

U.S. Securities and Exchange Commission

Washington, DC 20549

FORM 10-K

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

(Mark one)

Annual Report Pursuant to Section 13 or 15(d) of the Securities and Exchange Act of 1934

For the fiscal year ended December 31, 2000

or

Transition Report Pursuant to Section 13 or 15(d) of the Securities and Exchange Act of
1934

For the Transition period from _____ to _____

Commission file Number 0-18546

BRIDGE BANCORP, INC

(Exact name of registrant as specified in its charter)

NEW YORK

(State or other jurisdiction of incorporation or organization)

11-2934195

(I.R.S. Employer Identification Number)

2200 Montauk Highway, Bridgehampton, New York 11932

(Address of principal executive office)

(Zip Code)

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

Securities registered under Section 12 (b) of the Exchange Act:

Title of each class Name of each exchange on which registered

None

None

Securities registered under Section 12 (g) of the Exchange Act:

Common Stock, Par Value of \$0.01 Per Share,

(Title of Class)

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (section 229.405) of this chapter is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10- K or any amendment to this Form 10-K.

The aggregate market value of the voting stock owned by non-affiliates of the Registrant as of February 22, 2001 was \$68,981,276.

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PART I

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for the Annual Meeting of Shareholders to be held April 16, 2001, dated March 9, 2001, are incorporated by reference into Part III.

Item 1. Business

Bridge Bancorp, Inc. (the “Registrant” or “Company”) is a registered bank holding company, the sole subsidiary of which is The Bridgehampton National Bank (the “Bank”). The Registrant was organized as a New York business corporation and incorporated under the laws of the State of New York in 1988, at the direction of the Board of Directors of the Bank for the purpose of becoming a bank holding company pursuant to a plan of reorganization; under the plan the former stockholders of the Bank became the stockholders of the Company. Since commencing business in March 1989, after the reorganization, the Registrant has functioned primarily as the holder of all of the Bank’s common stock.

At present, the Registrant does not own or lease any property and has no paid employees. The Registrant uses the Bank’s space and employees without separate payment.

The Bank was established in 1910 as a national banking association and is under the supervision of the Office of the Comptroller of the Currency (the “O.C.C.”). Its headquarters are located at 2200 Montauk Highway, Bridgehampton, New York 11932.

The Bank, a community-oriented financial institution, engages in full service commercial and consumer banking and limited trust business, including accepting time and demand deposits from the areas surrounding its branch offices. These deposits, together with funds generated from operations and borrowings, are invested primarily in commercial real estate loans, secured and unsecured commercial and consumer loans, including auto, personal, home equity, home improvement, residential mortgage, commercial construction and S.B.A. guaranteed loans. In addition, the Bank offers merchant credit and debit card processing, wealth management services, automated teller machines, cash management services, safe deposit boxes and individual retirement accounts.

The Bank employs 113 people on a full-time and part-time basis. The Bank provides a variety of employment benefits and considers its relationship with its employees to be positive.

All phases of the Bank’s business are highly competitive. The Bank faces direct competition from a significant number of financial institutions operating in its market area, many with a state-wide or regional presence, and in some cases, a national presence. Most of these competitors are significantly larger than the Bank, and therefore have greater financial and marketing resources than those of the Bank. The Bank considers its major competition to be local commercial banks as well as other commercial banks with branches in the Bank’s market area. The Bank’s market is primarily the trade areas of the North and South Forks of Eastern Suffolk County, with concentrations in the Bridgehampton, East Hampton, Greenport, Mattituck, Montauk, Sag Harbor, Southampton, and Southold, New York areas.

REGULATION

References in this section to applicable statutes and regulations are brief summaries only, and do not purport to be complete. The reader should consult such statutes and regulations themselves for a full understanding of the details of their operation.

The Registrant is subject to the provisions of the Bank Holding Company Act (the “Act”) of 1956, as amended and to supervision by the Federal Reserve Board. The Act requires the Registrant to secure the prior approval of the Federal Reserve Board before it can acquire all or substantially all of the assets of any bank, or acquire ownership or control of any voting shares of any bank other than the Bank, if after such acquisition, it would own or control more than 5 percent of the voting shares of such bank. Federal law also prohibits acquisitions of control of a bank holding company without prior notice to certain federal bank regulators.

As a bank holding company, the Registrant is required to file an annual report with the Federal Reserve Board and any additional information as the Federal Reserve Board may require pursuant to the Act. The Federal Reserve Board may also make examinations of the Registrant and any or all of its subsidiaries.

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Subsidiary banks of a bank holding company are subject to certain restrictions imposed by the Act on any extension of credit to the bank holding company or any of its subsidiaries, on investments in the stock or other securities of the bank holding company or its subsidiaries, and on the taking of such stock or securities as collateral for loans to any borrower.

