned	495	1,603
Total Non-Performing Assets	\$4,175	\$ 7,840

Ratios:

Non-Performing loans to total loans	0.54	%	0.99	%
Non-Performing assets to total assets	0.50	%	1.00	%

Troubled Debt Restructured Loans:

Performing	\$11,290	\$ 16,284
Non-performing (included in non-performing assets above)	1,578	4,269

Total non-performing loans decreased by \$2.6 million from December 31, 2014. At September 30, 2015, twelve loans comprise the \$3.7 million in non-performing loans as compared to sixteen loans for the \$6.2 million at December 31, 2014. At September 30, 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 September 30, 2015, non-performing commercial and industrial loans increased by \$23,000 from December 31, 2014, due to the addition of one new credit. The \$142,000 is comprised of two commercial term loans.

At September 30, 2015, non-performing real estate construction loans decreased by \$407,000 from December 31, 2014, due to the payoff of three construction loans during 2015.

At September 30, 2015, non-performing real estate commercial loans decreased by \$1.9 million from December 31, 2014, due primarily to one loan totaling \$1.7 million, which was returned to active status during the first quarter, and the payoff of one loan during the third quarter, partially offset by the addition of one new loan totaling \$529,000.

At September 30, 2015, non-performing real estate residential loans decreased by \$152,000 from December 31, 2014 due to the transfer of one loan to OREO.

At September 30, 2015, non-performing consumer loans decreased by \$100,000 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 September 30, 2015, the Bank had \$495,000 of OREO, consisting of two properties, as compared to \$1.6 million at December 31, 2014, which consisted of three properties. During the third quarter of 2015, one property totaling \$1.1 million was sold for a \$104,000 gain while in the second quarter, one property totaling \$192,000 was sold for a \$3,000 gain. 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 TDR generally involve a temporary reduction in interest rate or a modification of a loan's amortization schedule. Non-accrual TDRs

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 TDRs 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 September 30, 2015, TDRs totaled \$12.9 million as compared to \$20.6 million at December 31, 2014, a decrease of \$7.7 million. The decrease of \$7.7 million was primarily due to the refinance of a \$5.2 million commercial real estate loan, which was underwritten at current market conditions with no new concessions granted. As such, this loan was removed from TDR status. The remaining decrease of \$2.5 million was largely the result of pay downs and payoffs on other loans throughout the year. Concessions made on TDR loans generally involve 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 \$12.9 million of TDRs is comprised of \$4.3 million in real estate commercial loans, \$3.9 million in real estate construction loans, \$4.1 million in commercial loans, \$384,000 in residential mortgage loans and \$212,000 in consumer loans. All but four identified TDRs as of September 30, 2015, are collateral-dependent loans. The four others are cash flow dependent. Of the \$12.9 million, none have specific reserves in our ALLL computation. The entire \$12.9 million of TDR's are adequately collateralized requiring no specific reserves.

The \$4.3 million in real estate commercial loans identified as TDRs are all accruing, with the exception of four non-accrual loans totaling \$1.5 million. The first non-accrual loan, totaling \$1.4 million, is secured by real estate, and we are in the early stages of commencing foreclosure proceedings. The remaining three non-accrual loans total \$65,000. The remaining \$2.8 million of performing TDRs 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 \$3.9 million in real estate construction loans are primarily comprised of four relationships, one of which totaling \$545,000, includes fully improved building lots under contract of sale to one national home builder. The lot sales are structured as tranche takedowns with repayments expected in full by the end of 2015. The remaining three projects with a total of \$3.3 million are currently being developed, under contract and/or amortizing.

The \$4.1 million in commercial and industrial loans are all performing, with the exception of one non-accrual loan totaling \$111,000. This category increased by \$3.0 million due to the addition of one relationship consisting of five loans, which totaled \$3.0 million, all of which are performing.

The \$384,000 in real estate residential loans and \$217,000 in consumer 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 September 30, 2015, the Company had \$17.8 million in loans that were risk rated as special mention or substandard, which includes \$3.7 million in non-accrual loans that are included in the substandard category. This \$17.8 million of special mention and substandard loans represents a decrease of \$9.0 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 pay downs.

At September 30, 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 nine months ended September 30, 2015 and 2014 and for the year ended December 31, 2014.

