

BRIDGE BANCORP INC  
Form 10-Q  
May 12, 2014  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

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**FORM 10-Q**

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

For the quarterly period ended March 31, 2014

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Commission file number 001-34096

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**BRIDGE BANCORP, INC.**

(Exact name of registrant as specified in its charter)

NEW YORK

(State or other jurisdiction of incorporation or organization)

11-2934195

(IRS Employer Identification Number)

2200 MONTAUK HIGHWAY, BRIDGEHAMPTON, NEW YORK

(Address of principal executive offices)

11932

(Zip Code)

Registrant's telephone number, including area code: (631) 537-1000

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Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes ☒ No ☐

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

Large accelerated filer ☐

Accelerated filer ☒

Non-accelerated filer ☐ (Do not check if a smaller reporting company)

Smaller reporting company ☐

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

There were 11,627,231 shares of common stock outstanding as of May 8, 2014.

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**BRIDGE BANCORP, INC.**

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

(In thousands, except share and per share amounts)

	March 31, 2014	December 31, 2013
<b>ASSETS</b>		
Cash and due from banks	\$ 36,407	\$ 39,997
Interest earning deposits with banks	7,764	5,576
Total cash and cash equivalents	44,171	45,573
Securities available for sale, at fair value	626,732	575,179
Securities held to maturity (fair value of \$213,844 and \$197,339, respectively)	216,043	201,328
Total securities	842,775	776,507
Securities, restricted	10,489	7,034
Loans held for investments	1,135,730	1,013,263
Allowance for loan losses	(16,369)	(16,001)
Loans, net	1,119,361	997,262
Premises and equipment, net	30,198	27,983
Accrued interest receivable	6,407	5,648
Goodwill	10,696	2,034
Core deposit intangible	2,063	190
Bank owned life insurance	10,104	10,035
Prepaid pension	8,605	8,586
Other real estate owned		2,242
Other assets	28,059	13,652
<b>Total Assets</b>	<b>\$ 2,112,928</b>	<b>\$ 1,896,746</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Demand deposits	\$ 519,962	\$ 582,938
Savings, NOW and money market deposits	987,484	855,246
Certificates of deposit of \$100,000 or more	101,337	64,445
Other time deposits	66,103	36,450
Total deposits	1,674,886	1,539,079
Federal Funds Purchased	66,000	64,000
Federal Home Loan Bank advances	152,217	98,000
Repurchase agreements	11,562	11,370
Junior subordinated debentures	16,002	16,002
Other liabilities and accrued expenses	25,406	8,835
<b>Total Liabilities</b>	<b>1,946,073</b>	<b>1,737,286</b>
<b>Commitments and Contingencies</b>		

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**Stockholders' equity:**

Preferred stock, par value \$.01 per share (2,000,000 shares authorized; none issued)		
Common stock, par value \$.01 per share:		
Authorized: 20,000,000 shares; 11,623,737 and 11,317,367 shares issued, respectively;		
11,622,080 and 11,307,607 shares outstanding, respectively	116	113
Surplus	117,461	111,377
Retained earnings	59,240	61,441
Less: Treasury Stock at cost, 1,657 and 9,760 shares, respectively	(42)	(235)
	176,775	172,696
Accumulated other comprehensive loss, net of income tax	(9,920)	(13,236)
<b>Total Stockholders' Equity</b>	<b>166,855</b>	<b>159,460</b>
<b>Total Liabilities and Stockholders' Equity</b>	<b>\$ 2,112,928</b>	<b>\$ 1,896,746</b>

*See accompanying condensed notes to the Unaudited Consolidated Financial Statements*

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

(In thousands, except per share amounts)

	<b>For the Three Months Ended March 31,</b>	
	<b>2014</b>	<b>2013</b>
Interest income:		
Loans (including fee income)	\$ 13,314	\$ 10,668
Mortgage-backed securities, CMOs and other asset-backed securities	2,291	1,443
U.S. GSE securities	807	791
State and municipal obligations	701	680
Corporate Bonds	154	101
Deposits with banks	8	5
Other interest and dividend income	83	43
Total interest income	17,358	13,731
Interest expense:		
Savings, NOW and money market deposits	837	884
Certificates of deposit of \$100,000 or more	175	329
Other time deposits	95	85
Federal funds purchased and repurchase agreements	129	124
Federal Home Loan Bank advances	245	40
Junior subordinated debentures	341	341
Total interest expense	1,822	1,803
Net interest income	15,536	11,928
Provision for loan losses	700	550
Net interest income after provision for loan losses	14,836	11,378
Non interest income:		
Service charges on deposit accounts	799	801
Fees for other customer services	566	653
Net securities (losses) gains	(1,112)	338
Title fee income	322	286
Other operating income	227	26
Total non-interest income	802	2,104
Non-interest expense:		
Salaries and employee benefits	6,206	5,394
Occupancy and equipment	1,615	1,191
Technology and communications	717	542
Marketing and advertising	421	348
Professional services	356	309
FDIC assessments	288	216
Acquisition costs and branch restructuring	4,434	
Amortization of core deposit intangible	58	16
Other operating expenses	918	892
Total non-interest expense	15,013	8,908

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Income before income taxes		<b>625</b>		4,574
Income tax expense		<b>219</b>		1,461
Net income	\$	<b>406</b>	\$	3,113
Basic earnings per share	\$	<b>0.04</b>	\$	0.35
Diluted earnings per share	\$	<b>0.04</b>	\$	0.35

*See accompanying condensed notes to the Unaudited Consolidated Financial Statements*

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**BRIDGE BANCORP, INC. AND SUBSIDIARIES**

**Consolidated Statements of Comprehensive Income (unaudited)**

(In thousands)

	<b>For the Three Months Ended March 31,</b>	
	<b>2014</b>	<b>2013</b>
Net Income	\$ 406	\$ 3,113
Other comprehensive income (loss):		
Change in unrealized net gains (losses) on securities available for sale, net of reclassification and deferred income taxes	3,411	(607)
Adjustment to pension liability, net of deferred income taxes	(4)	39
Unrealized (losses) gains on cash flow hedge, net of deferred income taxes	(91)	17
Total other comprehensive income (loss)	3,316	(551)
Comprehensive income	\$ 3,722	\$ 2,562

*See accompanying condensed notes to the Unaudited Consolidated Financial Statements.*



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

(In thousands, except per share amounts)

	Common Stock	Surplus	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Loss	Total
Balance at January 1, 2014	\$ 113	\$ 111,377	\$ 61,441	\$ (235)	\$ (13,236)	\$ 159,460
Net income			406			406
Shares issued under the dividend reinvestment plan ( DRP )		151				151
Shares issued in the acquisition of FNB NY Bancorp, net of offering costs (240,598 shares)	2	5,946				5,948
Stock awards granted and distributed	1	(332)		331		
Vesting of stock awards				(147)		(147)
Exercise of stock options		(2)		9		7
Tax effect of stock plans		30				30
Share based compensation expense		291				291
Cash dividend declared, \$0.23 per share			(2,607)			(2,607)
Other comprehensive income, net of deferred income taxes					3,316	3,316
Balance at March 31, 2014	\$ 116	\$ 117,461	\$ 59,240	\$ (42)	\$ (9,920)	\$ 166,855

	Common Stock	Surplus	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Loss	Total
Balance at January 1, 2013	\$ 89	\$ 64,208	\$ 55,102	\$ (309)	\$ (418)	\$ 118,672
Net income			3,113			3,113
Stock awards granted and distributed	1	(411)		410		
Vesting of stock awards				(149)		(149)
Tax effect of stock plans		(9)				(9)
Share based compensation expense		338				338
Other comprehensive loss, net of deferred income taxes					(551)	(551)
Balance at March 31, 2013	\$ 90	\$ 64,126	\$ 58,215	\$ (48)	\$ (969)	\$ 121,414

See accompanying condensed notes to the Unaudited Consolidated Financial Statements.

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

(In thousands)

	For the Three Months Ended March 31,	
	2014	2013
<b>Cash flows from operating activities:</b>		
Net Income	\$ 406	\$ 3,113
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	700	550
Depreciation and amortization	581	417
Net amortization on securities	885	1,512
Increase in cash surrender value of bank owned life insurance	(69)	
Amortization of core deposit intangible	58	16
Share based compensation expense	291	338
Net securities losses (gains)	1,112	(338)
Increase in accrued interest receivable	(759)	(131)
Increase in other assets	(3,929)	(1,268)
Increase (decrease) in accrued expenses and other liabilities	1,686	(202)
<b>Net cash provided by operating activities</b>	<b>962</b>	<b>4,007</b>
<b>Cash flows from investing activities:</b>		
Purchases of securities available for sale	(148,637)	(26,033)
Purchases of securities, restricted	(80,235)	(59)
Purchases of securities held to maturity	(17,962)	
Proceeds from sales of securities available for sale	198,763	46,553
Redemption of securities, restricted	79,380	
Maturities, calls and principal payments of securities available for sale	15,712	51,395
Maturities, calls and principal payments of securities held to maturity	3,011	13,932
Net increase in loans	(35,409)	(63,715)
Proceeds from sales of other real estate owned, net	2,242	
Purchase of premises and equipment	(1,008)	(1,570)
Net cash acquired in business combination	2,926	
<b>Net cash provided by investing activities</b>	<b>18,783</b>	<b>20,503</b>
<b>Cash flows from financing activities:</b>		
Net decrease in deposits	(34,066)	(35,121)
Net increase (decrease) in federal funds purchased	2,000	(15,500)
Net increase in FHLB advances	14,935	
Repayment of acquired unsecured debt	(1,450)	
Net increase in repurchase agreements	192	431
Net proceeds from issuance of common stock	151	
Net proceeds from exercise of stock options	7	
Repurchase of surrendered stock from vesting of restricted stock awards	(147)	(149)
Excess tax benefit (expense) from share based compensation	30	(9)
Cash dividends paid	(2,607)	
Other, net	(192)	
<b>Net cash used in financing activities</b>	<b>(21,147)</b>	<b>(50,348)</b>

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Net decrease in cash and cash equivalents	(1,402)	(25,838)
Cash and cash equivalents at beginning of period	45,573	51,249
<b>Cash and cash equivalents at end of period</b>	<b>\$ 44,171</b>	<b>\$ 25,411</b>
<b>Supplemental Information-Cash Flows:</b>		
Cash paid for:		
Interest	\$ 1,712	\$ 1,792
Income tax	\$ 883	\$ 190
Noncash investing and financing activities:		
Securities which settled in the subsequent period	\$ 12,905	\$
Acquisition of noncash assets and liabilities:		
Fair value of assets acquired	\$ 206,981	\$
Fair value of liabilities assumed	\$ 212,430	\$

See accompanying condensed notes to the Unaudited Consolidated Financial Statements.

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**BRIDGE BANCORP, INC. AND SUBSIDIARIES**

**CONDENSED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**(unaudited)**

**1. BASIS OF PRESENTATION**

Bridge Bancorp, Inc. (the "Company") is a bank holding company incorporated under the laws of the State of New York. The Company's business currently consists of the operations of its wholly-owned subsidiary, The Bridgehampton National Bank (the "Bank"). The Bank's operations include its real estate investment trust subsidiary, Bridgehampton Community, Inc. ("BCI"), a financial title insurance subsidiary, Bridge Abstract LLC ("Bridge Abstract"), and an investment services subsidiary, Bridge Financial Services LLC that was formed on March 26, 2014. In addition to the Bank, the Company has another subsidiary Bridge Statutory Capital Trust II which was formed in 2009. In accordance with current accounting guidance, the trust is not consolidated in the Company's financial statements.

The accompanying Unaudited Consolidated Financial Statements, which include the accounts of the Company and its wholly-owned subsidiary, the Bank, have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP") for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. The Unaudited Consolidated Financial Statements included herein reflect all normal recurring adjustments that are, in the opinion of management, necessary for a fair presentation of the results for the interim periods presented. In preparing the interim financial statements, management has made estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expense during the reported periods. Such estimates are subject to change in the future as additional information becomes available or previously existing circumstances are modified. Actual future results could differ significantly from those estimates. The annualized results of operations for the three months ended March 31, 2014 are not necessarily indicative of the results of operations that may be expected for the entire fiscal year. Certain information and note disclosures normally included in the financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission (the "SEC"). Certain reclassifications have been made to prior year amounts, and the related discussion and analysis, to conform to the current year presentation. These reclassifications did not have an impact on net income or total stockholders' equity. The Unaudited Consolidated Financial Statements should be read in conjunction with the Audited Consolidated Financial Statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2013.

**2. EARNINGS PER SHARE**

Financial Accounting Standards Board Accounting Standards Codification ("FASB ASC") No. 260-10-45 addresses whether instruments granted in share-based payment transactions are participating securities prior to vesting and, therefore, need to be included in the earnings allocation in computing earnings per share ("EPS"). The restricted stock awards and restricted stock units granted by the Company contain non-forfeitable rights to dividends and therefore are considered participating securities. The two-class method for calculating basic EPS excludes dividends paid to participating securities and any undistributed earnings attributable to participating securities.

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The computation of EPS for the three months ended March 31, 2014 and 2013 is as follows:

(In thousands, except per share data)	Three months ended, March 31,	
	2014	2013
Net Income	\$ 406	\$ 3,113
Less: Dividends paid on and earnings allocated to participating securities		(80)
Income attributable to common stock	\$ 406	\$ 3,033
Weighted average common shares outstanding, including participating securities	11,513	8,978
Less: weighted average participating securities	(263)	(231)
Weighted average common shares outstanding	11,250	8,747
Basic earnings per common share	\$ 0.04	\$ 0.35
Income attributable to common stock	\$ 406	\$ 3,033
Weighted average common shares outstanding	11,250	8,747
Weighted average common equivalent shares outstanding	1	
Weighted average common and equivalent shares outstanding	11,251	8,747
Diluted earnings per common share	\$ 0.04	\$ 0.35

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There were 5,131 and 49,362 options outstanding at March 31, 2014 and March 31, 2013, respectively, that were not included in the computation of diluted earnings per share because the options' exercise prices were greater than the average market price of common stock and were, therefore, antidilutive. The \$16.0 million in convertible trust preferred securities outstanding at March 31, 2014, were not included in the computation of diluted earnings per share because the assumed conversion of the trust preferred securities was antidilutive.

**3. STOCK BASED COMPENSATION PLANS**

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

No new grants of stock options were awarded and no compensation expense was attributable to stock options for the three months ended March 31, 2014 and March 31, 2013 because all stock options were vested.

The intrinsic value for stock options is calculated based on the exercise price of the underlying awards and the market price of our common stock as of the reporting date. The intrinsic value of options exercised during the first quarter of 2014 and 2013 was \$1,000 and \$0, respectively. The intrinsic value of options outstanding and exercisable at March 31, 2014 and March 31, 2013 was \$55,000 and \$0, respectively.

A summary of the status of the Company's stock options as of and for the three months ended March 31, 2014 is as follows:

(Dollars in thousands, except per share amounts)	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Aggregate Intrinsic Value
Outstanding, January 1, 2014	45,395	\$ 25.54		
Granted				
Exercised	(1,274)	\$ 24.00		
Forfeited	(1,230)	\$ 25.25		
Expired	(561)	\$ 24.00		
Outstanding, March 31, 2014	42,330	\$ 25.61	2.47 years	\$ 55
Vested and Exercisable, March 31, 2014	42,330	\$ 25.61	2.47 years	\$ 55

Range of Exercise Prices	Number of Options	Exercise Price
	37,199	\$ 25.25
	3,000	\$ 26.55

2,131	\$	30.60
42,330		

During the three months ended March 31, 2014 restricted stock awards of 73,323 shares were granted. Of the 73,323 shares granted, 53,425 shares vest over seven years with a third vesting after years five, six and seven, 17,898 shares vest over five years with a third vesting after years three, four and five and the remaining 2,000 shares vest ratably over approximately two years. During the three months ended March 31, 2013 restricted stock awards of 72,940 shares were granted. Of the 72,940 shares granted, 51,175 shares vest over seven years with a third vesting after years five, six and seven, 12,652 shares vest over five years with a third vesting after years three, four and five and the remaining 9,113 shares vest ratably over approximately five years. Compensation expense attributable to restricted stock awards was \$251,000 and \$299,000 for the three months ended March 31, 2014 and 2013, respectively.