The Federal Reserve Board permits bank holding companies to engage in non-banking activities so closely related to banking or managing or controlling banks so as to be a proper incident thereto including, for example, consumer finance companies, mortgage companies, leasing companies, data processing companies, financial advisor and securities brokerage.

Federal Reserve Board approval is required before the Registrant or a non-bank subsidiary of the Registrant may begin to engage in any of the above activities and before any such business may be acquired. At the present time, the Registrant does not contemplate conduct of any non-banking activities permitted by the Act.

With the enactment of the Gramm-Leach-Bliley Act (“the Act”) in the Spring of 2000, bank holding companies are permitted to become financial holding companies. Financial holding companies are permitted to affiliate with securities firms and insurance companies and engage in other activities that are financial in nature. To become a financial holding company the Company must file a declaration and meet the applicable requirements. To qualify, each of its subsidiary banks must be well capitalized under the FDICIA prompt corrective actions provisions, well managed, and have at least a satisfactory rating under the Community Reinvestment Act.

No prior regulatory approval will be required for a financial holding company to acquire a company other than a bank or savings association engaged in activities permitted under the Act. Activities sited under the Act as being “financial in nature” include securities underwriting and dealing, and insurance underwriting and agency activities. Activities that the Federal Reserve Board determined to be closely related to banking are also deemed to be financial in nature.

A national bank also may engage, subject to limitation on investment, in activities that are financial in nature, other than insurance underwriting, merchant banking, real estate development, and real estate investment, through a financial subsidiary of the bank, if the bank is well capitalized, well managed, and has at least a satisfactory Community Reinvestment Act rating. Subsidiary banks of a financial holding company or national bank with financial subsidiaries must continue to be well capitalized and well managed to continue to engage in such activities without regulatory actions or restrictions, which could include divestiture of the financial subsidiary or subsidiaries. In addition, a financial holding company or a bank may not acquire a company that is engaged in such activities unless each of the subsidiary banks of the financial holding company or the bank has at least a satisfactory Community Reinvestment Act rating.

The operations of the Bank are subject to federal and state statutes applicable to banks chartered under the banking laws of the United States, to members of the Federal Reserve System and to banks whose deposits are insured by the Federal Deposit Insurance Corporation (the “FDIC”). Bank operations are also subject to regulations of the O.C.C., the Federal Reserve Board, the FDIC, and the New York State Banking Department. The primary supervisory authority of the Bank is the O.C.C., which regularly examines the Bank.

Federal and state banking laws and regulations govern, among other things the scope of a bank’s business, the investments a bank may make, the reserves against deposits a bank must maintain, the loans a bank makes and collateral it takes, the maximum interest rates a bank must pay on deposits, the activities of a bank with respect to mergers and consolidations and the establishment of branches.

The Financial Institutions Reform, Recovery and Enforcement Act of 1989 (“FIRREA”) expanded the Federal Reserve Board’s authority to prohibit activities of bank holding companies and their non-banking subsidiaries which represent unsafe and unsound banking practices or which constitute violations of laws or regulations. FIRREA increased the amount of civil money penalties that the Federal Reserve Board can assess for such practices or violations. The penalties can be as high as \$1 million per day. FIRREA also expanded the scope of individuals and entities against which such penalties may be assessed.

The Federal Deposit Insurance Corporation Improvement Act of 1991 (“FDICIA”) required each federal banking agency to revise its risk-based capital standards to ensure that those standards take adequate account of interest rate risk, concentrations of credit risk and the risks of non-traditional activities, as well as reflect the actual performances and expected risk of loss on multi-family mortgages. Regulations promulgated under this law also required each federal banking agency to specify the levels at which an insured institution would be considered “well capitalized,” “adequately capitalized,” “under-capitalized,” “significantly under-capitalized” and “critically under-capitalized.” Under the regulations adopted by the banking agencies, the Bank is considered “well capitalized.”

FDICIA requires bank regulators to take “prompt corrective action” to resolve problems associated with insured depository institutions. In the event an institution becomes “under-capitalized,” it must submit a capital restoration plan. If an institution becomes “significantly under-capitalized” or “critically under-capitalized,” additional and significant limitations are placed on the

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institution. The capital restoration plan of an under-capitalized institution will not be accepted by the regulators unless each company “having control of” the under-capitalized institution “guarantees” the subsidiary’s compliance with the capital restoration plan until it becomes “adequately capitalized.”

Under FDICIA, the aggregate liability of all companies controlling a particular institution is limited to the lesser of 5% of the institution’s assets at the time it became under-capitalized or the amount necessary to bring the institution into compliance with applicable capital standards. FDICIA grants powers to the bank regulators in situations where an institution becomes “significantly” or “critically under-capitalized” or fails to submit a capital restoration plan. For example, a bank holding company controlling such an institution can be required to obtain prior Federal Reserve Board approval of proposed dividends, or might be required to consent to a merger or to divest the troubled institution or other affiliates.