September 30,		December
2015	2014	31,
		2014

(in thousands, except
percentages)

Balance at beginning of year	\$8,069	\$7,872	\$ 7,872
Provision charged to expense	400	521	621
Loans charged off, net	(40)	(92)	(424)
Balance of allowance at end of period	\$8,429	\$8,301	\$ 8,069
Ratio of net charge-offs to average loans outstanding (annualized)	0.01 %	0.02 %	0.07 %
Balance of allowance as a percent of loans at period-end	1.25 %	1.35 %	1.29 %
Ratio of allowance at period-end to non-performing loans	229.05 %	119.97 %	129.37 %

At September 30, 2015, the Company's allowance for loan losses was \$8.4 million compared with \$8.1 million at December 31, 2014. Loss allowance as a percentage of total loans at September 30, 2015 was 1.25%, compared with 1.29% at December 31, 2014. The Company recorded a \$400,000 provision to the allowance for loan losses for the nine month period ended September 30, 2015 as compared to \$521,000 for the comparable period in 2014. The \$121,000 decrease in our provision for the nine months was primarily due to a decrease in net charge-offs from \$92,000 during the first nine months of 2014 to \$40,000 during the first nine months of 2015 as well as improved asset quality. Non-performing loans at September 30, 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 on 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 2004, the Company invested in \$3.5 million of bank-owned life insurance as a source of funding for additional life insurance benefits for officers and employee benefit expenses related to the Company's non-qualified Supplemental Executive Retirement Plan ("SERP") for certain executive officers implemented in 2004 that provides for payments upon retirement, death or disability. Since its initial investment in 2004, the Company has purchased an additional \$13.1 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 \$187,000 for both the nine months ended September 30, 2015 and 2014. 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 \$335,000 and \$347,000 for the nine months ended September 30, 2015 and 2014, respectively.

Premises and Equipment

Premises and equipment totaled approximately \$5.2 million and \$5.7 million at September 30, 2015 and December 31, 2014, respectively. The reduction was primarily due to the sale of a branch property in Union County, New Jersey, with its operations consolidated into our South Avenue branch. The resultant reduction in fixed assets, net of accumulated depreciation, amounted to \$717,000, and the Company realized a gain of \$208,000 from the sale. This fixed asset reduction was partially offset by new capital expenditures, primarily related to the new Cranford and Freehold branches during the first half of 2015. Depreciation expenses totaled \$592,000 and \$436,000 for the nine months ended September 30, 2015 and 2014, respectively. The increase in the expense was primarily due the Cranford and Freehold additions during the nine months ended September 30, 2015.

Goodwill and Other Intangible Assets

Intangible assets totaled \$18.1 million at September 30, 2015 and \$18.2 million at December 31, 2014. The Company's intangible assets at September 30, 2015 were comprised of \$18.1 million of goodwill and \$19,000 of core deposit intangibles, net of accumulated amortization of \$2.1 million. The Company performed its annual goodwill impairment analysis as of September 30, 2015. 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 borrowing 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 the Company's market area. We attempt to control the flow of deposits primarily by pricing our deposit offerings to be competitive with other financial institutions in our market area, but not necessarily offering the highest rate.

Total deposits at September 30, 2015 were \$690.7 million, an increase of 7.5% from the \$642.4 million at December 31, 2014. Core checking deposits at September 30, 2015 increased \$30.0 million, or 11.7%, to \$285.9 million when compared to year-end 2014, primarily due to a new municipal deposit relationship coupled with seasonality, while savings, money market and time deposits increased \$18.3 million, or 4.7%. 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 nine months 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, excluding high-cost certificates of deposit, 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 September 30, 2015 amounted to \$611.7 million and accounted for 88.6% 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 over \$100,000 at September 30, 2015 totaled \$52.3 million as compared to \$43.2 million at December 31, 2014, an increase of \$9.1 million, or 21.1%. At September 30, 2015, the Company had \$28.1 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 \$30.3 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.

Borrowings

The Bank has unsecured lines of credit totaling \$46.0 million with four 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 \$51.4 million based on the current loan collateral pledged of \$98.1 million at September 30, 2015.

Short-term borrowings consist of Federal funds purchased and short-term borrowings from the FHLB. At September 30, 2015 and December 31, 2014, the Company had no short-term borrowings outstanding.

At September 30, 2015 and December 31, 2014, long-term debt consisted of advances from the FHLB, which amounted to \$26.5 million at September 30, 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. Total FHLB advances had a weighted average interest rate of 2.28% and 2.89% at September 30, 2015 and December 31, 2014, respectively.