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A summary of the status of the Company's unvested restricted stock as of and for the three months ended March 31, 2014 is as follows:

	Shares		Weighted Average Grant-Date Fair Value
Unvested, January 1, 2014	197,599	\$	21.18
Granted	73,323	\$	25.44
Vested	(23,529)	\$	21.58
Forfeited			
Unvested, March 31, 2014	247,393	\$	22.41

In April 2009, the Company adopted a Directors Deferred Compensation Plan. Under the Plan, independent directors may elect to defer all or a portion of their annual retainer fee in the form of restricted stock units. In addition, Directors receive a non-election retainer in the form of restricted stock units. These restricted stock units vest ratably over one year and have dividend rights but no voting rights. In connection with this Plan, the Company recorded expenses of approximately \$40,000 and \$39,000 for the three months ended March 31, 2014 and 2013, respectively.

## 4. SECURITIES

The following table summarizes the amortized cost and fair value of the available for sale and held to maturity investment securities portfolio at March 31, 2014 and December 31, 2013 and the corresponding amounts of unrealized gains and losses therein:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
(In thousands)				
Available for sale:				
U.S. GSE securities	\$ 133,504	\$ 52	\$ (6,776)	\$ 126,780
State and municipal obligations	66,401	515	(540)	66,376
U.S. GSE residential mortgage-backed securities	57,820	44	(443)	57,421
U.S. GSE residential collateralized mortgage obligations	271,898	239	(5,434)	266,703
U.S. GSE commercial mortgage-backed securities	3,061		(169)	2,892
U.S. GSE commercial collateralized mortgage obligations	32,760	166	(81)	32,845
Non Agency commercial mortgage-backed securities	817		(24)	793
Other Asset backed securities	57,715	45	(1,843)	55,917
Corporate Bonds	16,989	53	(37)	17,005
Total available for sale	640,965	1,114	(15,347)	626,732
Held to maturity:				
U.S. GSE securities	11,261		(141)	11,120
State and municipal obligations	66,790	1,057	(22)	67,825
U.S. GSE residential mortgage-backed securities	7,599		(237)	7,362
U.S. GSE residential collateralized mortgage obligations	65,831	510	(2,922)	63,419
U.S. GSE commercial mortgage-backed securities	10,082		(208)	9,874



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U.S. GSE commercial collateralized mortgage obligations	<b>31,580</b>	<b>291</b>	<b>(637)</b>	<b>31,234</b>
Corporate Bonds	<b>22,900</b>	<b>136</b>	<b>(26)</b>	<b>23,010</b>
Total held to maturity	<b>216,043</b>	<b>1,994</b>	<b>(4,193)</b>	<b>213,844</b>
Total securities	\$ <b>857,008</b>	\$ <b>3,108</b>	\$ <b>(19,540)</b>	\$ <b>840,576</b>

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	December 31, 2013			
(In thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
<b>Available for sale:</b>				
U.S. GSE securities	\$ 164,278	\$ 15	\$ (11,536)	\$ 152,757
State and municipal obligations	62,141	602	(1,087)	61,656
U.S. GSE residential mortgage-backed securities	14,609	36	(210)	14,435
U.S. GSE residential collateralized mortgage obligations	285,595	559	(6,963)	279,191
U.S. GSE commercial mortgage-backed securities	3,076		(242)	2,834
U.S. GSE commercial collateralized mortgage obligations	26,740	194	(24)	26,910
Non Agency commercial mortgage-backed securities	3,658		(80)	3,578
Other Asset backed securities	34,970	42	(1,194)	33,818
Total available for sale	595,067	1,448	(21,336)	575,179
<b>Held to maturity:</b>				
U.S. GSE securities	11,254		(375)	10,879
State and municipal obligations	67,232	863	(179)	67,916
U.S. GSE residential mortgage-backed securities	8,001		(312)	7,689
U.S. GSE residential collateralized mortgage obligations	68,197	537	(3,655)	65,079
U.S. GSE commercial mortgage-backed securities	10,132		(356)	9,776
U.S. GSE commercial collateralized mortgage obligations	13,627		(706)	12,921
Corporate Bonds	22,885	203	(9)	23,079
Total held to maturity	201,328	1,603	(5,592)	197,339
Total securities	\$ 796,395	\$ 3,051	\$ (26,928)	\$ 772,518

The following table summarizes the amortized cost, fair value and maturities of the available for sale and held to maturity investment securities portfolio at March 31, 2014. 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.

	March 31, 2014	
(In thousands)	Amortized Cost	Fair Value
<b>Maturity</b>		
<b>Available for sale:</b>		
Within one year	\$ 14,922	\$ 15,013
One to five years	36,688	36,947
Five to ten years	151,739	146,035
Beyond ten years	437,616	428,737
Total	\$ 640,965	\$ 626,732
<b>Held to maturity:</b>		
Within one year	\$ 27,107	\$ 27,163
One to five years	42,301	42,397
Five to ten years	34,537	34,873
Beyond ten years	112,098	109,411
Total	\$ 216,043	\$ 213,844



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Securities with unrealized losses at March 31, 2014 and December 31, 2013, aggregated by category and length of time that individual securities have been in a continuous unrealized loss position, are as follows:

March 31, 2014 (In thousands)	Less than 12 months		Greater than 12 months	
	Fair Value	Unrealized losses	Fair Value	Unrealized losses
Available for sale:				
U.S. GSE securities	\$ 94,284	\$ 4,516	\$ 29,326	\$ 2,260
State and municipal obligations	21,355	521	982	19
U.S. GSE residential mortgage-backed securities	46,371	443		
U.S. GSE residential collateralized mortgage obligations	185,751	4,281	29,695	1,153
U.S. GSE commercial mortgage-backed securities	2,892	169		
U.S. GSE commercial collateralized mortgage obligations	18,793	81		
Non Agency commercial mortgage-backed securities	793	24		
Other Asset backed securities	51,190	1,843		
Corporate Bonds	4,084	37		
Total available for sale	425,513	11,915	60,003	3,432

Held to maturity:				
U.S. GSE securities	11,121	141		
State and municipal obligations	10,403	21	205	1
U.S. GSE residential mortgage-backed securities	7,362	237		
U.S. GSE residential collateralized mortgage obligations	27,190	1,721	17,779	1,201
U.S. GSE commercial mortgage-backed securities	9,874	208		
U.S. GSE commercial collateralized mortgage obligations	20,787	637		
Corporate Bonds	8,976	24	998	2
Total held to maturity	\$ 95,713	\$ 2,989	\$ 18,982	\$ 1,204

December 31, 2013 (In thousands)	Less than 12 months		Greater than 12 months	
	Fair Value	Unrealized losses	Fair Value	Unrealized losses
Available for sale:				
U.S. GSE securities	\$ 128,468	\$ 8,915	\$ 23,966	\$ 2,621
State and municipal obligations	23,765	1,046	966	41
U.S. GSE residential mortgage-backed securities	10,410	210		
U.S. GSE residential collateralized mortgage obligations	218,415	6,476	12,757	487
U.S. GSE commercial mortgage-backed securities	2,834	242		
U.S. GSE commercial collateralized mortgage obligations	4,912	24		
Non Agency commercial mortgage-backed securities	3,578	80		
Other Asset backed securities	21,144	1,103	2,906	91
Total available for sale	413,526	18,096	40,595	3,240

Held to maturity:				
U.S. GSE securities	10,879	375		
State and municipal obligations	24,079	178	385	1
U.S. GSE residential mortgage-backed securities	7,689	312		
U.S. GSE residential collateralized mortgage obligations	29,570	2,169	17,752	1,486
U.S. GSE commercial mortgage-backed securities	9,776	356		
U.S. GSE commercial collateralized mortgage obligations	12,921	706		
Corporate Bonds	1,993	7	999	2
Total held to maturity	\$ 96,907	\$ 4,103	\$ 19,136	\$ 1,489



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*Other-Than-Temporary-Impairment*

Management evaluates securities for other-than-temporary impairment ( OTTI ) at least on a quarterly basis, and more frequently when economic or market conditions warrant. The investment securities portfolio is evaluated for OTTI by segregating the portfolio into two general segments and applying the appropriate OTTI model. Investment securities classified as available for sale or held-to-maturity are generally evaluated for OTTI under FASB ASC 320, *Accounting for Certain Investments in Debt and Equity Securities*. In determining OTTI under the FASB ASC 320 model, management considers many factors, including: (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near term prospects of the issuer, (3) whether the market decline was affected by macroeconomic conditions, and (4) whether the Company has the intent to sell the debt security or more likely than not will be required to sell the debt security before its anticipated recovery. If either of the criteria regarding intent or requirement to sell is met, the entire difference between amortized cost and fair value is recognized as impairment through earnings. For debt securities that do not meet the aforementioned criteria, the amount of impairment is split into two components as follows: (1) OTTI related to credit loss, which must be recognized in the income statement and (2) OTTI related to other factors, which is recognized in other comprehensive income. The credit loss is defined as the difference between the present value of the cash flows expected to be collected and the amortized cost basis. The assessment of whether an other-than-temporary decline exists involves a high degree of subjectivity and judgment and is based on the information available to management at a point in time.

At March 31, 2014, the majority of unrealized losses on both the available for sale and held to maturity securities are related to the Company's U.S. GSE securities and U.S. GSE residential collateralized mortgage obligations. The decrease in fair value of the U.S. GSE securities and U.S. GSE residential collateralized mortgage obligations is attributable to changes in interest rates and not credit quality. The Company does not have the intent to sell these securities and it is more likely than not that it will not be required to sell the securities before their anticipated recovery. Therefore, the Company does not consider these securities to be other-than-temporarily impaired at March 31, 2014.

Proceeds from sales of securities available for sale were \$198.8 million and \$46.6 million for the three months ended March 31, 2014 and 2013, respectively. Net losses of \$1.1 million and net gains of \$0.3 million were realized on these sales during the three months ended March 31, 2014 and 2013, respectively. Proceeds from calls of securities were \$0.3 million and \$31.7 million for the three months ended March 31, 2014 and 2013, respectively.

Securities having a fair value of approximately \$408.5 million and \$397.5 million at March 31, 2014 and December 31, 2013, respectively, were pledged to secure public deposits and Federal Home Loan Bank and Federal Reserve Bank overnight borrowings. The Bank did not hold any trading securities during the three months ended March 31, 2014 or the year ended December 31, 2013.

The Bank is a member of the Federal Home Loan Bank ( FHLB ) of New York. Members are required to own a particular amount of stock based on the level of borrowings and other factors, and may invest in additional amounts. The Bank is a member of the Atlantic Central Bankers' Bank ( ACBB ) and is required to own ACBB stock. The Bank is also a member of the Federal Reserve Bank ( FRB ) system and required to own FRB stock. FHLB, ACBB and FRB stock is carried at cost and periodically evaluated for impairment based on ultimate recovery of par value. Both cash and stock dividends are reported as income. The Bank owned approximately \$10.5 million and \$7.0 million in FHLB, ACBB and FRB stock at March 31, 2014 and December 31, 2013. These amounts were reported as restricted securities in the consolidated balance sheets.

**5. ESTIMATED FAIR VALUE OF FINANCIAL INSTRUMENTS**

FASB ASC No. 820-10 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. FASB ASC 820-10 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair values:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

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Assets and liabilities measured on a recurring basis:

		Fair Value Measurements at March 31, 2014 Using:		
	Carrying Value	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
(In thousands)				
Financial Assets:				
Available for sale securities:				
U.S. GSE securities	\$ 126,780		\$ 126,780	
State and municipal obligations	66,376		66,376	
U.S. GSE residential mortgage-backed securities	57,421		57,421	
U.S. GSE residential collateralized mortgage obligations	266,703		266,703	
U.S. GSE commercial mortgage-backed securities	2,892		2,892	
U.S. GSE commercial collateralized mortgage obligations	32,845		32,845	
Non Agency commercial mortgage-backed securities	793		793	
Other Asset backed securities	55,917		55,917	
Corporate Bonds	17,005		17,005	
Total available for sale	\$ 626,732		\$ 626,732	
Financial Liabilities:				
Derivatives	\$ (314)		\$ (314)	

		Fair Value Measurements at December 31, 2013 Using:		
	Carrying Value	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
(In thousands)				
Financial Assets:				
Available for sale securities:				
U.S. GSE securities	\$ 152,757		\$ 152,757	
State and municipal obligations	61,656		61,656	
U.S. GSE residential mortgage-backed securities	14,435		14,435	
U.S. GSE residential collateralized mortgage obligations	279,191		279,191	
U.S. GSE commercial mortgage-backed securities	2,834		2,834	
U.S. GSE commercial collateralized mortgage obligations	26,910		26,910	
Non Agency commercial mortgage-backed securities	3,578		3,578	
Other Asset backed securities	33,818		33,818	



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Total available for sale	\$	575,179	\$	575,179
Financial Liabilities:				
Derivatives	\$	(164)	\$	(164)

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

		Fair Value Measurements at March 31, 2014 Using:		
		Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
(In thousands)	Carrying Value			
Impaired loans	\$ 846			\$ 846

		Fair Value Measurements at December 31, 2013 Using:		
		Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
(In thousands)	Carrying Value			
Impaired loans	\$ 1,329			\$ 1,329
Other real estate owned	2,242			2,242

Impaired loans with allocated allowance for loan losses at March 31, 2014, had a carrying amount of \$0.8 million, which is made up of the outstanding balance of \$1.1 million, net of a valuation allowance of \$0.3 million. No additional provision for loan losses was necessary for the three months ended March 31, 2014. Impaired loans with allocated allowance for loan losses at December 31, 2013, had a carrying amount of \$1.3 million, which is made up of the outstanding balance of \$1.5 million, net of a valuation allowance of \$0.2 million. This resulted in an additional provision for loan losses of \$0.2 million at December 31, 2013.

Other real estate owned at March 31, 2014 and December 31, 2013 had a carrying amount of \$0 and \$2.2 million, respectively, and no valuation allowance recorded. Accordingly, there was no additional provision for loan losses included in the amount reported on the Consolidated Statements of Income.

The Company used the following method and assumptions in estimating the fair value of its financial instruments:

**Cash and Due from Banks and Federal Funds Sold:** Carrying amounts approximate fair value, since these instruments are either payable on demand or have short-term maturities. Cash on hand and non-interest due from bank accounts are Level 1 and interest bearing Cash Due from Banks and Federal Funds Sold are Level 2.

**Securities Available for Sale and Held to Maturity:** The estimated fair values are based on independent dealer quotations on nationally recognized securities exchanges, if available (Level 1). For securities where quoted prices are not available, fair value is based on matrix pricing, which is a mathematical technique widely used in the industry to value debt securities without relying exclusively on quoted prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted securities (Level 2).

Restricted Securities: It is not practicable to determine the fair value of FHLB, ACBB and FRB stock due to restrictions placed on its transferability.

Derivatives: Represents an interest rate swap and the estimated fair values are based on valuation models using observable market data as of measurement date (Level 2).

Loans: The estimated fair values of real estate mortgage loans and other loans receivable are based on discounted cash flow calculations that use available market benchmarks when establishing discount factors for the types of loans resulting in a Level 3 classification. Exceptions may be made for adjustable rate loans (with resets of one year or less), which would be discounted straight to their rate index plus or minus an appropriate spread. All nonaccrual loans are carried at their current fair value. The methods utilized to estimate the fair value of loans do not necessarily represent an exit price and therefore, while permissible for presentation purposed under ASC 825-10, do not conform to ASC 820-10.

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**Impaired Loans:** For impaired loans, the Company evaluates the fair value of the loan in accordance with current accounting guidance. For loans that are collateral dependent, the fair value of the collateral is used to determine the fair value of the loan. The fair value of the collateral is determined based upon recent appraised values. The fair value of other real estate owned is also evaluated in accordance with current accounting guidance and determined based upon recent appraised values. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the independent appraisers to adjust for differences between the comparable sales and income data available. Adjustments may relate to location, square footage, condition, amenities, market rate of leases as well as timing of comparable sales. All appraisals undergo a second review process to insure that the methodology employed and the values derived are accurate. The fair value of the loan is compared to the carrying value to determine if any write-down or specific reserve is required. Impaired loans are evaluated on a quarterly basis for additional impairment and adjusted accordingly.