Additionally, Federal Reserve Board policy discourages the payment of dividends by a bank holding company from borrowed funds as well as payments that would adversely affect capital adequacy. Failure to meet the capital guidelines may result in implementation by the Federal Reserve Board of appropriate supervisory or enforcement actions.

The prompt corrective action provisions of FDICIA reflect the same concerns which gave rise to a position adopted by the Federal Reserve Board known as the “source of strength doctrine,” which is based on the Federal Reserve Board’s Regulation Y. Regulation Y directs bank holding companies to “serve as a source of financial and managerial strength” to their subsidiary banks, and bars them from engaging in unsafe and unsound practices.

Item 2. Properties

Facilities of the Registrant are located at 2200 Montauk Highway, Bridgehampton, New York in the Bank's Main Office building. As such, the Registrant itself has no physical properties.

The Bank's Main Office is owned in fee. The Bank also owns the building which houses its Southold Branch located at 54790 Main Road, Southold, New York. The Bank leases seven additional properties as branch locations at 425 County Road 39, Southampton, New York; 26 Park Place, East Hampton, New York; Main Road, Mattituck, New York; 218 Front Street, Greenport, New York; 94 Main Street, Southampton, New York; 2 Bay Street, Sag Harbor, New York; and 1 The Plaza, Montauk, New York. The Bank leases additional space at 184 Old Country Road, Riverhead, New York formerly used as a residential mortgage center. The Bank is currently subletting this space.

It is the opinion of management of the Company that the current facilities are suitable and adequate at the present time.

Item 3. Legal Proceedings

The Bank, and two present executive officers and one former executive officer, have been named as defendants in a lawsuit that was filed on February 18, 1999 by two former employees in Suffolk County Supreme Court. The plaintiffs assert causes of action in connection with their employment, conduct of loan and banking transactions, and subsequent termination or resignation. The plaintiffs seek compensatory and punitive damages. In the opinion of management at the present time, after consultation with legal counsel, the lawsuit is without merit and the ultimate outcome of this matter is not expected to have a material adverse effect on the Company's results of operations, business operations or consolidated financial condition.

Item 4. Submission of Matters to a Vote of Security Holders

None

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PART II

Item 5. Market for Registrant's Common Equity and Related Stockholder Matters

COMMON STOCK INFORMATION

The Company's common stock is traded on the NASDAQ over the counter bulletin board market under the symbol "BDGE". The following table details the quarterly high and low prices of the Company's common stock and the dividends declared for such periods.

At December 31, 2000 the Company had approximately 723 holders of its common stock. The number of stockholders of record includes banks and brokers who act as nominees, each of whom may represent more than one stockholder.

COMMON STOCK INFORMATION

	Stock Prices		Dividends Declared
	High	Low	
By Quarter 2000			
First	\$20.000	\$15.000	\$0.12
Second	\$17.000	\$15.500	\$0.12
Third	\$17.125	\$16.000	\$0.12
Fourth	\$17.250	\$16.000	\$0.13

	Stock Prices		Dividends Declared
	High	Low	
By Quarter 1999			
First	\$23.500	\$18.750	\$0.10
Second	\$21.500	\$18.250	\$0.10
Third	\$21.750	\$18.500	\$0.11
Fourth	\$22.000	\$19.000	\$0.11

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Item 6. Selected Financial Data

Five Year Summary of Operations

(In thousands, except per share data and financial ratios)

Set forth below are selected consolidated financial and other data of the Company. The Company's business is primarily the business of the Bank. This financial data is derived in part from, and should be read in conjunction with, the Consolidated Financial Statements of the Company.

December 31,	2000	1999	1998	1997	1996
Selected Financial Data:					
Securities available for sale	\$114,454	\$ 84,596	\$ 69,443	\$ 60,190	\$ 57,779
Securities held to maturity/for investment	12,397	13,373	5,052	11,812	6,262
Loans, net	198,992	168,899	166,983	137,243	117,643
Total assets	354,642	300,044	266,951	233,112	204,614
Total deposits	313,379	274,322	241,531	203,697	184,847
Total stockholders' equity (4)	28,788	23,672	22,232	19,451	16,926

Year Ended December 31,

	2000	1999	1998	1997	1996
Selected Operating Data:					
Total interest income (including fee income)	\$ 25,458	\$ 21,056	\$ 19,019	\$ 17,224	\$ 15,501
Total interest expense	8,753	6,135	5,978	5,543	5,072
Net interest income	16,705	14,921	13,041	11,681	10,429
Provision for loan losses	105	420	425	410	330
Net interest income after provision for loan losses	16,600	14,501	12,616	11,271	10,099
Total other income	2,546	2,669	3,005	4,323(2)	2,422
Total other expenses	11,046	10,016	9,637	9,067	7,960