These advances are contractually scheduled for repayment as follows:

	September 30, 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	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
	\$26,500	\$ 16,000			

The maximum amount outstanding of FHLB advances during the nine months ended September 30, 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 2.30% and 2.83% during the nine months ended September 30, 2015 and 2014, respectively.

In September 2015, the FHLB issued a \$20.1 million municipal deposit letter of credit in the name of Two River Community Bank naming the NJ Department of Banking and Insurance as beneficiary. The letter of credit will take the place of securities previously pledged to the state for the Bank's municipal deposits.

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 \$21.3 million at September 30, 2015 from \$23.3 million at December 31, 2014, a decrease of \$2.0 million, or 8.6%.

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 September 30, 2015, the Company had \$42.9 million in cash and cash equivalents as compared to \$36.1 million at December 31, 2014. Cash and cash equivalent balances include \$22.1 million and \$17.8 million of interest bearing deposits at the Federal Reserve Bank of New York at September 30, 2015 and December 31, 2014, respectively.

On July 21, 2015, the Company filed a registration statement with the SEC permitting it to issue a combination of securities, in one or more offerings, from time to time, up to \$30.0 million. This registration statement was declared effective by the SEC on September 4, 2015. The purpose of this newly filed registration statement was to replace the availability previously provided by the Company's registration statement filed in August 2012.

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 September 30, 2015 and December 31, 2014:

	September 30, 2015 (dollars in thousands)	December 31, 2014
Home equity lines of credit	\$20,349	\$ 18,619
Commitments to fund commercial real estate and construction loans	95,492	99,802
Commitments to fund commercial and industrial and other loans	46,124	42,209
Commercial and financial letters of credit	4,068	4,754
	\$166,033	\$ 165,384

Capital

Shareholders' equity increased by approximately \$3.7 million, or 3.9%, to \$97.6 million at September 30, 2015 compared to \$93.9 million at December 31, 2014. Net income for the nine month period ended September 30, 2015 added \$4.6 million to shareholders' equity. Additionally, stock-based option compensation expense of \$154,000, options exercised of \$103,000, employee stock purchase plan purchases of \$40,000 and \$105,000 in after-tax net unrealized gains on securities available for sale contributed to the increase during the nine months ended September 30, 2015. These increases were partially offset by decreases of \$497,000 in common stock repurchased, \$754,000 in cash dividends on common stock, and \$45,000 relating to the dividends on the preferred stock Series C.

The Company and the Bank are subject to various regulatory and capital requirements administered by the Federal banking agencies. Our federal banking regulators, the Board of Governors of the Federal Reserve System (the "Federal Reserve") (which regulates bank holding companies) and the Federal Deposit Insurance Corporation (the "FDIC") (which regulates the Bank), have issued guidelines classifying and defining capital. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions that, if undertaken, could

have a direct material effect on the Company's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and the Bank must meet specific capital guidelines that involve quantitative measures of their assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. The capital amounts and classification of the Company and the Bank is also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Company and the Bank to maintain minimum amounts and ratios, set forth in the following tables of Tier 1 Capital to Average Assets (Leverage Ratio), 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 September 30, 2015, the Company and the Bank met all capital adequacy requirements to which they are subject.

As of September 30, 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 September 30, 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 September 30, 2015								
Common Equity Tier 1 Capital to Risk Weighted Assets	10.15	%	10.91	%	4.50	%	6.50	%
Tier 1 Capital to Average Assets (Leverage Ratio)	9.55	%	9.50	%	4.00	%	5.00	%
Tier 1 Capital to Risk Weighted Assets	10.97	%	10.91	%	6.00	%	8.00	%
Total Capital to Risk Weighted Assets	12.13	%	12.07	%	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 July 2013, the federal bank regulatory agencies adopted 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.

These revisions generally implemented higher minimum capital requirements, added a new common equity Tier 1 Capital requirement, and established 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 September 30, 2015, the Bank 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 September 30, 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 (\$)
July 1, 2015 through July 31, 2015	-	-	-	1,756,235
August 1, 2015 through August 31, 2015	20,500	9.04	20,500	1,570,140
September 1, 2015 through September 30, 2015	7,300	9.05	7,300	1,503,783
Total	27,800	9.04	27,800	

(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: November 13, 2015 By: /s/ WILLIAM D. MOSS

William D. Moss
President and Chief Executive Officer
(Principal Executive Officer)

Date: November 13, 2015 By: /s/ A. RICHARD ABRAHAMIAN

A. Richard Abrahamian
Executive Vice President and Chief Financial Officer
(Principal Financial and Accounting Officer)