Appraisals for collateral-dependent impaired loans are performed by certified general appraisers (for commercial properties) or certified residential appraisers (for residential properties) whose qualifications and licenses have been reviewed and verified by the Company. Once received, the Credit Administration department reviews the assumptions and approaches utilized in the appraisal as well as the overall resulting fair value in comparison with independent data sources such as recent market data or industry-wide statistics. On a quarterly basis, the Company compares the actual selling price of collateral that has been sold to the most recent appraised value to determine what additional adjustment should be made to the appraisal value to arrive at fair value. Management also considers the appraisal values for commercial properties associated with current loan origination activity. Collectively, this information is reviewed to help assess current trends in commercial property values. For each collateral dependent impaired loan, management considers information that relates to the type of commercial property to determine if such properties may have appreciated or depreciated in value since the date of the most recent appraisal. Adjustments to fair value are made only when the analysis indicates a probable decline in collateral values.

**Deposits:** The estimated fair value of certificates of deposits are based on discounted cash flow calculations that use a replacement cost of funds approach to establishing discount rates for certificates of deposits maturities resulting in a Level 2 classification. Stated value is fair value for all other deposits resulting in a Level 1 classification.

**Borrowed Funds:** The estimated fair value of borrowed funds are based on discounted cash flow calculations that use a replacement cost of funds approach to establishing discount rates for funding maturities resulting in a Level 2 classification.

**Junior Subordinated Debentures:** The estimated fair value is based on estimates using market data for similarly risk weighted items and takes into consideration the convertible features of the debentures into common stock of the Company which is an unobservable input resulting in a Level 3 classification.

**Accrued Interest Receivable and Payable:** For these short-term instruments, the carrying amount is a reasonable estimate of the fair value resulting in a Level 1 or 2 classification.

**Off-Balance-Sheet Liabilities:** The fair value of off-balance-sheet commitments to extend credit is estimated using fees currently charged to enter into similar agreements. The fair value is immaterial as of March 31, 2014 and December 31, 2013.

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Fair value estimates are made at specific points in time and are based on existing on-and off-balance sheet financial instruments. Such estimates are generally subjective in nature and dependent upon a number of significant assumptions associated with each financial instrument or group of financial instruments, including estimates of discount rates, risks associated with specific financial instruments, estimates of future cash flows, and relevant available market information. Changes in assumptions could significantly affect the estimates. In addition, fair value estimates do not reflect the value of anticipated future business, premiums or discounts that could result from offering for sale at one time the Company's entire holdings of a particular financial instrument, or the tax consequences of realizing gains or losses on the sale of financial instruments.

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The estimated fair values and recorded carrying amounts of the Bank's financial instruments at March 31, 2014 and December 31, 2013 are as follows:

Fair Value Measurements at March 31, 2014 Using:					
	Carrying Amount	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
(In thousands)					
Financial assets:					
Cash and due from banks	\$ 36,407	\$ 36,407	\$	\$	\$ 36,407
Interest bearing deposits with banks	7,764		7,764		7,764
Securities available for sale	626,732		626,732		626,732
Securities restricted	10,489	n/a	n/a	n/a	n/a
Securities held to maturity	216,043		213,844		213,844
Loans, net	1,119,361			1,125,030	1,125,030
Accrued interest receivable	6,407		2,981	3,426	6,407
Financial liabilities:					
Certificates of deposit	167,440		168,746		168,746
Demand and other deposits	1,507,446	1,507,446			1,507,446
Federal funds purchased	66,000	66,000			66,000
Federal Home Loan Bank overnight borrowings	78,000	77,992			77,992
Federal Home Loan Bank term advances	74,217		74,520		74,520
Repurchase agreements	11,562		12,030		12,030
Junior Subordinated Debentures	16,002			15,597	15,597
Derivatives	314		314		314
Accrued interest payable	335	75	260		335

Fair Value Measurements at December 31, 2013 Using:					
	Carrying Amount	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
(In thousands)					
Financial assets:					
Cash and due from banks	\$ 39,997	\$ 39,997	\$	\$	\$ 39,997
Interest bearing deposits with banks	5,576		5,576		5,576
Securities available for sale	575,179		575,179		575,179
Securities restricted	7,034	n/a	n/a	n/a	n/a
Securities held to maturity	201,328		197,338		197,338
Loans, net	997,262			1,002,314	1,002,314
Accrued interest receivable	5,648		2,747	2,901	5,648
Financial liabilities:					
Certificates of deposit	100,895		101,509		101,509
Demand and other deposits	1,438,184	1,438,184			1,438,184
Federal funds purchased	64,000	64,000			64,000

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Federal Home Loan Bank overnight borrowings	58,000	57,994		57,994
Federal Home Loan Bank term advances	40,000		40,060	40,060
Repurchase agreements	11,370		11,803	11,803
Junior Subordinated Debentures	16,002		15,215	15,215
Derivatives	164		164	164
Accrued interest payable	225	76	149	225

Table of Contents**6. LOANS**

The following table sets forth the major classifications of loans:

(In thousands)	March 31, 2014	December 31, 2013
Commercial real estate mortgage loans	\$ 521,758	\$ 484,900
Multi-family mortgage loans	144,297	107,488
Residential real estate mortgage loans	164,596	153,417
Commercial, financial, and agricultural loans	248,004	209,452
Real estate-construction and land loans	44,634	46,981
Installment/consumer loans	10,702	9,287
Total loans	1,133,991	1,011,525
Net deferred loan costs and fees	1,739	1,738
	1,135,730	1,013,263
Allowance for loan losses	(16,369)	(16,001)
Net loans	\$ 1,119,361	\$ 997,262

On February 14, 2014, the Company completed the acquisition of FNB NY Bancorp, Inc. and its wholly owned subsidiary First National Bank of New York (collectively "FNB NY") resulting in the addition of \$87.4 million of acquired loans recorded at their fair value. There were approximately \$83 million of acquired FNB NY loans remaining as of March 31, 2014.

**Lending Risk**

The principal business of the Bank is lending, primarily in commercial real estate mortgage loans, multi-family mortgage loans, residential real estate mortgage loans, construction loans, home equity loans, commercial and industrial loans, land loans and consumer loans. The Bank considers its primary lending area to be eastern Long Island in Suffolk County, New York, and a substantial portion of the Bank's loans are secured by real estate in this area. Accordingly, the ultimate collectibility of such a loan portfolio is susceptible to changes in market and economic conditions in this region.

*Commercial Real Estate Mortgages*

Loans in this classification include income producing investment properties and owner occupied real estate used for business purposes. The underlying properties are generally located largely in our primary market area. The cash flows of the income producing investment properties are adversely impacted by a downturn in the economy as evidenced by increased vacancy rates, which in turn, will have an effect on credit quality. Generally, management seeks to obtain annual financial information for borrowers with loans in excess of \$0.25 million in this category. In the case of owner-occupied real estate used for business purposes, a weakened economy and resultant decreased consumer and/or business spending will have an adverse effect on credit quality.



*Multi-Family Mortgages*

Loans in this classification include income producing residential investment properties of 5 or more families. The loans are usually made in areas with limited single family residences generating high demand for these facilities. Loans are made to established owners with a proven and demonstrable record of strong performance. Loans are secured by a first mortgage lien on the subject property with a loan to value ratio generally not exceeding 75%. Repayment is derived generally from the rental income generated from the property and maybe supplemented by the owners' personal cash flow. Credit risk arises with an increase in vacancy rates, property mismanagement and the predominance of non-recourse loans that are customary in the industry.

*Residential Real Estate Mortgages and Home Equity Loans*

Loans in these classifications are made to and secured by owner-occupied residential real estate and repayment is dependent on the credit quality of the individual borrower. The overall health of the economy, including unemployment rates and housing prices, can have an effect on the credit quality in this loan class. The Bank generally does not originate loans with a loan-to-value ratio greater than 80% and does not grant subprime loans.

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*Commercial, Industrial and Agricultural Loans*

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

*Real Estate Construction and Land Loans*

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

*Installment and Consumer Loans*

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

**Credit Quality Indicators**

The Company categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt including repayment patterns, probable incurred losses, past loss experience, current economic conditions, and various types of concentrations of credit. Assigned risk rating grades are continuously updated as new information is obtained. Loans risk rated special mention, substandard and doubtful are reviewed on a quarterly basis. The Company uses the following definitions for risk rating grades:

Pass: Loans classified as pass include current loans performing in accordance with contractual terms, pools of homogenous residential real estate and installment/consumer loans that are not individually risk rated and loans which do not exhibit certain risk factors that require greater than usual monitoring by management.

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Special mention: Loans classified as special mention, while generally not delinquent, have potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or in the Bank's credit position at some future date.

Substandard: Loans classified as substandard have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. There is a distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected.

Doubtful: Loans classified as doubtful have all the weaknesses inherent in a substandard loan, and may also be at delinquency status and have defined weaknesses based on currently existing facts, conditions and values making collection or liquidation in full highly questionable and improbable.

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The following table represents loans by class categorized by internally assigned risk grades as of March 31, 2014 and December 31, 2013:

March 31, 2014 (In thousands)	Pass	Special Mention	Grades: Substandard	Doubtful	Total
Commercial real estate:					
Owner occupied	\$ 189,319	\$ 11,444	\$ 8,787	\$	\$ 209,550
Non-owner occupied	302,759	5,537	3,912		312,208
Multi-Family	138,310	2,674	3,313		144,297
Residential real estate:					
Residential mortgage	92,900	259	2,504		95,663
Home equity	65,965	1,081	1,887		68,933
Commercial:					
Secured	81,683	2,958	2,172		86,813
Unsecured	155,903	4,286	1,002		161,191
Real estate construction and land loans	44,264		370		44,634
Installment/consumer loans	10,459	144	99		10,702
Total loans	\$ 1,081,562	\$ 28,383	\$ 24,046	\$	\$ 1,133,991

At March 31, 2014 there were \$2.7 million and \$4.9 million, respectively, of acquired FNB NY loans included in the special mention and substandard grades.

December 31, 2013 (In thousands)	Pass	Special Mention	Grades: Substandard	Doubtful	Total
Commercial real estate:					
Owner occupied	\$ 164,502	\$ 11,828	\$ 7,336	\$	\$ 183,666
Non-owner occupied	291,758	5,490	3,986		301,234
Multi-family loans	107,488				107,488
Residential real estate:					
First lien	87,288	264	2,847		90,399
Home equity	60,285	1,014	1,719		63,018
Commercial:					
Secured	69,475	4,320	2,175		75,970
Unsecured	128,655	3,749	1,078		133,482
Real estate construction and land loans	46,311		670		46,981
Installment/consumer loans	9,144	44	99		9,287
Total loans	\$ 964,906	\$ 26,709	\$ 19,910	\$	\$ 1,011,525

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

The following table represents the aging of the recorded investment in past due loans as of March 31, 2014 and December 31, 2013 by class of loans, as defined by ASC 310-10:

**Aging Analysis of Past Due Loans**

	30-59 Days Past Due	60-89 Days Past Due	≥90 Days Past Due and Accruing	Nonaccrual Including 90 Days or More Past Due	Total Past Due and Nonaccrual	Current	Total Loans
<b>March 31, 2014</b>							
(In thousands)							
<b>Commercial real estate:</b>							
Owner occupied	\$	\$ 195	\$ 585	\$ 1,662	\$ 2,442	\$ 207,108	\$ 209,550
Non-owner occupied	93	192	370		655	311,553	312,208
Multi-Family	983		488		1,471	142,826	144,297
<b>Residential real estate:</b>							
Residential mortgages				1,279	1,279	94,384	95,663
Home equity	337	50	155	797	1,339	67,594	68,933
<b>Commercial:</b>							
Secured				47	47	86,766	86,813
Unsecured	712	30		5	747	160,444	161,191
Real estate construction and land loans						44,634	44,634
Installment/consumer loans	54	1		6	61	10,641	10,702
<b>Total loans</b>	<b>\$ 2,179</b>	<b>\$ 468</b>	<b>\$ 1,598</b>	<b>\$ 3,796</b>	<b>\$ 8,041</b>	<b>\$ 1,125,950</b>	<b>\$ 1,133,991</b>

At March 31, 2014 there were \$1.6 million of FNB NY acquired loans 30-59 days past due. All loans 90 days or more past due that are still accruing interest represent loans that were acquired from FNB NY and Hamptons State Bank and were recorded at fair value upon acquisition. These loans are considered to be accruing as management can reasonably estimate future cash flows and expect to fully collect the carrying value of these acquired loans. Therefore, the difference between the carrying value of these loans and their expected cash flows is being accreted into income.

	30-59 Days Past Due	60-89 Days Past Due	≥90 Days Past Due and Accruing	Nonaccrual Including 90 Days or More Past Due	Total Past Due and Nonaccrual	Current	Total Loans
<b>December 31, 2013</b>							
<b>Commercial real estate:</b>							
Owner occupied	\$ 327	\$ 201	\$ 1	\$ 1,072	\$ 1,601	\$ 182,065	\$ 183,666
Non-owner occupied		193		617	810	300,424	301,234
Multi-family loans						107,488	107,488

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Residential real estate:									
First lien	329			1,286	1,615	88,784	90,399		
Home equity	341	127		767	1,235	61,783	63,018		
Commercial:									
Secured				58	58	75,912	75,970		
Unsecured		20		21	41	133,441	133,482		
Real estate construction and land loans									
						46,981	46,981		
Installment/consumer loans	5	6			11	9,276	9,287		
Total loans	\$ 1,002	\$ 547	\$ 1	\$ 3,821	\$ 5,371	\$ 1,006,154	\$ 1,011,525		

## Impaired Loans

As of March 31, 2014 and December 31, 2013, the Company had impaired loans as defined by FASB ASC No. 310, Receivables of \$8.5 million and \$8.9 million, respectively. For a loan to be considered impaired, management determines after review whether it is probable that the Bank will not be able to collect all amounts due according to the contractual terms of the loan agreement. Management applies its normal loan review procedures in making these judgments. Impaired loans include individually classified

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nonaccrual loans and troubled debt restructured ( TDR ) loans. For impaired loans, the Bank evaluates the impairment of the loan in accordance with FASB ASC 310-10-35-22. Impairment is determined based on the present value of expected future cash flows discounted at the loan's effective interest rate. For loans that are collateral dependent, the fair value of the collateral is used to determine the fair value of the loan. The fair value of the collateral is determined based upon recent appraised values. The fair value of the collateral or present value of expected cash flows is compared to the carrying value to determine if any write-down or specific loan loss allowance allocation is required. These methods of fair value measurement for impaired loans are considered level 3 within the fair value hierarchy described in FASB ASC 820-10-50-5.