Income before income taxes	8,100	7,154	5,984	6,527(2)	4,561
Provision for income taxes	2,464	2,387	2,089	2,332	1,555
Net income	\$ 5,636	\$ 4,767	\$ 3,895	\$ 4,195(2)	\$ 3,006

December 31,	2000	1999	1998	1997	1996
Selected Financial Ratios and Other Data:					
Return on average equity (1)	21.86%	21.00%	19.19%	23.08%(2)	18.84%
Return on average assets (1)	1.62%	1.59%	1.51%	1.86%(2)	1.51%
Equity to assets (1)	7.77%	8.15%	8.00%	8.00%	8.07%
Dividend payout ratio	36.83%	37.47%	38.05%	47.00%(2)	32.87%
Diluted earnings per share (3)	\$1.32	\$1.11	\$0.91	\$0.99(2)	-
Basic earnings per share (3)	\$1.33	\$1.12	\$0.92	\$0.99(2)	\$0.70
Cash dividends declared per common share (3)	\$0.49	\$0.42	\$0.35	\$0.47(2)	\$0.23

(1) For purposes of these calculations, average stockholders' equity and average assets exclude the effect of changes in the unrealized appreciation (depreciation) on securities available for sale, net of taxes.

(2) On June 17, 1997, the Bank sold its former headquarters building resulting in a gain, net of taxes, of approximately \$829,000. Return on average equity excluding this gain, net of taxes, was 18.52%. Return on average assets excluding this gain, net of taxes, was 1.49%. On December 15, 1997 the Bank declared a one time special dividend of approximately \$845,000, or \$.20 per share, paying out this gain to the shareholders.

(3) On July 20, 1998, the Board of Directors declared a three-for-one stock split in the form of a stock dividend payable August 31, 1998, to stockholders of record as of August 19, 1998. As a result, \$14,439,990 was transferred from Undivided Profits and Capital Surplus at August 19, 1998 to reflect the issuance. On April 15, 1997, the Board of Directors declared a three-for-one stock split in the form of a stock dividend payable on May 30, 1997 to stockholders of record as of May 1, 1997. As a result, \$4,801,000 was transferred from Undivided Profits and Capital Surplus at May 1, 1997 to reflect the issuance. All per share amounts have been adjusted to reflect the effects of these splits.

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(4) The equity section of the balance sheet also reflects the decrease in the par value of the Company's Common Stock from a par value of Five Dollars (\$5.00) per share to a par value of One Cent (\$0.01) per share. This change was authorized by the Board of Directors and adopted by the Shareholders at the Company's April 19, 1999 annual meeting. The change was effectuated during the second quarter of 1999 by filing an amendment to the Company's certificate of incorporation. Such reduction in par value permitted the Company to decrease its stated capital by approximately \$21,203,000. Capital surplus increased by approximately \$21,203,000, thereby providing the Company with the ability to allow payments of dividends from surplus if deemed advisable or necessary by the Board of Directors. Capital surplus has not been restated for prior periods. It should be realized, however, that as a practical matter the Company would only have the ability to pay out a moderate proportion of the aggregate increase in capital surplus as dividends since there are regulatory restrictions on the payment of dividends.

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

GENERAL

Bridge Bancorp, Inc. (the Company), a New York corporation, is a one-bank holding company formed effective March 31, 1989, and on a parent only basis, had minimal results of operations for 2000, 1999 and 1998. In the event the Company subsequently expands its current operations, it will be 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 below 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. Interest income on loans and investments is a function of the average balances outstanding and the average rates earned during a period. Interest expense is a function of the average amount of interest bearing deposits and the average rates paid on such deposits during a period. The Bank also generates other income, such as fee income on deposit accounts and merchant credit and debit card processing programs. The Bank's net income is further affected by the level of its other expenses, such as employees' salaries and benefits, and occupancy and equipment costs. This discussion and analysis should be read in conjunction with the Consolidated Financial Statements, the notes thereto and the other financial information included elsewhere in this filing.

FINANCIAL CONDITION

The assets of the Company totaled \$354,642,000 at December 31, 2000, an increase of \$54,598,000 or 18.2% from the previous year end. This increase mainly results from an increase in gross loans of \$30,222,000 or 17.7% and an increase in debt and equity securities of \$28,882,000 or 29.5%. These increases were slightly offset by a decrease in cash and cash equivalents of \$3,977,000 or 19.9% from the previous year end.

Total loans grew \$30,093,000 or 17.6% since fiscal year end 1999. Each component of the loan portfolio contributed to the growth; however, real estate loans increased \$24,410,000 or 17.3% and unsecured business and personal loans increased \$5,422,000 or 19.5%. Growth in real estate loans is partially attributed to a change in holding strategy whereby a portion of originated residential mortgages are held in portfolio instead of being sold on the secondary market. Unsecured business and personal loans increased as a result of business development efforts.

Total investment securities increased from \$97,969,000 at December 31, 1999 to \$126,851,000 at December 31, 2000. The available for sale investment portfolio increased 35.2% to \$114,454,000 primarily as a result of increased holdings of mortgage backed securities. Investing in mortgage backed securities generally provides stable cash flows, which may be reinvested at current market rates. The weighted average life of the mortgage backed securities portfolio was 6.32 years at December 31, 2000.

The source of funds for the increase in assets was derived from increased deposits of \$39,057,000 or 14.2%. Demand deposits increased \$15,587,000 or 18.5%. This increase is attributed to growth in deposits associated with business development efforts and merchant processing activity. Savings, N.O.W. and money market deposits increased \$29,987,000 or 23.3%. These increases were slightly offset by a decrease in certificates of deposit of \$100,000 or more of \$4,312,000 or 16.5% and a decrease in other time deposits of \$2,205,000 or 6.3% over December 31, 1999. The increase in Savings, N.O.W. and money market deposits is attributed to continued marketing of a money market product targeted to high balance accounts and aggressive business development efforts in new and existing markets.

Total stockholders' equity was \$28,788,000 at December 31, 2000, an increase of 21.6% over December 31, 1999. The increase of \$5,116,000 was the result of undistributed net income for the year ended December 31, 2000, of \$5,636,000; less cash dividends declared of \$2,076,000; less the purchase price of 40,000 shares of common stock which was acquired and is now held as treasury stock at a cost of \$653,000; and plus the net increase in unrealized appreciation in securities available for sale, net of tax, of \$2,209,000. Securities held as available-for-sale may be sold in response to, or in anticipation of, changes in interest rates and

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resulting prepayment risk, or other factors. During the second quarter of 2000, management sold a portion of the lowest yielding securities in the available for sale investment portfolio and reinvested these funds in securities earning then current market rates of return. This partial repositioning of the available for sale securities portfolio and changes in market conditions were the primary reason for the net increase in unrealized appreciation in securities available for sale. Management has determined such appreciation to be temporary, and does not expect future sales of such securities to result in material gains and thus a material impact on results of operations.

STOCK SPLITS

On July 20, 1998, the Board of Directors declared a three-for-one stock split in the form of a stock dividend payable August 31, 1998 to stockholders of record as of August 19, 1998. The stock split increased outstanding common shares from 1,411,599 to 4,234,797. Stockholders' equity has been restated to give retroactive recognition to the stock split for all periods presented by reclassifying from undivided profits and capital surplus to common stock the par value of additional shares resulting from the stock split. In addition, all references in the Consolidated Financial Statements and Notes thereto to number of shares, per share amounts, stock option data and market prices of the common stock have been restated giving retroactive recognition to the stock split.

CHANGE IN PAR VALUE

The equity section of the consolidated statements of condition also reflects the decrease in the par value of the Company's Common Stock from a par value of Five Dollars (\$5.00) per share to a par value of One Cent (\$0.01) per share. This change was authorized by the Board of Directors and adopted by the Shareholders at the Company's April 19, 1999 annual meeting. The change was effectuated during the second quarter of 1999 by filing an amendment to the Company's certificate of incorporation. Such reduction in par value permitted the Company to decrease its stated capital by approximately \$21,203,000 and increase capital surplus by a like amount, thereby providing the Company with the ability to allow payments of dividends from surplus if deemed advisable or necessary by the Board of Directors. Capital surplus has not been restated for prior periods. It should be realized, however, that as a practical matter the Company would only have the ability to pay out a moderate proportion of the aggregate increase in capital surplus as dividends since there are regulatory restrictions on the payment of dividends. See note 1(k) to the Consolidated Financial Statements for a discussion of dividend restrictions.

ASSET/LIABILITY MANAGEMENT

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 the credit quality of the portfolio. Management's asset/liability objectives are to maintain a strong, stable net interest margin, to utilize its capital effectively without taking undue risks, maintain adequate liquidity, and reduce vulnerability of its operations to changes in interest rates.

The Company's Asset/Liability Committee, comprised of members of senior management and the Board, meets periodically to evaluate 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.

As measured by the Interest Sensitivity Gap Table, the Company's estimated one year cumulative interest sensitivity gap (the difference between assets and liabilities that reprice or mature within such period) was a negative \$50,432,000, or (14.22)% of total assets. A gap is considered negative when interest rate sensitive liabilities maturing or repricing within a specified time period exceed the amount of interest rate sensitive assets repricing or maturing within that same time period. A gap is considered positive when the amount of interest rate sensitive assets maturing or repricing within a specified time frame exceeds the amount of interest rate sensitive liabilities repricing or maturing within that same time period. In a rising rate environment, an institution with a negative gap would generally be expected, absent the effects of other factors, to experience a greater increase in the costs of its liabilities relative to the yields of its assets and thus a decrease in the institution's net interest income, whereas an institution with a positive gap would generally be expected to experience the opposite results. Conversely, during a period of falling rates, a negative gap would tend to result in an increase in net interest income while a positive gap would tend to adversely affect net interest income.