For individually impaired loans, the following tables set forth by class of loans at March 31, 2014 and December 31, 2013 the recorded investment, unpaid principal balance and related allowance. The tables also set forth the average recorded investment of individually impaired loans and interest income recognized while the loans were impaired during the three months ended March 31, 2014 and 2013:

		March 31, 2014		Three Months Ended March 31, 2014	
	Recorded Investment	Unpaid Principal Balance	Related Allocated Allowance	Average Recorded Investment	Interest Income Recognized
(In thousands)					
<b>With no related allowance recorded:</b>					
Commercial real estate:					
Owner occupied	\$ 4,285	\$ 4,670	\$	\$ 4,301	\$ 29
Non-owner occupied	916	916		916	15
Residential real estate:					
Residential mortgages	1,127	1,882		1,128	
Home equity	593	950		593	
Commercial:					
Secured	345	345		348	6
Unsecured	169	169		172	3
Real estate construction and land loans					
Installment/consumer loans					
<b>Total with no related allowance recorded</b>	<b>7,435</b>	<b>8,932</b>		<b>7,458</b>	<b>53</b>
<b>With an allowance recorded:</b>					
Commercial real estate - Owner occupied	720	720	95	720	
Residential real estate - Residential mortgage	152	156	44	152	
Residential real estate - Home equity	204	216	91	204	
<b>Total with an allowance recorded:</b>	<b>1,076</b>	<b>1,092</b>	<b>230</b>	<b>1,076</b>	
<b>Total:</b>					
Commercial real estate:					
Owner occupied	5,005	5,390	95	5,021	29
Non-owner occupied	916	916		916	15
Residential real estate:					
Residential mortgages	1,279	2,038	44	1,280	
Home equity	797	1,166	91	797	
Commercial:					
Secured	345	345		348	6
Unsecured	169	169		172	3
Real estate construction and land loans					
Installment/consumer loans					
<b>Total</b>	<b>\$ 8,511</b>	<b>\$ 10,024</b>	<b>\$ 230</b>	<b>\$ 8,534</b>	<b>\$ 53</b>





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	December 31, 2013			Three Months Ended March 31, 2013	
(In thousands)	Recorded Investment	Unpaid Principal Balance	Related Allocated Allowance	Average Recorded Investment	Interest Income Recognized
<b>With no related allowance recorded:</b>					
Commercial real estate:					
Owner occupied	\$ 3,696	\$ 3,805	\$	\$ 3,846	\$ 29
Non-owner occupied	917	917		916	15
Residential real estate:					
First lien	1,463	2,213		1,641	6
Home equity	689	1,046		891	
Commercial:					
Secured	352	352		477	7
Unsecured	174			65	1
<b>Total with no related allowance recorded</b>	<b>7,291</b>	<b>8,333</b>		<b>7,836</b>	<b>58</b>
<b>With an allowance recorded:</b>					
Commercial real estate - Owner occupied	720	720	94		
Commercial real estate - Non-owner occupied	617	617	22	207	3
Residential real estate - First lien	152	156	42		
Residential real estate - Home equity	78	89	80	84	
Commercial - Unsecured				358	
<b>Total with an allowance recorded:</b>	<b>1,567</b>	<b>1,582</b>	<b>238</b>	<b>649</b>	<b>3</b>
<b>Total:</b>					
Commercial real estate:					
Owner occupied	4,416	4,525	94	3,846	29
Non-owner occupied	1,534	1,534	22	1,123	18
Residential real estate:					
First lien	1,615	2,369	42	1,641	6
Home equity	767	1,135	80	975	
Commercial:					
Secured	352	352		477	7
Unsecured	174			423	1
<b>Total</b>	<b>\$ 8,858</b>	<b>\$ 9,915</b>	<b>\$ 238</b>	<b>\$ 8,485</b>	<b>\$ 61</b>

The Bank had no other real estate owned at March 31, 2014 and \$2.2 million at December 31, 2013, respectively.

**Troubled Debt Restructurings**

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

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

The following table presents loans by class modified as troubled debt restructurings that occurred during the three months ended March 31, 2014 and 2013:

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Three Months Ended March 31,						
	2014		Post -		2013	
(In thousands)	Pre-		Modification		Pre-	
	Modification		Outstanding		Modification	
	Outstanding		Recorded		Outstanding	
	Recorded		Investment		Recorded	
	Investment				Investment	
						</

There were no TDRs or charge offs relating to TDRs during the quarter ending March 31, 2014. There were no loans modified as TDRs for which there was a payment default within twelve months following the modification for the three months ended March 31, 2013 and 2014. A loan is considered to be in payment default once it is 30 days contractually past due under the modified terms.

As of March 31, 2014 and December 31, 2013, the Company had \$1.7 million and \$2.0 million, respectively of nonaccrual TDR loans and \$4.8 million and \$5.1 million, respectively of performing TDRs. At March 31, 2014 and December 31, 2013, total nonaccrual TDR loans are secured with collateral that has an appraised value of \$2.3 million and \$2.3 million, respectively.

The terms of certain other loans were modified during the quarter ending March 31, 2014 that did not meet the definition of a TDR. These loans have a total recorded investment as of March 31, 2014 of \$0.004 million. The modification of these loans involved a modification of the terms of loans to borrowers who were not experiencing financial difficulties.

## Acquired Loans

Loans acquired in a business combination are recorded at their fair value at the acquisition date. Credit discounts are included in the determination of fair value; therefore, an allowance for loan losses is not recorded at the acquisition date.

In determining the acquisition date fair value of purchased loans, acquired loans are aggregated into pools of loans with common characteristics. Each loan is reviewed at acquisition to determine if it should be accounted for as a loan that has experienced credit deterioration and it is probable that at acquisition, the Company will not be able to collect all the contractual principle and interest due from the borrower. All loans with evidence of deterioration in credit quality are considered purchased credit impaired ( PCI ) loans unless the loan type is specifically excluded from the scope of ASC 310-30 Loans and Debt Securities Acquired with Deteriorated Credit Quality, such as loans with active revolver features or because management has minimal doubt in the collection of the loan. This policy is based on the following general themes;

1. The loans were acquired in a business combination;

2. The acquisition of the loans will result in recognition of a discount attributable, at least in part, to credit quality; and
3. The loans are not subsequently accounted for at fair value

The Bank makes an estimate of the loans' contractual principal and contractual interest payments as well as the total cash flows it expects to collect from the pools of loans, which includes undiscounted expected principal and interest. The excess of contractual amounts over the total cash flows expected to be collected from the loans is referred to as non-accretable difference, which is not accreted into income. The excess of the expected undiscounted cash flows over the fair value of the loans is referred to as accretable discount. Accretable discount is recognized as interest income on a level-yield basis over the life of the loans. Management has not included prepayment assumptions in its modeling of contractual or expected cash flows. The Bank continues to estimate cash flows expected to be collected over the life of the loans. Subsequent increases in total cash flows expected to be collected are recognized as an adjustment to the accretable yield with the amount of periodic accretion adjusted over the remaining life of the loans. Subsequent decreases in cash flows expected to be collected over the life of the loans are recognized as impairment in the current period through allowance for loan losses.

A PCI loan may be resolved either through a sale of the loan, by working with the customer and obtaining partial or full repayment, by short sale of the collateral, or by foreclosure. When a loan accounted for in a pool is resolved, it is removed from the pool at its carrying amount. Any differences between the amounts received and the outstanding balance are absorbed by the non-accretable difference of the pool. For loans not accounted for in pools, a gain or loss on resolution would be recognized based on the difference between the proceeds received and the carrying amount of the loan.

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Payments received earlier than expected or in excess of expected cash flows from sales or other resolutions may result in the carrying value of a pool being reduced to zero even though outstanding contractual balances and expected cash flows remain related to loans in the pool. Once the carrying value of a pool is reduced to zero, any future proceeds, which may include cash or real estate acquired in foreclosure, from the remaining loans, representing further realization of accretable yield, are recognized as interest income upon receipt.

At the acquisition date, the purchased credit impaired loans had contractually required principal and interest payments receivable of \$44.6 million; expected cash flows of \$30.0 million; and a fair value (initial carrying amount) of \$22.8 million. The difference between the contractually required principal and interest payments receivable and the expected cash flows (\$14.6 million) represented the non-accretable difference. The difference between the expected cash flows and fair value (\$7.2) million represented the initial accretable yield. At March 31, 2014, the outstanding principal balance and carrying amount of the purchased credit impaired loans was \$22.5 million with a remaining non-accretable difference of \$14.6 million.

The following table summarizes the activity in the accretable yield for the purchased credit impaired loans for the three months ended March 31, 2014:

(In thousands)	<b>Three Months Ended March 31, 2014</b>
Balance at beginning of period	\$
Accretable discount arising from acquisition of PCI loans	<b>7,154</b>
Accretion	<b>(288)</b>
Reclassification from (to) non-accretable difference during the period	
Other changes in expected cash flows	
Accretable discount at end of period	\$ <b>6,866</b>

**7. ALLOWANCE FOR LOAN LOSSES**

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

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

Individual valuation allowances are established in connection with specific loan reviews and the asset classification process including the procedures for impairment testing under FASB Accounting Standard Codification (ASC) No. 310, Receivables. Such valuation, which includes a review of loans for which full collectibility in accordance with contractual terms is not reasonably assured, considers the estimated fair value of the underlying collateral less the costs to sell, if any, or the present value of expected future cash flows, or the loan's observable market value. Any shortfall that exists from this analysis results in a specific allowance for the loan. Pursuant to our policy, loan losses must be charged-off in

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the period the loans, or portions thereof, are deemed uncollectible. Assumptions and judgments by management, in conjunction with outside sources, are used to determine whether full collectibility of a loan is not reasonably assured. These assumptions and judgments are also used to determine the estimates of the fair value of the underlying collateral or the present value of expected future cash flows or the loan's observable market value. Individual valuation allowances could differ materially as a result of changes in these assumptions and judgments. Individual loan analyses are periodically performed on specific loans considered impaired. The results of the individual valuation allowances are aggregated and included in the overall allowance for loan losses.

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

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consider the allowance ratios and coverage percentages of both peer group and regulatory agency data. These evaluations are inherently subjective because, even though they are based on objective data, it is management's interpretation of that data that determines the amount of the appropriate allowance. If the evaluations prove to be incorrect, the allowance for loan losses may not be sufficient to cover losses inherent in the loan portfolio, resulting in additions to the allowance for loan losses.

For purchased credit impaired loans, a valuation allowance is established when it is probable that the Bank will be unable to collect all the cash flows expected at acquisition plus additional cash flows expected to be collected arising from changes in estimate after acquisition. A specific allowance is established when subsequent evaluations of expected cash flows from purchased credit impaired loans reflect a decrease in those estimates.

The Bank uses assumptions and methodologies that are relevant to estimating the level of impairment and probable losses in the loan portfolio. To the extent that the data supporting such assumptions has limitations, management's judgment and experience play a key role in recording the allowance estimates. Additions to the allowance for loan losses are made by provisions charged to earnings. Furthermore, an improvement in the expected cash flows related to purchased credit impaired loans would result in a reduction of the required specific allowance with a corresponding credit to the provision.

The Credit Risk Management Committee is comprised of Bank management. The adequacy of the allowance is analyzed quarterly, with any adjustment to a level deemed appropriate by the Credit Risk Management Committee, based on its risk assessment of the entire portfolio. Each quarter, members of the Credit Risk Management Committee meet with the Credit Risk Committee of the Board to review credit risk trends and the adequacy of the allowance for loan losses. Based on the Credit Risk Management Committee's review of the classified loans and the overall allowance levels as they relate to the loan portfolio at March 31, 2014, management believes the allowance for loan losses has been established at levels sufficient to cover the probable incurred losses in the Bank's loan portfolio. Future additions or reductions to the allowance may be necessary based on changes in economic, market or other conditions. Changes in estimates could result in a material change in the allowance. In addition, various regulatory agencies, as an integral part of the examination process, periodically review the allowance for loan losses. Such agencies may require the Bank to recognize adjustments to the allowance based on their judgments of the information available to them at the time of their examination.

The following table represents the balance in the allowance for loan losses and the recorded investment in loans by portfolio segment, as defined under ASC 310-10, and based on impairment method as of March 31, 2014 and December 31, 2013. Additionally, the following tables represent the changes in the allowance for loan losses for the three month period ended March 31, 2014 and 2013, and the twelve month period ended December 31, 2013, by portfolio segment, as defined under ASC 310-10. The loan segment represents the categories that the Bank develops to determine its allowance for loan losses.

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For the Three Months Ended March 31, 2014							
(In thousands)	Commercial Real Estate Mortgage Loans	Multi- Family	Residential Real Estate Mortgage Loans	Commercial, Financial and Agricultural Loans	Real Estate Construction and Land Loans	Installment/ Consumer Loans	Total
Allowance for Loan Losses:							
Beginning balance	\$ 6,279	\$ 1,597	\$ 2,712	\$ 4,006	\$ 1,206	\$ 201	\$ 16,001
Charge-offs	(267)			(85)			(352)
Recoveries			10	9		1	20
Provision	609	(3)	(119)	340	(103)	(24)	700
Ending Balance	\$ 6,621	\$ 1,594	\$ 2,603	\$ 4,270	\$ 1,103	\$ 178	\$ 16,369
Ending balance: individually evaluated for impairment	\$ 95	\$	\$ 135	\$	\$	\$	\$ 230
Ending balance: collectively evaluated for impairment	\$ 6,526	\$ 1,594	\$ 2,468	\$ 4,270	\$ 1,103	\$ 178	\$ 16,139
Ending balance: loans acquired with deteriorated credit quality	\$	\$	\$	\$	\$	\$	\$
Loans	\$ 521,758	\$ 144,297	\$ 164,596	\$ 248,004	\$ 44,634	\$ 10,702	\$ 1,133,991
Ending balance: individually evaluated for impairment	\$ 5,921	\$	\$ 2,076	\$ 514	\$	\$	\$ 8,511
Ending balance: collectively evaluated for impairment	\$ 494,618	\$ 144,297	\$ 161,651	\$ 245,857	\$ 44,634	\$ 10,702	\$ 1,101,759
Ending balance: loans acquired with deteriorated credit quality(1)	\$ 21,219	\$	\$ 869	\$ 1,633	\$	\$	\$ 23,721

(1) Includes loans acquired on February 14, 2014 from FNB NY.



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For the Year Ended December 31, 2013							
(In thousands)	Commercial Real Estate Mortgage Loans	Multi- Family	Residential Real Estate Mortgage Loans	Commercial, Financial and Agricultural Loans	Real Estate Construction and Land Loans	Installment/ Consumer Loans	Total
Allowance for Loan Losses:							
Beginning balance	\$ 4,445	\$ 1,239	\$ 2,803	\$ 4,349	\$ 1,375	\$ 228	\$ 14,439
Charge-offs			(420)	(420)	(23)	(53)	(916)
Recoveries			34	87	2	5	128
Provision	1,834	358	295	(10)	(148)	21	2,350
Ending Balance	\$ 6,279	\$ 1,597	\$ 2,712	\$ 4,006	\$ 1,206	\$ 201	\$ 16,001
Ending balance:							
individually evaluated for impairment	\$ 116	\$	\$ 122	\$	\$	\$	\$ 238
Ending balance:							
collectively evaluated for impairment	\$ 6,163	\$ 1,597	\$ 2,590	\$ 4,006	\$ 1,206	\$ 201	\$ 15,763
Ending balance: loans							
acquired with deteriorated credit quality	\$	\$	\$	\$	\$	\$	\$
Loans	\$ 484,900	\$ 107,488	\$ 153,417	\$ 209,452	\$ 46,981	\$ 9,287	\$ 1,011,525
Ending balance:							
individually evaluated for impairment	\$ 5,950	\$	\$ 2,382	\$ 526	\$	\$	\$ 8,858
Ending balance:							
collectively evaluated for impairment	\$ 478,129	\$ 107,488	\$ 151,035	\$ 208,677	\$ 46,641	\$ 9,287	\$ 1,001,257
Ending balance: loans							
acquired with deteriorated credit quality	\$ 821	\$	\$	\$ 249	\$ 340	\$	\$ 1,410

For the Three Months Ended March 31, 2013							
(In thousands)	Commercial Real Estate Mortgage Loans	Multi- Family	Residential Real Estate Mortgage Loans	Commercial, Financial and Agricultural Loans	Real Estate Construction and Land Loans	Installment / Consumer Loans	Total
Allowance for Loan Losses:							
Beginning balance	\$ 4,445	\$ 1,239	\$ 2,803	\$ 4,349	\$ 1,375	\$ 228	\$ 14,439
Charge-offs			(101)		(22)		(123)
Recoveries			2	55		1	58
Provision	198	197	(31)	(17)	245	(42)	550

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Ending Balance	\$	4,643	\$	1,436	\$	2,673	\$	4,387	\$	1,598	\$	187	\$	14,924
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The Bank maintains a noncontributory pension plan covering all eligible employees. The Bank uses a December 31st measurement date for this plan in accordance with FASB ASC 715-30 *Compensation Retirement Benefits Defined Benefit Plans Pension*. During 2012, the Company amended the pension plan revising the formula for determining benefits effective January 1, 2013, except for certain grandfathered employees. Additionally, new employees hired on or after October 1, 2012 are not eligible for the pension plan.