The economic environment continually presents uncertainties as to future interest rate trends. The Asset/Liability Committee regularly monitors the cumulative gap position, in addition to utilizing a model that projects net interest income based on increasing or decreasing interest rates, in order to be able to respond to changes in interest rates by adjusting the gap position. Given the Company's existing liquidity position and its ability to sell securities from its available for sale portfolio, the Asset/Liability Committee believes that its negative gap position will have no material adverse effect on its liquidity position.

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INTEREST RATE SENSITIVITY ANALYSIS

The following table sets forth the amounts of interest earning assets and interest bearing liabilities outstanding at December 31, 2000, which are anticipated by the Bank, using certain assumptions based on historical experience and other data available to management, to reprice or mature in each of the future time periods shown. The amount of assets and liabilities shown which reprice or mature during a particular period were determined in accordance with the earlier of term to repricing or contractual maturity of the asset or liability. This table does not necessarily indicate the impact of general interest rate movements on the Bank's net interest income because actual repricing of various assets and liabilities is subject to customer discretion and competitive and other pressures and, therefore, actual experience may vary from that indicated.

Year Ended December 31, 2000 (In thousands, except financial ratios)	Three Months or Less	Over Three Months Through Six Months	Over Six Months Through One Year	Over One Year Through Five Years	Over Five Years	Total
Interest earning assets:						
Investment in debt and equity securities (1)	\$ 4,536	\$ 10,488	\$ 7,848	\$ 51,081	\$ 50,685	\$124,638
Total loans (2)	<u>71,514</u>	<u>6,051</u>	<u>12,277</u>	<u>84,494</u>	<u>26,754</u>	<u>201,090</u>
Total Interest Earning Assets	\$ 76,050	\$ 16,539	\$ 20,125	\$135,575	\$ 77,439	\$325,728
Interest bearing liabilities:						
Savings, N.O.W. and money market accounts	\$ 109,710	\$ -	\$ -	\$ -	\$ 49,195	\$158,905
Certificates of deposit	26,288	9,585	7,863	10,726	33	54,495
Overnight borrowings	<u>9,700</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>9,700</u>
Total Interest Bearing Liabilities	\$ 145,698	\$ 9,585	\$ 7,863	\$ 10,726	\$ 49,228	\$223,100
Interest Sensitivity Gap Per Period	\$ (69,648)	\$ 6,954	\$ 12,262	\$124,849	\$ 28,211	\$102,628
Cumulative Interest Sensitivity Gap	\$ (69,648)	\$ (62,694)	\$ (50,432)	\$ 74,417	\$102,628	
Gap to Total Assets	(19.64)%	(17.68)%	(14.22)%	20.98%	28.94%	

(1) Investment in debt and equity securities is shown excluding the fair value depreciation of \$2,251,000, before tax, due to the application of SFAS No. 115. Investment in debt and equity securities includes interest earning deposits with banks of \$39,000.

(2) For the purpose of this table, nonaccrual loans of approximately \$769,000 have been included.

Certain shortcomings are inherent in the method of analysis presented. For example, although certain assets and liabilities may have similar maturities or periods to repricing, they may react in different degrees to changes in market interest rates. Also, the interest rates on certain types of assets and liabilities may fluctuate in advance of changes in market interest rates, while interest rates on other types may lag behind changes in market interest rates. The table reflects the estimates of management as to periods to repricing at particular points in time. Among the factors considered, management monitors both current trends and its historical repricing experience with respect to particular or similar products. For example, the Bank has a number of deposit accounts, including passbook savings, N.O.W. accounts and money market accounts which may be withdrawn at any time. The Bank, based on historical experience, assumes that while all customers in these account categories could withdraw their funds on any given day, they will not do so, even if the market interest rates were to change. As a result, different assumptions may be used at different points in time.

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MARKET RISK

Significant increases in the level of market interest rates also may adversely affect the fair value of securities and other interest earning assets. At December 31, 2000, \$126,851,000 or 100% of the Company's securities had fixed interest rates. Generally, the value of fixed rate instruments fluctuates inversely with the changes in interest rates. As a result, increases in interest rates could result in decreases in the market value of interest earning assets which could adversely affect the Company's results of operations if sold or, in the case of interest earning assets classified as available for sale, the Company's stockholders' equity if retained. Increases 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 adversely impact the yields earned on the Company's loans and securities. In periods of decreasing interest rates, the average life of loans held by the Company may be shortened to the extent increased prepayment activity occurs during such period which, in turn, may result in the investing of funds from such prepayments in lower yielding assets.

The Company's interest rate sensitivity is monitored by management through the use of a quarterly interest rate risk analysis model which evaluates the potential change in the net interest income over the succeeding four quarter period which would result from an instantaneous and sustained interest rate change of plus or minus 200 basis points, in 100 basis point increments.

At December 31, 2000, net interest income over the succeeding four quarter periods would be affected as follows, given an instantaneous and sustained interest rate change of:

Change in Interest Rates in Basis Points (RATE SHOCK)	Potential Change in Net Interest Income	
	\$ Change	% Change
200	\$ 34,000	0.19%
100	\$ 47,000	0.26%
Static	-	-
(100)	\$ (253,000)	(1.41)%
(200)	\$ (840,000)	(4.69)%

As in the case of the gap table, certain shortcomings are inherent in the methodology used in the above interest rate risk measurements. Modeling potential changes in the net interest income require the making of certain assumptions which may or may not reflect the manner in which actual yields and costs respond to changes in market interest rates. In this regard, the model presented assumes that the composition of the Company's interest sensitive assets and liabilities existing at the beginning of a period remains constant over the period being measured and also assumes that a particular change in interest rates is reflected uniformly across the yield curve regardless of the duration to maturity or repricing of specific assets and liabilities. Accordingly, although the net interest income models provide an indication of the Company's interest rate exposure at a particular point in time, such measurements are not intended to and do not provide a precise forecast of the effect of changes in market interest rates on the Company's net interest income and will differ from actual results.

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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.

The following table sets forth certain information relating to the Bank's average consolidated statements of condition and its consolidated statements of income for the years indicated and reflects 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 non-performing loans. The yields and costs include fees which are considered adjustments to yields. Interest on nonaccruing loans has been included only to the extent reflected in the consolidated statements of income. For purposes of this table, the average balances for investment in debt and equity securities exclude unrealized appreciation/depreciation due to the application of SFAS No. 115

Twelve months Ended December 31, (In thousands)	2000				1999				
	Average Balance	Interest	Average Yield/ Cost	Average Balance	Interest	Average Yield/ Cost	Average Balance	Interest	Average Yield/ Cost
Interest earning assets:									
Loans (including fee income)	\$184,758	\$17,012	9.2%	\$168,807	\$15,113	9.0%	\$156,268	\$14,461	9.3%
Mortgage backed securities	58,834	4,242	7.2%	43,794	2,936	6.7%	29,822	2,030	6.8%
Tax exempt investment securities(1)	41,631	2,647	6.4%	31,058	2,009	6.5%	26,055	1,811	6.9%
Taxable investment securities	16,866	1,099	6.5%	13,351	852	6.4%	14,034	916	6.5%
Federal funds sold	14,944	948	6.3%	12,934	641	5.0%	3,721	202	5.4%
Deposits with banks	3,751	240	6.4%	1,955	95	4.9%	2,963	155	5.2%
Other securities	<u>1,083</u>	<u>75</u>	<u>6.9%</u>	<u>1,083</u>	<u>73</u>	<u>6.7%</u>	<u>1,083</u>	<u>78</u>	<u>7.2%</u>
Total interest earning assets	\$321,867	\$26,263	8.2%	\$272,982	\$21,719	8.0%	\$233,946	\$19,653	8.4%
Interest bearing liabilities:									
Savings, N.O.W. and money market deposits	\$155,680	\$ 5,449	3.5%	\$122,118	\$ 2,986	2.4%	\$ 90,522	\$ 2,095	2.3%
Certificates of deposit of \$100,000 or more	29,779	1,665	5.6%	28,493	1,392	4.9%	29,412	1,574	5.4%
Other time deposits	<u>33,832</u>	<u>1,582</u>	<u>4.7%</u>	<u>38,823</u>	<u>1,754</u>	<u>4.5%</u>	<u>43,428</u>	<u>2,242</u>	<u>5.2%</u>

Federal funds purchased	859	57	6.6%	44	3	6.8%	-	-	-
Other borrowings	-	-	-	-	-	-	1,230	67	5.4%
Total interest bearing liabilities	\$220,150	\$ 8,753	4.0%	\$189,478	\$ 6,135	3.2%	\$164,592	\$ 5,978	3.6%
Net interest income/interest rate spread		<u>\$17,510</u>	<u>4.2%</u>		<u>\$15,584</u>	<u>4.7%</u>		<u>\$13,675</u>	<u>4.8%</u>
Net earning assets/net yield on average interest earning assets (1)	<u>\$101,717</u>		<u>5.4%</u>	<u>\$ 83,504</u>		<u>5.7%</u>	<u>\$ 69,354</u>		<u>5.8%</u>
Ratio of interest earning assets to interest bearing liabilities			<u>146.2%</u>			<u>144.1%</u>			<u>142.1%</u>
Less: Tax equivalent adjustment		<u>\$ 805</u>			<u>\$ 663</u>			<u>\$ 634</u>	
Net interest income		<u>\$16,705</u>			<u>\$14,921</u>			<u>\$13,041</u>	