During 2001, the Bank adopted the Bridgehampton National Bank Supplemental Executive Retirement Plan ( SERP ). The SERP provides benefits to certain employees, as recommended by the Compensation Committee of the Board of Directors and approved by the full Board of Directors, whose benefits under the pension plan are limited by the applicable provisions of the Internal Revenue Code. The benefit under the SERP is equal to the additional amount the employee would be entitled to under the Pension Plan and the 401(k) Plan in the absence of such Internal Revenue Code limitations. The assets of the SERP are held in a rabbi trust to maintain the tax-deferred status of the plan and are subject to the general, unsecured creditors of the Company. As a result, the assets of the trust are reflected on the Consolidated Balance Sheets of the Company.

There were no contributions to the pension plan or the SERP during the three months ended March 31, 2014. In accordance with the SERP, a retired executive received a distribution from the Plan totaling \$28,000 during the three months ended March 31, 2014.

The Company's funding policy with respect to its benefit plans is to contribute at least the minimum amounts required by applicable laws and regulations.

The following table sets forth the components of net periodic benefit cost and other amounts recognized in Other Comprehensive Income:

(In thousands)	2014	Pension Benefits		Three months ended March 31,		SERP Benefits	
		2014	2013	2013	2014	2013	2013
Service cost	\$	224	\$	230	\$	33	\$ 36
Interest cost		158		139		22	19
Expected return on plan assets		(402)		(341)			
Amortization of net loss		7		72			4
Amortization of unrecognized prior service cost		(20)		(19)			
Amortization of unrecognized transition obligation						7	7
Net periodic benefit cost	\$	(33)	\$	81	\$	62	\$ 66

**9. SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE**

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At March 31, 2014, March 31, 2013 and December 31, 2013, securities sold under agreements to repurchase totaled \$11.6 million, \$12.8 million, and \$11.4 million, respectively, and were secured by U.S. GSE, residential mortgage-backed securities and residential collateralized mortgage obligations with a carrying amount of \$16.6 million, \$15.9 million and \$17.5 million, respectively.

Securities sold under agreements to repurchase are financing arrangements with \$1.6 million maturing during the second quarter of 2014, and \$10.0 million maturing during the first quarter of 2015. At maturity, the securities underlying the agreements are returned to the Company. Information concerning the securities sold under agreements to repurchase is summarized as follows:

(Dollars in thousands)	For the three months ended		For the year ended	
	March 31, 2014	March 31, 2013	December 31, 2013	
Average daily balance	\$ 11,704	\$ 12,817	\$ 11,770	
Average interest rate	3.19%	2.91%	3.17%	
Maximum month-end balance	\$ 12,045	\$ 12,903	\$ 12,903	
Weighted average interest rate	3.14%	2.87%	3.13%	

Table of Contents**10. FEDERAL HOME LOAN BANK ADVANCES**

The following table sets forth the contractual maturities and weighted average interest rates of FHLB advances for each of the next five years and the period thereafter at March 31, 2014 and December 31, 2013:

Contractual Maturity (Dollars in thousands)	March 31, 2014		Weighted Average Rate
	Amount		
Overnight	\$	78,000	0.36%
2014		44,527	0.38%
2015		1,532	0.09%
2016		11,783	0.68%
2017			
2018		16,375	0.98%
		74,217	0.55%
	\$	152,217	0.45%

Contractual Maturity (Dollars in thousands)	December 31, 2013		Weighted Average Rate
	Amount		
Overnight	\$	58,000	0.40%
2014		40,000	0.46%
		40,000	0.46%
	\$	98,000	0.42%

Each advance is payable at its maturity date, with a prepayment penalty for fixed rate advances. The advances were collateralized by \$347.5 million and \$336.6 million of residential and commercial mortgage loans under a blanket lien arrangement at March 31, 2014 and December 31, 2013, respectively. Based on this collateral and the Company's holdings of FHLB stock, the Company is eligible to borrow up to a total of \$633.9 million at March 31, 2014.

**11. JUNIOR SUBORDINATED DEBENTURES**

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

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

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

Table of Contents**12. DERIVATIVES**

The Company utilizes interest rate swap agreements as part of its asset liability management strategy to help manage its interest rate risk position. The notional amount of the interest rate swap does not represent amounts exchanged by the parties. The amount exchanged is determined by reference to the notional amount and the other terms of the individual interest rate swap agreements.

Interest rate swaps with a notional amount totaling \$15.0 million and \$25.0 million were entered into on June 28, 2012 and July 15, 2013, respectively and were designated as cash flow hedges of certain Federal Home Loan Bank advances. A forward starting interest rate swap with a notional amount totaling \$10.0 million was entered into on July 15, 2013 and was designated as a cash flow hedge of certain repurchase agreements. The swaps were determined to be fully effective during the period presented and therefore no amount of ineffectiveness has been included in net income. The aggregate fair value of the swaps is recorded in other assets/(other liabilities) with changes in fair value recorded in other comprehensive income (loss). The amount included in accumulated other comprehensive income (loss) would be reclassified to current earnings if the hedge transactions becomes probable of not occurring. The Company expects the hedges to remain fully effective during the remaining term of the swaps.

The following table presents summary information about the interest rate swap designated as a cash flow hedge as of March 31, 2014 and 2013 and December 31, 2013:

(Dollars in thousands)	For the three months ended		For the year ended	
	March 31, 2014	March 31, 2013	December 31, 2013	
Notional amount	\$ 50,000	\$ 15,000	\$ 50,000	
Weighted average pay rates	1.39%	0.99%	1.39%	
Weighted average receive rates	0.24%	0.28%	0.24%	
Weighted average maturity	4.31 years	4.24 years	4.56 years	
Unrealized (losses)	\$ (314)	\$ (148)	\$ (164)	

Interest expense recorded on this swap transaction totaled \$115,000 and \$25,000 for the three months ended March 31, 2014 and 2013, respectively, and is reported as a component of interest expense on FHLB Advances.

**Cash Flow Hedge**

The following table presents the net gains (losses) recorded, net of tax, in accumulated other comprehensive income and the Consolidated Statements of Income relating to the cash flow derivative instruments for the three months ended March 31, 2014 and 2013:

	2014	
Amount of gain	Amount of gain	Amount of gain (loss)

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(In thousands)	(loss) recognized in OCI (Effective Portion)	(loss) reclassified from OCI to interest income	recognized in other Non-interest income (Ineffective Portion)
Interest rate contracts	\$ (190)	\$	\$

(In thousands)	Amount of gain (loss) recognized in OCI (Effective Portion)	2013 Amount of gain (loss) reclassified from OCI to interest income	Amount of gain (loss) recognized in other Non-interest income (Ineffective Portion)
Interest rate contracts	\$ (89)	\$	\$

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

(In thousands)	March 31, 2014		December 31, 2013	
	Notional Amount	Fair Value	Notional Amount	Fair Value
Included in other assets (liabilities):				
Interest rate swaps related to FHLB Advances	\$ 40,000	\$ (158)	\$ 40,000	\$ (122)
Forward starting interest rate swap related to repurchase agreements	10,000	(156)	10,000	(42)



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

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

(In thousands)	<b>Three Months Ended</b>	
	<b>March 31, 2014</b>	<b>March 31, 2013</b>
Unrealized holding gains (losses) on available for sale securities	\$ 4,543	\$ (669)
Reclassification adjustment for losses (gains) realized in income	1,112	(338)
Income tax effect	(2,244)	400
Net change in unrealized gains (losses) on available for sale securities	3,411	(607)
Change in post-retirement obligation	(7)	64
Income tax effect	3	(25)
Net change in post-retirement obligation	(4)	39
Change in fair value of derivatives used for cash flow hedges	(150)	28
Reclassification adjustment for gains realized in income		
Income tax effect	59	(11)
Net change in unrealized (losses) gains on cash flow hedge	(91)	17
<b>Total</b>	<b>\$ 3,316</b>	<b>\$ (551)</b>

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

(In thousands)	Balance as of December 31, 2013	Current Period Change	Balance as of March 31, 2014
Unrealized (losses) on available for sale securities	\$ (11,994)	\$ 3,411	\$ (8,583)
Unrealized losses on pension benefits	(1,143)	(4)	(1,147)
Unrealized losses on cash flow hedges	(99)	(91)	(190)
<b>Total</b>	<b>\$ (13,236)</b>	<b>\$ 3,316</b>	<b>\$ (9,920)</b>

The following represents the reclassifications out of accumulated other comprehensive income for the three months ended March 31, 2014 and 2013:

(In thousands)	<b>Three Months Ended</b>		Affected Line Item in the Consolidated Statements of Income
	<b>March 31, 2014</b>	<b>March 31, 2013</b>	
Unrealized gains (losses) on available for sale securities:			
Realized (losses) gains on sale of available for sale securities	\$ (1,112)	\$ 338	Net securities gains (losses)
Income tax benefit (expense)	441	(134)	

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				Income tax expense
Net of income tax	(671)		204	
Amortization of defined benefit pension plan and the defined benefit plan component of the SERP:				
Prior service credit (cost)	\$	20	\$	19 Salaries and employee benefits
Transition obligation		(7)		(7) Salaries and employee benefits
Actuarial losses		(7)		(76) Salaries and employee benefits
		6		(64)
Income tax (expense) benefit		(2)		25 Income tax expense
Net of income tax		4		(39)
Total reclassifications, net of income tax	\$	(667)	\$	165

Table of Contents**14. BUSINESS COMBINATIONS**

On September 30, 2013, the Company announced a definitive agreement under which the Bank would acquire the First National Bank of New York ( FBNBY ). The FBNBY transaction closed on February 14, 2014 resulting in the addition of total acquired assets on a fair value basis of \$209.9 million, with loans of \$87.4 million, investment securities of \$103.2 million and deposits of \$169.9 million. The transaction expanded our geographic footprint into Nassau County, complements our existing branch network and enhances our asset generation capabilities. The expanded branch network allows us to serve a greater portion of the Long Island and metropolitan marketplace through a network of 26 branches.

Under the terms of the Agreement, the Company acquired FBNBY at a purchase price of \$6.1 million and issued an aggregate of 240,598 Bridge Bancorp shares in exchange for all the issued and outstanding stock of FBNBY and recorded goodwill of \$8.7 million which is not deductible for tax purposes. The purchase price is subject to certain post-closing adjustments equal to 60 percent of the net recoveries of principal on \$6.3 million of certain identified problem loans over a two-year period after the acquisition. Based on current assumptions, the Company has not recorded an estimated liability as of the acquisition date and March 31, 2014 associated with these post-closing adjustments.

The acquisition was accounted for under the acquisition method of accounting in accordance with FASB ASC 805, Business Combinations. Accordingly, the assets acquired and liabilities assumed were recorded at their respective acquisition date fair values, and identifiable intangible assets were recorded at fair value. The operating results of the Company for the three month period ended March 31, 2014 include the operating results of FBNBY since the acquisition date of February 14, 2014.

The following summarizes the preliminary fair value of the assets acquired and liabilities assumed on February 14, 2014:

(In thousands)	<b>February 14, 2014</b>
Cash and due from banks	\$ 1,883
Interest earning deposits with banks	1,044
Securities	103,192
Loans	87,390
Premises and equipment	1,787
Core deposit intangible	1,930
Other assets	12,682
<b>Total Assets Acquired</b>	<b>\$ 209,908</b>
Deposits	\$ 169,873
Federal Home Loan Bank term advances	39,282
Unsecured debt	1,450
Other liabilities and accrued expenses	1,825
<b>Total Liabilities Assumed</b>	<b>\$ 212,430</b>
<b>Net Assets (Liabilities) Acquired</b>	<b>(2,522)</b>
<b>Consideration Paid</b>	<b>6,140</b>

<b>Goodwill Recorded on Acquisition</b>	\$	8,662
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Considering the closing date of the transaction, the above fair values are preliminary and subject to adjustment as the Company finalizes fair value assessments. In accordance with FASB ASC 805-10 (Subtopic 25-15), the Company has up to one year from date of acquisition to complete this assessment.

## 15. RECENT ACCOUNTING PRONOUNCEMENTS

In January 2014, the Financial Accounting Standards Board ( FASB ) issued Accounting Standards Update ( ASU ) No. 2014-04, Receivables Troubled Debt Restructurings by Creditors (Subtopic 310-40): Reclassification of Residential Real Estate collateralized consumer Mortgage Loans upon Foreclosure. ASU 2014-04 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. Additionally, the amendments in this ASU require interim and annual disclosure of both the amount of foreclosed residential real estate property held by the creditor and the recorded investment in

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consumer mortgage loans. ASU 2014-04 is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2014. The adoption of ASU 2014-04 is not expected to have a material effect on the Company's consolidated financial statements.

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

***Private Securities Litigation Reform Act Safe Harbor Statement***

This report may contain statements relating to the future results of the Company (including certain projections and business trends) that are considered forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995 (the "PSLRA"). Such forward-looking statements, in addition to historical information, which involve risk and uncertainties, are based on the beliefs, assumptions and expectations of management of the Company. Words such as expects, believes, should, plans, anticipates, will, potential, could, intend, may, project, would, estimated, assumes, likely, and variation of such similar expressions are intended to identify such forward-looking statements. Examples of forward-looking statements include, but are not limited to, possible or assumed estimates with respect to the financial condition, expected or anticipated revenue, and results of operations and business of the Company, including earnings growth; revenue growth in retail banking lending and other areas; origination volume in the consumer, commercial and other lending businesses; current and future capital management programs; non-interest income levels, including fees from the title abstract subsidiary and banking services as well as product sales; tangible capital generation; market share; expense levels; and other business operations and strategies. For this presentation, the Company claims the protection of the safe harbor for forward-looking statements contained in the PSLRA.

Factors that could cause future results to vary from current management expectations include, but are not limited to, changing economic conditions; legislative and regulatory changes, including increases in FDIC insurance rates; monetary and fiscal policies of the federal government; changes in tax policies; rates and regulations of federal, state and local tax authorities; changes in interest rates; deposit flows; the cost of funds; demands for loan products; demand for financial services; competition; changes in the quality and composition of the Bank's loan and investment portfolios; changes in management's business strategies; changes in accounting principles, policies or guidelines, changes in real estate values; expanded regulatory requirements as a result of the Dodd-Frank Act, our ability to integrate the branches and operations we acquire, and the associated internal controls and regulatory functions, into our current operations which could adversely affect operating results; and other factors discussed in our Annual Report on Form 10-K for the year ending December 31, 2013 and elsewhere in this report. The forward-looking statements are made as of the date of this report, and the Company assumes no obligation to update the forward-looking statements or to update the reasons why actual results could differ from those projected in the forward-looking statements.

***Overview***

***Who We Are and How We Generate Income***

Bridge Bancorp, Inc. (the "Company"), a New York corporation, is a bank holding company formed in 1989. On a parent-only basis, the Company has had minimal results of operations. The Company is dependent on dividends from its wholly owned subsidiary, The Bridgehampton National Bank (the "Bank"), its own earnings, additional capital raised, and borrowings as sources of funds. The information in

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this report reflects principally the financial condition and results of operations of the Bank. The Bank's results of operations are primarily dependent on its net interest income, which is mainly the difference between interest income on loans and investments and interest expense on deposits and borrowings. The Bank also generates non interest income, such as fee income on deposit accounts, merchant credit and debit card processing programs, investment services, income from its title abstract subsidiary, and net gains on sales of securities and loans. The level of its non-interest expenses, such as salaries and benefits, occupancy and equipment costs, other general and administrative expenses, expenses from its title insurance subsidiary, and income tax expense, further affects the Bank's net income. Certain reclassifications have been made to prior year amounts and the related discussion and analysis to conform to the current year presentation. These reclassifications did not have an impact on net income or total stockholders' equity.

### *Principal Products and Services and Locations of Operations*

The Bank operates twenty six branches in the primary market areas of Suffolk and Southern Nassau Counties, Long Island. Federally chartered in 1910, the Bank was founded by local farmers and merchants. For a century, the Bank has maintained its focus on building customer relationships in this market area. The mission of the Company is to grow through the provision of exceptional service to its customers, its employees, and the community. The Company strives to achieve excellence in financial performance and build long term shareholder value. The Bank engages in full service commercial and consumer banking business, including accepting time, savings and demand deposits from the consumers, businesses and local municipalities surrounding its branch offices. These deposits, together with funds generated from operations and borrowings, are invested primarily in: (1) commercial real estate loans; (2) home

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equity loans; (3) construction loans; (4) residential mortgage loans; (5) secured and unsecured commercial and consumer loans; (6) FHLB, FNMA, GNMA and FHLMC and non agency mortgage-backed securities, collateralized mortgage obligations and other asset backed securities; (7) New York State and local municipal obligations; and (8) U.S government sponsored entity ( U.S. GSE ) securities. The Bank also offers the CDARS program, providing multi-millions of FDIC insurance on CD deposits to its customers. In addition, the Bank offers merchant credit and debit card processing, automated teller machines, cash management services, lockbox processing, online banking services, remote deposit capture, safe deposit boxes, individual retirement accounts and investment services through Bridge Financial Services, offering a full range of investment products and services through a third party broker dealer. Through its title insurance abstract subsidiary, the Bank acts as a broker for title insurance services. The Bank's customer base is comprised principally of small businesses, municipal relationships and consumer relationships.

## *Significant Events*

On September 30, 2013, the Company announced a definitive agreement under which the Bank would acquire the First National Bank of New York ( FNBNY ). The FNBNY transaction closed on February 14, 2014, resulting in the addition of total acquired assets on a fair value basis of \$209.9 million, with loans of \$87.4 million, investment securities of \$103.2 million and deposits of \$169.9 million. The transaction expanded our geographic footprint into Nassau County, complements our existing branch network and enhances our asset generation capabilities. The expanded branch network allows us to serve a greater portion of the Long Island and metropolitan marketplace through a network of 26 branches.

Under the terms of the Agreement, the Company acquired FNBNY at a purchase price of \$6.1 million and issued an aggregate of 240,598 Bridge Bancorp shares in exchange for all the issued and outstanding stock of FNBNY and recorded goodwill of \$8.7 million which is not deductible for tax purposes. The purchase price is subject to certain post-closing adjustments equal to 60 percent of the net recoveries of principal on \$6.3 million of certain identified problem loans over a two-year period after the acquisition.

## *Quarterly Highlights*

- Net income of \$0.4 million and \$0.4 per diluted share, including (i) \$2.9 million in acquisition costs, net of tax, associated with the FNBNY acquisition and branch restructuring charges related to a branch relocation and; (ii) \$0.7 million of losses, net of tax, on the sales of securities resulting from repositioning of the securities portfolio to mitigate interest rate risk as compared to net income of \$3.1 million and \$0.35 per diluted share for the first quarter of 2013.
- Net interest income increased to \$15.5 million for the first quarter of 2014 compared to \$11.9 million in 2013.
- Net interest margin was 3.46% for the first quarter of 2014 compared to 3.29% for the 2013 period.
- Loans held for investment at March 31, 2014 of \$1.14 billion increased \$122.5 million or 12% over December 31, 2013 and increased \$273.6 million or 32% over March 31, 2013. This increase included \$87.4 million in loans recorded on a fair value basis resulting from the FNBNY acquisition.
- Total assets of \$2.11 billion at March 31, 2014, increased \$216.2 million or 11% compared to December 31, 2013 and increased \$536.3 million or 34% compared to March 31, 2013. Contributing to the change was the impact of the FNBNY acquisition which added total assets on a fair value basis of \$209.9 million. Total asset growth, excluding the impact of the acquired assets of FNBNY was \$326.4

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million or 21% over March 31, 2013.

- Deposits of \$1.67 billion at March 31, 2014, increased \$135.8 million or 8.8% over December 31, 2013 and increased \$300.7 million or 22% compared to March 31, 2013 levels. The increase includes \$169.9 million in deposits acquired from FNB NY.
- Allowance for loan losses to total loans ratio, which was calculated excluding \$83 million of FNB NY acquired loans, was 1.56% as of March 31, 2014 compared to 1.58% at December 31, 2013 and 1.73% at March 31, 2013.
- Tier 1 Capital increased by \$44.6 million or 33% to \$180.8 million as of March 31, 2014, compared to March 31, 2013.
- A cash dividend of \$0.23 per share was declared in April 2014 for the first quarter.



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*Current Environment*

On July 21, 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act ( Dodd-Frank Act ) was signed by the President. The Act permanently raised the current standard maximum deposit insurance amount to \$250,000. Section 331(b) of the Dodd-Frank Act required the FDIC to change the definition of the assessment base from which assessment fees are determined. The new definition for the assessment base is the average consolidated total assets of the insured depository institution less the average tangible equity of the insured depository institution. The financial reform legislation, among other things, created a new Consumer Financial Protection Bureau, tightened capital standards and resulted in new regulations that are expected to increase the cost of operations.

In July 2013, the Federal Deposit Insurance Corporation and the other federal bank regulatory agencies issued a final rule that will revise their leverage and risk-based capital requirements and the method for calculating risk-weighted assets to make them consistent with agreements that were reached by the Basel Committee on Banking Supervision and certain provisions of the Dodd-Frank Act. Among other things, the rule establishes a new common equity Tier 1 minimum capital requirement (4.5% of risk-weighted assets), increases the minimum Tier 1 capital to risk-based assets requirement (from 4% to 6% of risk-weighted assets) and assigns a higher risk weight (150%) to exposures that are more than 90 days past due or are on nonaccrual status and to certain commercial real estate facilities that finance the acquisition, development or construction of real property. The final rule also requires unrealized gains and losses on certain available-for-sale securities holdings to be included for purposes of calculating regulatory capital unless a one-time opt-out is exercised. Additional constraints will also be imposed on the inclusion in regulatory capital of mortgage-servicing assets, defined tax assets and minority interests. The rule limits a banking organization's capital distributions and certain discretionary bonus payments if the banking organization does not hold a capital conservation buffer consisting of 2.5% of common equity Tier 1 capital to risk-weighted assets in addition to the amount necessary to meet its minimum risk-based capital requirements. The final rule becomes effective for the Bank on January 1, 2015. The capital conservation buffer requirement will be phased in beginning January 1, 2016 and ending January 1, 2019, when the full capital conservation buffer requirement will be effective.

Since April 2010 the Federal Reserve has maintained the federal funds target rate between 0 and 25 basis points as an effort to foster employment. In June 2013, the FOMC announced it will continue purchasing agency mortgage-backed securities and longer term Treasury securities at a pace of \$45 billion a month and \$45 billion a month, respectively, until certain improvements in the economy are achieved. The FOMC will continue to reinvest principal payments of agency mortgage-backed securities and roll over maturing Treasury securities. In December 2013, the FOMC announced that in light of improving economic indicators, it would reduce these purchases by \$10 billion per month. These actions have resulted in a prolonged low interest rate environment reducing yields on interest earning assets and compressing the Company's net interest margin. The FOMC anticipates maintaining the federal funds target rate until the outlook for employment and inflation are in line with the Committee's long term objectives.

Growth and service strategies have the potential to offset the compression on net interest margin with volume as the customer base grows through expanding the Bank's footprint, while maintaining and developing existing relationships. Since 2008, the Bank has opened nine new branches, including the most recent branch openings in March 2013 in Rocky Point, New York, and in May 2013 in Shelter Island, New York. Most of the recent branch openings move the Bank geographically westward and demonstrate its commitment to traditional growth through branch expansion. In May 2011, the Bank acquired Hampton State Bank ( HSB ) which increased the Bank's presence in an existing market with a branch located in the Village of Southampton. After careful consideration, management decided to close its existing branch on County Road 39 in Southampton, New York, effective in April 2013. Management has demonstrated its ability to successfully integrate the former HSB customers and achieve expected cost savings while continuing to execute its business strategy. Management will continue to seek opportunities to expand its reach into other contiguous markets by network expansion, or through the addition of professionals with established customer relationships.

*Challenges and Opportunities*

As noted earlier, on February 14, 2014, the Company acquired FNBNY. This acquisition increases the Company's scale and continues the westward expansion into three new markets including Melville (Suffolk County), and two branches in Nassau County; Massapequa and Merrick. To support this acquisition and future growth, the Company completed a public offering on October 8, 2013, with \$37.5 million in net proceeds. While these proceeds provided capital to support the acquisition, the additional common shares outstanding negatively impacted earnings per share during the first quarter of 2014 and fourth quarter of 2013, respectively, and will likely impact the second quarter of 2014 until the benefits of the acquisition can be affected. Management recognizes the challenges associated with an acquisition and will leverage the experience gained in the acquisition of Hamptons State Bank in 2011, with the integration of FNBNY.

The Bank continues to face challenges associated with a fragile economic recovery, ever increasing regulations, and the current volatile interest rate environment. During 2013 and continuing into 2014, speculation about the Federal Reserve's Quantitative Easing or bond buying program caused longer term interest rates to rise dramatically. Over time, increases in rates should provide some relief to net interest margin compression as new loans are funded and securities are reinvested at higher rates. However, in the short term,

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the fair value of our available for sale securities declined, resulting in net unrealized losses and a reduction in stockholders' equity. Strategies for managing for the eventuality of higher rates have a cost. Extending liability maturities or shortening the tenor of assets increases interest expense and reduces interest income. An additional method for managing in a higher rate environment is to grow stable core deposits, requiring continued investment in people, technology and branches. Over time, the costs of these strategies should provide long term benefits.

New regulations required under Dodd-Frank continue to be issued and in July 2013, the regulatory agencies issued final capital rules under Basel III which become effective for our Company in January 2015. The final rules, while more favorable to community banks, require that all banks maintain higher levels of capital. Management believes the Bank's current capital levels will meet these new requirements. These factors taken together present formidable challenges to the banking industry.

The key to delivering on the Company's mission is combining its expanding branch network, improving technology, and experienced professionals with the critical element of local decision making. The successful expansion of the franchise's geographic reach continues to deliver the desired results: increasing core deposits and loans, and generating higher levels of revenue and income.

Corporate objectives for 2014 include: successful integration of the operations of FNB NY; leveraging our expanding branch network to build customer relationships and grow loans and deposits; focusing on opportunities and processes that continue to enhance the customer experience at the Bank; improving operational efficiencies and prudent management of non-interest expense; and maximizing non-interest income through Bridge Abstract as well as other lines of business. Management believes there remain opportunities to grow the franchise and continued investments to generate core funding, quality loans and new sources of revenue, remain keys to continue creating long term shareholder value. Management remains committed to branch based banking and during 2014, the Company expects to open two new branches, one in Bay Shore, New York, and one in Smithtown, New York. During the first quarter we completed the acquisition of FNB NY and converted their core systems in mid-February 2014. This adds three branches in new markets; Melville, in Suffolk County and Massapequa and Merrick, our first two branches in Nassau County, along with a loan production office in Manhattan. Additionally, the bank also opened a loan production office in Riverhead, New York. The ability to attract, retain, train and cultivate employees at all levels of the Company remains significant to meeting corporate objectives. The Company has made great progress toward the achievement of these objectives, and avoided many of the problems facing other financial institutions as a result of maintaining discipline in its underwriting, expansion strategies, investing and general business practices. The Company has capitalized on opportunities presented by the market and diligently seeks opportunities for growth and to strengthen the franchise. The Company recognizes the potential risks of the current economic environment and will monitor the impact of market events as we consider growth initiatives and evaluate loans and investments. Management and the Board have built a solid foundation for growth and the Company is positioned to adapt to anticipated changes in the industry resulting from new regulations and legislative initiatives.

***Critical Accounting Policies***

*Allowance for Loan Losses*

Management considers the accounting policy on the allowance for loan losses to be the most critical and requires complex management judgment as discussed below. The judgments made regarding the allowance for loan losses can have a material effect on the results of operations of the Company.

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

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

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

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allowances could differ materially as a result of changes in these assumptions and judgments. Individual loan analyses are periodically performed on specific loans considered impaired. The results of the individual valuation allowances are aggregated and included in the overall allowance for loan losses.

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

For purchased credit impaired loans, a valuation allowance is established when it is probable that the Bank will be unable to collect all the cash flows expected at acquisition plus additional cash flows expected to be collected arising from changes in estimate after acquisition. A specific allowance is established when subsequent evaluations of expected cash flows from purchased credit impaired loans reflect a decrease in those estimates.

The Bank uses assumptions and methodologies that are relevant to estimating the level of impairment and probable losses in the loan portfolio. To the extent that the data supporting such assumptions has limitations, management's judgment and experience play a key role in recording the allowance estimates. Additions to the allowance for loan losses are made by provisions charged to earnings. Furthermore, an improvement in the expected cash flows related to purchased credit impaired loans would result in a reduction of the required specific allowance with a corresponding credit to the provision.

The Credit Risk Management Committee is comprised of Bank management. The adequacy of the allowance is analyzed quarterly, with any adjustment to a level deemed appropriate by the Credit Risk Management Committee, based on its risk assessment of the entire portfolio. Each quarter, members of the Credit Risk Management Committee meet with the Credit Risk Committee of the Board to review credit risk trends and the adequacy of the allowance for loan losses. Based on the Credit Risk Management Committee's review of the classified loans and the overall allowance levels as they relate to the loan portfolio at March 31, 2014, management believes the allowance for loan losses has been established at levels sufficient to cover the probable incurred losses in the Bank's loan portfolio. Future additions or reductions to the allowance may be necessary based on changes in economic, market or other conditions. Changes in estimates could result in a material change in the allowance. In addition, various regulatory agencies, as an integral part of the examination process, periodically review the allowance for loan losses. Such agencies may require the Bank to recognize adjustments to the allowance based on their judgments of the information available to them at the time of their examination.

***Net Income***

Net income for the three months ended March 31, 2014 was \$0.4 million and \$0.04 per diluted share and included (i) \$2.9 million in acquisition costs, net of tax, associated with the FNB NY acquisition and branch restructuring charges related to a branch relocation and; (ii) \$0.7 million of losses, net of tax, on the sales of securities resulting from repositioning of the securities portfolio to mitigate interest rate risk as compared to \$3.1 million and \$0.35 per diluted share for the same period in 2013. Other changes for the three months ended March 31, 2014 compared to March 31, 2013 include: (i) a \$3.6 million or 30.2% increase in net interest income as a result of growth in interest earning assets primarily related to loans and investments; (ii) a \$0.1 million or 27.3% increase in the provision for loan losses; (iii) a \$1.3 million or 61.9% decrease in total non-interest income as a result of increased securities losses of \$1.5 million, partially offset by a \$0.2 million increase in other income. The effective income tax rate was 35.0% for the quarter ended March 31, 2014 compared to 31.9% for the same period last year.

#### *Analysis of Net Interest Income*

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

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

(In thousands)	2014			Three months ended March 31, 2013		
	Average Balance	Interest	Average Yield/Cost	Average Balance	Interest	Average Yield/Cost
<b>Interest earning assets:</b>						
Loans, net (1)	\$ 1,064,457	\$ 13,316	5.07%	\$ 810,358	\$ 10,668	5.34%
Mortgage-backed securities, CMOs and other asset-backed securities	450,030	2,292	2.07	349,293	1,443	1.68
Taxable securities	105,017	858	3.31	205,503	1,009	1.99
Tax exempt securities (2)	223,800	1,185	2.15	138,519	931	2.73
Deposits with banks	11,634	8	0.28	8,271	5	0.25
Total interest earning assets	1,854,938	17,659	3.86	1,511,944	14,056	3.77
<b>Non interest earning assets:</b>						
Cash and due from banks	36,320			23,284		
Other assets	70,210			46,905		
Total assets	\$ 1,961,468			\$ 1,582,133		
<b>Interest bearing liabilities:</b>						
Savings, NOW and money market deposits	\$ 943,598	\$ 837	0.36%	\$ 775,884	\$ 884	0.46%
Certificates of deposit of \$100,000 or more	84,318	175	0.84	118,246	329	1.13
Other time deposits	52,196	95	0.74	39,259	85	0.88
Federal funds purchased and repurchase agreements	63,593	129	0.82	57,455	124	0.88
Federal Home Loan Bank term advances	83,624	245	1.19	15,000	40	1.08
Junior Subordinated Debentures	16,002	341	8.64	16,002	341	8.64
Total interest bearing liabilities	1,243,331	1,822	0.59	1,021,846	1,803	0.72
<b>Non interest bearing liabilities:</b>						
Demand deposits	533,595			436,027		
Other liabilities	9,922			6,393		
Total liabilities	1,786,848			1,464,266		
Stockholders' equity	174,620			117,867		
Total liabilities and stockholders' equity	\$ 1,961,468			\$ 1,582,133		
<b>Net interest income/interest rate spread (3)</b>						
		15,837	3.27%		12,253	3.05%
<b>Net interest earning assets/net interest margin (4)</b>						
	\$ 611,607		3.46%	\$ 490,098		3.29%

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Ratio of interest earning assets to interest bearing liabilities	149.19%	147.96%
Less: Tax equivalent adjustment	(301)	(325)
Net interest income	\$ 15,536	\$ 11,928

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- (1) Amounts are net of deferred origination costs/ (fees) and the allowance for loan loss.
- (2) The above table is presented on a tax equivalent basis.
- (3) Net interest rate spread represents the difference between the yield on average interest earning assets and the cost of average interest bearing liabilities.
- (4) Net interest margin represents net interest income divided by average interest earning assets.



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

		Three months ended March 31, 2014 Over 2013 Changes Due To		
(In thousands)	Volume	Rate	Net Change	
Interest income on interest earning assets:				
Loans, net (1)	\$ 6,049	\$ (3,401)	\$ 2,648	
Mortgage-backed securities, CMOs and other asset-backed securities	470	379	849	
Taxable securities	92	84	176	
Tax exempt securities (2)	(894)	821	(73)	
Federal funds sold				
Deposits with banks	2	1	3	
Total interest earning assets	5,719	(2,116)	3,603	
Interest expense on interest bearing liabilities:				
Savings, NOW and money market deposits	750	(797)	(47)	
Certificates of deposit of \$100,000 or more	(81)	(73)	(154)	
Other time deposits	81	(71)	10	
Federal funds purchased and repurchase agreements	45	(40)	5	
Federal Home Loan Bank Advances	201	4	205	
Junior subordinated debentures				
Total interest bearing liabilities	996	(977)	19	
Net interest income	\$ 4,723	\$ (1,139)	\$ 3,584	

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

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

**Analysis of Net Interest Income for the Three Months ended March 31, 2014 and March 31, 2013**

Net interest income was \$15.5 million for the three months ended March 31, 2014 compared to \$11.9 million for the same period in 2013, an increase of \$3.6 million or 30.3%. Net interest margin increased to 3.46% for the quarter ended March 31, 2014, compared to 3.29% for the

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quarter ended March 31, 2013 as a result of higher yielding investments and lower cost of interest bearing liabilities. The total average interest earning assets increased \$343.0 million or 22.7%, yielding 3.86% and the overall funding cost was 0.42%, including demand deposits. The yield on interest earning assets increased approximately 9 basis points from 3.77% to 3.86%. The cost of interest bearing liabilities decreased approximately 13 basis points during the first quarter of 2014 compared to 2013. The increase in average total deposits of \$244.3 million funded higher yielding securities, which grew \$85.5 million, and average net loans increased \$254.1 million from the comparable 2013 quarter.

For the three months ended March 31, 2014, average net loans grew by \$254.1 million or 31.4% to \$1.06 billion as compared to \$810.4 million for the same period in 2013, driven by growth in commercial real estate mortgage loans, commercial, financial and agricultural loans, and multi-family mortgage loans. The Bank remains committed to growing loans with prudent underwriting, sensible pricing and limited credit and extension risk.

For the three months ended March 31, 2013, average total securities increased by \$85.5 million or 12.3% to \$778.8 million as compared to \$693.3 million for the three months ended March 31, 2013. There were no federal funds sold for the three months ended

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March 31, 2014 and 2013. The average interest earning cash increased by \$3.4 million to \$11.6 million for the three months ended March 31, 2014 as compared to \$8.3 million for the same period in 2013.

Average total interest bearing liabilities were \$1.2 billion for the three months ended March 31, 2014 compared to \$1.0 billion for the same period in 2013. The Bank grew deposits as a result of the acquisition of FNB NY, opening two new branches during 2013 as well as building new relationships in existing markets. The Bank continues to reduce interest rates on deposit products through prudent management of deposit pricing. The reduction in deposit rates and the lower average balance of higher cost CDs, resulted in a decrease in the cost of interest bearing liabilities to 0.59% for the three months ended March 31, 2014 from 0.72% for the same period in 2013. Since the Company's interest bearing liabilities generally reprice or mature more quickly than its interest earning assets, an increase in short term interest rates would initially result in a decrease in net interest income. Additionally, the large percentages of deposits in money market accounts reprice at short term market rates making the balance sheet more liability sensitive.

For the three months ended March 31, 2014, average total deposits increased by \$244.3 million or 17.8% to \$1.6 billion from \$1.4 billion from the same period in 2013. Components of this increase include an increase in average balances in savings, NOW and money market accounts of \$167.7 million or 21.6% to \$943.6 million for the three months ended March 31, 2014 compared to \$775.9 million for the same period last year. Average balances in certificates of deposit of \$100,000 or more and other time deposits decreased \$21.0 million or 13.3% to \$136.5 million for 2014 as compared to \$157.5 million for the same period last year. Average balances in demand deposits increased \$97.6 million or 22.4% to \$533.6 million for 2014 as compared to \$436.0 million for the same period last year. Average public fund deposits comprised 20.5% of total average deposits during the three months ended March 31, 2014 and 18.0% of total average deposits for the same period in 2013. Average federal funds purchased and repurchase agreements increased \$6.1 million or 10.7% to \$63.6 million for the three months ended March 31, 2014 compared to \$57.5 million for the same period in the prior year. Average FHLB advances increased \$68.6 million or 457.5% to \$83.6 million for the three months ended March 31, 2014 compared to \$15.0 million for the same period 2013.

Total interest income increased \$3.6 million or 26.4% to \$17.4 million, net of the tax equivalent adjustment on tax exempt securities interest income, for the three months ended March 31, 2014 from \$13.7 million for the same period in 2013. Interest income on loans increased \$2.6 million or 24.8% to \$13.3 million for the three months ended March 31, 2014 from \$10.7 million for the same period in 2013. The yield on average loans was 5.07% for 2014 as compared to 5.34 % in 2013.

Interest income on investments in mortgage-backed, taxable and tax exempt securities increased \$0.9 million to \$4.0 million for the three months ended March 31, 2014 compared to \$3.1 million for the same period in 2013. Interest income on securities included net amortization of premium of \$0.9 million and a tax equivalent adjustment of \$0.3 million in the 2014 compared to net amortization of premium of \$1.5 million and tax equivalent adjustment of \$0.3 million for the same period in 2013. The tax adjusted average yield on total securities was 2.26% for 2014 as compared to 1.98% in 2013.

Interest expense was \$1.8 million for the three months ended March 31, 2014 and 2013.

***Provision and Allowance for Loan Losses***

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The Bank's loan portfolio consists primarily of real estate loans secured by commercial and residential real estate properties located in the Bank's principal lending area of Suffolk County which is located on the eastern portion of Long Island. The interest rates charged by the Bank on loans are affected primarily by the demand for such loans, the supply of money available for lending purposes, the rates offered by its competitors, the Bank's relationship with the customer, and the related credit risks of the transaction. These factors are affected by general and economic conditions including, but not limited to, monetary policies of the federal government, including the Federal Reserve Board, legislative policies and governmental budgetary matters.

Based on our continuing review of the overall loan portfolio, the current asset quality of the portfolio, the growth in the loan portfolio and the net charge-offs, a provision for loan losses of \$0.7 million was recorded during the three months ended March 31, 2014 compared to a provision for loan loss of \$0.6 million that was recorded during the same period in 2013. Net charge-offs were \$0.3 million for the quarter ended March 31, 2014 compared to \$0.8 million for the year ended December 31, 2013 and \$0.1 million for the quarter ended March 31, 2013. The ratio of allowance for loan losses to nonaccrual loans was 431%, 419% and 465%, at March 31, 2014, December 31, 2013, and March 31, 2013, respectively. The allowance for loan losses increased to \$16.4 million at March 31, 2014 as compared to \$16.0 million at December 31, 2013 and \$14.9 million at March 31, 2013. As a percentage of total loans (excluding \$87.4 million of FNBNY acquired loans), the allowance was 1.56% at March 31, 2014 compared to 1.58% at December 31, 2013 and 1.73% at March 31, 2013. In accordance with current accounting guidance, the acquired FNBNY loans were recorded at fair value, effectively netting estimated future losses against the loan balances. Management continues to carefully monitor the loan portfolio as well as real estate trends in Suffolk County and eastern Long Island.

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Loans of approximately \$52.4 million or 4.6% of total loans at March 31, 2014 were categorized as classified loans compared to \$46.6 million or 4.6% at December 31, 2013 and \$53.3 million or 6.2% at March 31, 2013. Classified loans include loans with credit quality indicators with the internally assigned grades of special mention, substandard and doubtful. These loans are categorized as classified loans as management has information that indicates the borrower may not be able to comply with the present repayment terms. These loans are subject to increased management attention and their classification is reviewed on at least a quarterly basis. At March 31, 2014, classified loans included \$7.6 million of acquired FNBNY loans.

At March 31, 2014, approximately \$35.7 million of classified loans were commercial real estate ( CRE ) loans, including multi-family loans and were well secured with real estate as collateral. Of the \$35.7 million of CRE loans, \$31.6 million were current and \$4.1 million were past due. In addition, all but \$2.1 million of the CRE loans have personal guarantees. At March 31, 2014, approximately \$5.7 million of classified loans were residential real estate loans with \$3.1 million current and \$2.6 million past due. Commercial, financial, and agricultural loans represented \$10.4 million of classified loans, of which all was current. Approximately \$0.4 million of classified loans represented real estate construction and land loans, which were all current. All real estate construction and land loans are well secured with collateral. The remaining \$0.2 million in classified loans are consumer loans that are unsecured and demonstrate sufficient cash flow to pay the loans. There were no multi-family loans that were categorized as classified loans as of December 31, 2013.

CRE loans, including multi-family loans, represented \$666.1 million or 58.7% of the total loan portfolio at March 31, 2014 compared to \$592.4 million or 58.6% at December 31, 2013 and \$442.7 million or 51.4% at March 31, 2013. The Bank's underwriting standards for CRE loans requires an evaluation of the cash flow of the property, the overall cash flow of the borrower and related guarantors as well as the value of the real estate securing the loan. In addition, the Bank's underwriting standards for CRE loans are consistent with regulatory requirements with original loan to value ratios generally less than or equal to 75%. The Bank considers charge-off history, delinquency trends, cash flow analysis, and the impact of the local economy on commercial real estate values when evaluating the appropriate level of the allowance for loan losses. Real estate values in our geographic markets increased significantly from 2000 through 2007. Commencing in 2008, following the financial crisis and significant downturn in the economy, real estate values began to decline. This decline continued into 2009 and stabilized in 2010. The estimated decline in residential and commercial real estate values during this period ranged from 15-20% from the 2007 levels, depending on the nature and location of the real estate. Real estate values began to improve in 2012 and have continued into 2014.

As of March 31, 2014 and December 31, 2013, the Company had impaired loans as defined by FASB ASC No. 310, "Receivables" of \$8.5 million and \$8.9 million, respectively. For a loan to be considered impaired, management determines after review whether it is probable that the Bank will not be able to collect all amounts due according to the contractual terms of the loan agreement. Management applies its normal loan review procedures in making these judgments. Impaired loans include individually classified nonaccrual loans and troubled debt restructured ( TDR ) loans. For impaired loans, the Bank evaluates the impairment of the loan in accordance with FASB ASC 310-10-35-22. Impairment is determined based on the present value of expected future cash flows discounted at the loan's effective interest rate. For loans that are collateral dependent, the fair value of the collateral is used to determine the fair value of the loan. The fair value of the collateral is determined based upon recent appraised values. The fair value of the collateral or present value of expected cash flows is compared to the carrying value to determine if any write-down or specific loan loss allowance allocation is required. These methods of fair value measurement for impaired loans are considered level 3 within the fair value hierarchy described in FASB ASC 820-10-50-5.

Nonaccrual loans were \$3.8 million or 0.33% of total loans at March 31, 2014 and \$3.8 million or 0.38% of total loans at December 31, 2013. Approximately \$1.7 million of the nonaccrual loans at March 31, 2014 and \$2.0 million at December 31, 2013, represent troubled debt restructured loans.

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Net charge-offs were \$0.3 million for the quarter ended March 31, 2014 compared to \$0.8 million for the year ended December 31, 2013 and \$0.07 million for the quarter ended March 31, 2013. The ratio of allowance for loan losses to nonaccrual loans was 431%, 419% and 465%, at March 31, 2014, December 31, 2013 and March 31, 2013, respectively.

The Bank had no other real estate owned at March 31, 2014 and \$2.2 million at December 31, 2013 and \$0.3 million at March 31, 2013, respectively.

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

(Dollars in thousands)	For the Three Months Ended March 31, 2014		For the Year Ended December 31, 2013	
Allowance for loan losses balance at beginning of period	\$	16,001	\$	14,439
Charge-offs:				
Commercial real estate mortgage loans		267		
Multi-family mortgage loans				
Residential real estate mortgage loans				420
Commercial, financial and agricultural loans		85		420
Real estate construction and land loans				23
Installment/consumer loans				53
Total		352		916
Recoveries:				
Commercial real estate mortgage loans				
Multi-family mortgage loans				
Residential real estate mortgage loans		10		34
Commercial, financial and agricultural loans		9		87
Real estate construction and land loans		1		2
Installment/consumer loans				5
Total		20		128
Net charge-offs		(332)		(788)
Provision for loan losses charged to operations		700		2,350
Balance at end of period	\$	16,369	\$	16,001
Ratio of annualized net charge-offs during the period to average loans outstanding		(0.12)%		(0.09)%

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

	March 31, 2014		December 31, 2013	
(Dollars in thousands)	Amount	Percentage of Loans to Total Loans	Amount	Percentage of Loans to Total Loans
Commercial real estate mortgage loans	\$ 6,621	46.0%	\$ 6,279	47.9%
Multi-family loans	1,594	12.7	1,597	10.6
Residential real estate mortgage loans	2,603	14.5	2,712	15.2
Commercial, financial & agricultural loans	4,270	21.9	4,006	20.7
Real estate construction and land loans	1,103	3.9	1,206	4.7
Installment/consumer loans	178	1.0	201	0.9
Total	\$ 16,369	100.0%	\$ 16,001	100.0%

## Non Interest Income

Total non-interest income decreased \$1.3 million or 61.9% to \$0.8 million for the three months ended March 31, 2014 compared to \$2.1 million for the same period in 2013. The decrease was primarily the result of net securities losses of \$1.1 million compared to net securities gains in 2013 of \$0.3 million, and was offset by an increase in other operating income of \$0.2 million compared to the prior year.



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***Non Interest Expense***

Total non-interest expense increased \$6.1 million or 68.5% to \$15.0 million during the three months ended March 31, 2014 compared to \$8.9 million over the same period in 2013. The increase in non-interest expense is primarily attributed to \$4.4 million of FNB NY acquisition costs and a branch restructuring charge related to a branch relocation. Additionally, salaries and employee benefits increased \$0.8 million or 15.1% to \$6.2 million for the three months ended March 31, 2014 from \$5.4 million for the same period in 2013. The increase reflects additional staff associated with the FNB NY acquisition, additional positions to support the Company's expanding infrastructure, new branches and a larger loan portfolio. Occupancy and equipment expense increased \$0.4 million to \$1.6 million as of March 31, 2014 as compared to \$1.2 million for the same period last year. Technology and communications increased \$0.2 million as of March 31, 2014 as compared to \$0.5 million for the same period last year.

***Income Taxes***

The provision for income taxes decreased \$1.2 million or 85.0% to \$0.2 million for the three months ended March 31, 2014 compared to \$1.5 million for the three months ended March 31, 2013 primarily due to lower pretax income. The effective tax rate for the three months ended March 31, 2014 increased to 35.0% from 31.9% for the same period last year. The increase in the effective rate was a result of certain non-deductible acquisition costs and a lower percentage of interest income from tax exempt securities.

***Financial Condition***

Total assets grew to \$2.11 billion, a 34.0% increase over the March 31, 2013 level of \$1.58 billion, and increased 11.4% over the December 31, 2013 level of \$1.90 billion. Contributing to the change was the impact of the FNB NY acquisition which added total assets on a fair value basis of \$209.9 million. Total asset growth, excluding the impact of the acquired assets of FNB NY was \$326.4 million or 21% over March 31, 2013. This increase reflects strong organic growth in new and existing markets.

Cash and due from banks decreased \$3.6 million and interest earning deposits with banks increased \$2.2 million compared to December 31, 2013. Total securities increased \$66.3 million or 8.5% to \$842.8 million and net loans increased \$122.1 million or 12.2% to \$1.12 billion compared to December 31, 2013 levels. This increase included \$87.4 million in acquired loans recorded on a fair value basis resulting from the FNB NY acquisition. The ability to grow the loan portfolio, while minimizing interest rate risk sensitivity and maintaining credit quality, remains a strong focus of management. Goodwill and Other Intangible assets increased \$10.6 million compared to December 31, 2013. Goodwill of \$8.7 million and \$1.9 million core deposit intangible was recorded in connection with the FNB NY acquisition. Total deposits increased \$135.8 million to \$1.675 billion at March 31, 2014 compared to \$1.539 billion at December 31, 2013. Deposit growth includes \$169.9 million in deposits acquired from FNB NY. Demand deposits decreased \$63.0 million to \$520.0 million as of March 31, 2014 compared to \$582.9 million at December 31, 2013. Savings, NOW and money market deposits increased \$132.2 million to \$987.5 million at March 31, 2014 from \$855.2 million at December 31, 2013. Certificates of deposit of \$100,000 or more increased \$36.9 million to \$101.3 million at March 31, 2014, from \$64.4 million at December 31, 2013. Other time deposits increased \$29.7 million to \$66.1 million at March 31, 2014, from \$36.4 million at December 31, 2013.

Federal funds purchased were \$66.0 million as of March 31, 2014 compared to \$64.0 million at December 31, 2013. Federal Home Loan Bank advances were \$152.2 million as of March 31, 2014, which includes \$39.3 million acquired from FBNBY, and \$98.0 million for December 31, 2013. Repurchase agreements increased \$0.2 million to \$11.6 million at March 31, 2014 compared to \$11.4 million as of December 31, 2013. Junior subordinated debentures remained at \$16.0 million as of March 31, 2014 compared to December 31, 2013. Other liabilities and accrued expenses increased \$16.6 million to \$25.4 million as of March 31, 2014 from \$8.8 million as of December 31, 2013. Stockholders' equity was \$166.9 million at March 31, 2014, an increase of \$7.4 million or 4.6% from December 31, 2013, reflecting net income of \$0.4 million and \$0.3 million related to stock based compensation plans, the issuance of \$5.9 million in common equity in connection with the acquisition of FBNBY, a decrease in the unrealized loss on available for sale securities of \$3.4 million, partially offset by \$2.6 million paid in dividends. In April 2014, the Company declared a quarterly dividend of \$0.23 per share and continues its long term trend of uninterrupted dividends.

### *Liquidity*

The objective of liquidity management is to ensure the sufficiency of funds available to respond to the needs of depositors and borrowers, and to take advantage of unanticipated earnings enhancement opportunities for Company growth. Liquidity management addresses the ability of the Company to meet financial obligations that arise in the normal course of business. Liquidity is primarily needed to meet customer borrowing commitments, deposit withdrawals either on demand or contractual maturity, to repay other borrowings as they mature, to fund current and planned expenditures and to make new loans and investments as opportunities arise. The Holding Company's principal sources of liquidity included cash and cash equivalents of \$19.0 million as of March 31, 2014, and dividends from the Bank. Cash available for distribution of dividends to shareholders of the Company is primarily derived from

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dividends paid by the Bank to the Company. For the three months ended March 31, 2014, the Bank did not pay a cash dividend to the Company. Prior regulatory approval is required if the total of all dividends declared by the Bank in any calendar year exceeds the total of the Bank's net income of that year combined with its retained net income of the preceding two years. As of April 1, 2014, the Bank has \$28.5 million of retained net income available for dividends to the Company. In the event that the Company subsequently expands its current operations, in addition to dividends from the Bank, it will need to rely on its own earnings, additional capital raised and other borrowings to meet liquidity needs.

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

The Bank's Asset/Liability and Funds Management Policy allows for wholesale borrowings of up to 25% of total assets. At March 31, 2014, the Bank had aggregate lines of credit of \$290.0 million with unaffiliated correspondent banks to provide short term credit for liquidity requirements. Of these aggregate lines of credit, \$270.0 million is available on an unsecured basis. As of March 31, 2014, the Bank had \$66.0 million in overnight borrowings outstanding under these lines. The Bank also has the ability, as a member of the Federal Home Loan Bank (FHLB) system, to borrow against unencumbered residential and commercial mortgages owned by the Bank. The Bank also has a master repurchase agreement with the FHLB, which increases its borrowing capacity. As of March 31, 2014, the Bank had \$78.0 million outstanding in FHLB overnight borrowings and an additional \$74.2 million outstanding in FHLB term borrowings. The Bank had \$10.0 million of securities sold under agreements to repurchase outstanding as of March 31, 2014 with brokers and \$1.6 million outstanding with customers. As of December 31, 2013, the Bank had \$10.0 million of securities sold under agreements to repurchase outstanding with brokers and \$1.4 million outstanding with customers. In addition, the Bank has an approved broker relationship for the purpose of issuing brokered certificates of deposit. As of March 31, 2014 and December 31, 2013 the Bank had no brokered certificates of deposits.

Management continually monitors the liquidity position and believes that sufficient liquidity exists to meet all of our operating requirements. Based on the objectives determined by the Asset and Liability Committee, the Bank's liquidity levels may be affected by the use of short term and wholesale borrowings, and the amount of public funds in the deposit mix. The Asset and Liability Committee is comprised of members of senior management and the Board. Excess short-term liquidity is invested in overnight federal funds sold or in an interest earning account at the Federal Reserve.

## ***Capital Resources***

The Company and the Bank are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can result in certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's and the Bank's financial statements. Under capital adequacy guidelines and the regulatory

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framework for prompt corrective action, the Company and the Bank must meet specific capital requirements that involve quantitative measures of the Company's and Bank's assets, liabilities, and certain off-balance sheet items calculated under regulatory accounting practices. The Company's and Bank's capital amounts and classifications also are subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Company and the Bank to maintain minimum amounts and ratios (set forth in the following table) of total and Tier 1 capital (as defined in the regulations) to risk weighted assets (as defined), and of Tier 1 capital (as defined) to average assets (as defined). Management believes as of March 31, 2014, the Company and the Bank met all capital adequacy requirements.

The Company has the ability to issue additional common stock and/or preferred stock should the need arise.

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At March 31, 2014 and December 31, 2013, actual capital levels and minimum required levels for the Company and the Bank were as follows:

### Bridge Bancorp, Inc. (Consolidated)

As of March 31,  
(Dollars in thousands)

	Actual		2014 For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total Capital (to risk weighted assets)	\$ 197,379	14.0%	\$ 113,046	8.0%	n/a	n/a
Tier 1 Capital (to risk weighted assets)	180,835	12.8%	56,523	4.0%	n/a	n/a
Tier 1 Capital (to average assets)	180,835	9.3%	77,995	4.0%	n/a	n/a
Total Capital (to risk weighted assets)	\$ 202,039	16.3%	\$ 99,108	8.0%	n/a	n/a
Tier 1 Capital (to risk weighted assets)	186,547	15.1%	49,554	4.0%	n/a	n/a
Tier 1 Capital (to average assets)	186,547	10.3%	72,476	4.0%	n/a	n/a

### Bridgehampton National Bank

Total Capital (to risk weighted assets)	\$ 178,370	12.6%	\$ 113,033	8.0%	\$ 141,291	10.0%
Tier 1 Capital (to risk weighted assets)	161,826	11.5%	56,516	4.0%	84,775	6.0%
Tier 1 Capital (to average assets)	161,826	8.3%	78,008	4.0%	97,511	5.0%
Total Capital (to risk weighted assets)	\$ 164,494	13.3%	\$ 99,084	8.0%	\$ 123,855	10.0%
Tier 1 Capital (to risk weighted assets)	149,005	12.0%	49,542	4.0%	74,313	6.0%

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Tier 1 Capital (to average assets)	149,005	8.2%	72,464	4.0%	90,580	5.0%
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### *Impact of Inflation and Changing Prices*

The Unaudited Consolidated Financial Statements and notes thereto have been prepared in accordance with U.S. generally accepted accounting principles, which require the measurement of financial position and operating results in terms of historical dollars without considering changes in the relative purchasing power of money over time due to inflation. The primary effect of inflation on the operations of the Company is reflected in increased operating costs. Unlike most industrial companies, virtually all of the assets and liabilities of a financial institution are monetary in nature. As a result, changes in interest rates have a more significant effect on the performance of a financial institution than do the effects of changes in the general rate of inflation and changes in prices. Changes in interest rates could adversely affect our results of operations and financial condition. Interest rates do not necessarily move in the same direction, or in the same magnitude, as the prices of goods and services. Interest rates are highly sensitive to many factors, which are beyond the control of the Company, including the influence of domestic and foreign economic conditions and the monetary and fiscal policies of the United States government and federal agencies, particularly the Federal Reserve Bank.

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***Recent Regulatory and Accounting Developments***

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

**Item 3. Quantitative and Qualitative Disclosures about Market Risk**

***Asset/Liability Management***

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

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

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

At March 31, 2014, \$754.7 million or 88.5% of the Company's securities had fixed interest rates. Changes in interest rates affect the value of the Company's interest earning assets and in particular its securities portfolio. Generally, the value of securities fluctuates inversely with changes in interest rates. Increases in interest rates could result in decreases in the market value of interest earning assets, which could adversely affect the Company's stockholders' equity and its results of operations if sold. The Company is also subject to reinvestment risk associated with changes in interest rates. Changes in market interest rates also could affect the type (fixed-rate or adjustable-rate) and amount of loans originated by the Company and the average life of loans and securities, which can impact the yields earned on the Company's loans and securities. In periods of decreasing interest rates, the average life of loans and securities held by the Company may be shortened to the extent increased prepayment activity occurs during such periods which, in turn, may result in the investment of funds from such prepayments in lower yielding assets. Under these circumstances the Company is subject to reinvestment risk to the extent that it is unable to reinvest the cash received from such prepayments at rates that are comparable to the rates on existing loans and securities. Additionally, increases in interest rates may result in decreasing loan prepayments with respect to fixed rate loans (and therefore an increase in the average life of such loans), may result in a decrease in loan demand, and make it more difficult for borrowers to repay adjustable rate loans.

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The Company utilizes the results of a detailed and dynamic simulation model to quantify the estimated exposure to net interest income to sustained interest rate changes. Management routinely monitors simulated net interest income sensitivity over a rolling two-year horizon. The simulation model captures the seasonality of the Company's deposit flows and the impact of changing interest rates on the interest income received and the interest expense paid on all assets and liabilities reflected on the Company's consolidated balance sheets. This sensitivity analysis is compared to the asset and liability policy limits that specify a maximum tolerance level for net interest income exposure over a one-year horizon given a 100 and 200 basis point upward shift in interest rates and a 100 basis point downward shift in interest rates. A parallel and pro-rata shift in rates over a twelve-month period is assumed.

The following reflects the Company's net interest income sensitivity analysis at March 31, 2014:

Change in Interest Rates in Basis Points (Dollars in thousands)	March 31, 2014 Potential Change in Net Interest Income		
	\$ Change		% Change
200	\$	(4,583)	(7.10)%
100	\$	(2,349)	(3.64)%
Static			
(100)	\$	291	0.45%



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The preceding sensitivity analysis does not represent a Company forecast and should not be relied upon as being indicative of expected operating results. These hypothetical estimates are based upon numerous assumptions including, but not limited to, the nature and timing of interest rate levels and yield curve shapes, prepayments on loans and securities, deposit decay rates, pricing decisions on loans and deposits, and reinvestment and replacement of asset and liability cash flows. While assumptions are developed based upon perceived current economic and local market conditions, the Company cannot make any assurances as to the predictive nature of these assumptions including how customer preferences or competitor influences may change.

Also, as market conditions vary from those assumed in the sensitivity analysis, actual results will also differ due to prepayment and refinancing levels likely deviating from those assumed, the varying impact of interest rate change caps or floors on adjustable rate assets, the potential effect of changing debt service levels on customers with adjustable rate loans, depositor early withdrawals, prepayment penalties and product preference changes and other internal and external variables. Furthermore, the sensitivity analysis does not reflect actions that management might take in responding to, or anticipating changes in interest rates and market conditions. Management considers interest rate risk to be the most significant market risk for the Company. Market risk is the risk of loss from adverse changes in market prices and rates. Interest rate risk is the exposure to adverse changes in the net income of the Company as a result of changes in interest rates.

**Item 4. Controls and Procedures**

An evaluation was performed under the supervision and with the participation of the Company's management, including the Principal Executive Officer and Principal Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) promulgated under the Securities and Exchange Act of 1934, as amended) as of March 31, 2014. Based on that evaluation, the Company's Principal Executive Officer and Principal Financial Officer concluded that the Company's disclosure controls and procedures were effective as of the end of the period covered by this quarterly report. There has been no change in the Company's internal control over financial reporting during the quarter that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

**PART II. OTHER INFORMATION**

***Item 1. Legal Proceedings***

None.

***Item 1A. Risk Factors***

There have been no material changes to the factors disclosed in Item 1A., Risk Factors, in the Company's Annual Report on Form 10-K for the year ended December 31, 2013.

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

- (a) Not applicable.
- (b) Not applicable.
- (c) Not applicable.

***Item 3. Defaults upon Senior Securities***

Not applicable.

***Item 4. Mine Safety Disclosures***

Not applicable.

***Item 5. Other Information***

Not applicable.

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**Item 6. Exhibits and Reports on Form 8-K**

<u>31.1</u>	Certification of Principal Executive Officer pursuant to Rule 13a-14(a)
<u>31.2</u>	Certification of Principal Financial Officer pursuant to Rule 13a-14(a)
<u>32.1</u>	Certification of Chief Executive Officer and Chief Financial Officer pursuant to Rule 13a-14(b) and 18 U.S.C. Section 1350
101	The following financial statements from Bridge Bancorp, Inc.'s Quarterly Report on Form 10-Q for the Quarter Ended March 31, 2014, filed on May 12, 2014, formatted in XBRL: (i) Consolidated Balance Sheets as of March 31, 2014 and December 31, 2013, (ii) Consolidated Statements of Income for the Three Months Ended March 31, 2014 and 2013, (iii) Consolidated Statements of Comprehensive Income for the Three Months Ended March 31, 2014 and 2013, (iv) Consolidated Statement of Stockholders' Equity for the Three Months Ended March 31, 2014 and 2013, (v) Consolidated Statements of Cash Flows for the Three Months Ended March 31, 2014 and 2013, and (vi) the Condensed Notes to Consolidated Financial Statements.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB	XBRL Taxonomy Extension Labels Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definitions Linkbase Document

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SIGNATURES

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

BRIDGE BANCORP, INC.

Registrant

May 12, 2014

/s/ Kevin M. O Connor

Kevin M. O Connor

President and Chief Executive Officer

May 12, 2014

/s/ Howard H. Nolan

Howard H. Nolan

Senior Executive Vice President, Chief Financial Officer