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

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RATE/VOLUME ANALYSIS

Net interest income can also be analyzed in terms of the impact of changing rates and changing volumes. The following table describes the extent to which changes in interest rates and changes in the volume of 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 changes or rate changes have been allocated to these categories based on the respective percentage changes in average volume and average rate as they compare to each other.

Year Ended December 31, (In thousands)	2000 Over 1999			1999 Over 1998		
	Changes Due To			Changes Due To		
	Volume	Rate	Net Change	Volume	Rate	Net Change
Interest income on interest earning assets:						
Loans (including loan fee income)	\$ 1,537	\$ 362	\$ 1,899	\$ 1,134	\$ (482)	\$ 652
Mortgage-backed securities	1,073	233	1,306	937	(31)	906
Tax exempt investment securities (1)	670	(32)	638	312	(114)	198
Taxable investment securities	233	14	247	(44)	(20)	(64)
Federal funds sold	115	192	307	458	(19)	439
Deposits with banks	109	36	145	(50)	(10)	(60)
Other securities	-	2	2	-	(5)	(5)
Total interest earning assets	\$ 3,737	\$ 807	\$ 4,544	\$ 2,747	\$ (681)	\$ 2,066
Interest expense on interest bearing liabilities:						
Savings, N.O.W. and money market deposits	923	1,540	2,463	767	124	891
Certificates of deposits of \$100,000 or more	66	207	273	(48)	(134)	(182)
Other time deposits	(244)	72	(172)	(224)	(264)	(488)
Federal funds purchased	54	-	54	3	-	3
Other borrowings	-	-	-	(67)	-	(67)
Total interest bearing liabilities	\$ 799	\$ 1,819	\$ 2,618	\$ 431	\$ (274)	\$ 157
Net interest income	\$ 2,938	\$ (1,012)	\$ 1,926	\$ 2,316	\$ (407)	\$ 1,909

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

COMPARISON OF OPERATING RESULTS FOR THE YEARS ENDED DECEMBER 31, 2000 AND 1999

General.

Net income for 2000 totaled \$5,636,000, or \$1.32 per share, as compared to net income of \$4,767,000 or \$1.11 per share for the year ended December 31, 1999. Net income for 2000 increased \$869,000 or 18.2%, over 1999. Highlights include: (i) a \$1,784,000 or 12.0% increase in net interest income; (ii) a reduction in the provision for loan losses of \$315,000; (iii) a \$123,000 or 4.6% decrease in total other income; and (iv) a \$1,030,000 or 10.3% increase in total other expenses over the same period in 1999. The provision for income taxes increased \$77,000 or 3.2%.

Net Interest Income.

Net interest income increased from \$14,921,000 in 1999 to \$16,705,000 in 2000. The increase of 12.0% reflects an increase in average interest earning assets from \$272,982,000 in 1999 to \$321,867,000 or 17.9% in 2000. Average interest bearing liabilities increased from \$189,478,000 in 1999 to \$220,150,000 or 16.2% in 2000. The tax adjusted net yield on average earning assets for 2000 decreased to 5.4% from 5.7% for 1999.

Interest Income.

Total interest income increased from \$21,056,000 in 1999 to \$25,458,000 in 2000, an increase of 20.9%. The tax adjusted yield on average interest earning assets for 2000 increased to 8.2% from 8.0% for 1999.

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Interest income on loans (including fee income) increased \$1,899,000 during 2000 the result of an increase in average loans of 9.5% from \$168,807,000 in 1999 to \$184,758,000 in 2000. The yield on average loans for 2000 increased to 9.2% from 9.0% for 1999. Interest on investment in debt and equity securities increased \$2,051,000 or 39.4% over 1999. The increase resulted from an increase in average investment in debt and equity securities from \$89,286,000 in 1999 to \$118,414,000 in 2000. The tax adjusted average yield on debt and equity securities increased from 6.6% in 1999 to 6.8% in 2000.

Interest Expense.

Interest expense increased \$2,618,000 to \$8,753,000 in 2000 from \$6,135,000 in 1999. The increase of 42.7% in interest expense was caused by an increase in average interest bearing liabilities of 16.2% from \$189,478,000 in 1999 to \$220,150,000 in 2000 and the cost of average interest bearing liabilities increasing to 4.0% during 2000 from 3.2% during 1999.

Provision for Loan Losses.

The Bank's loan portfolio consists primarily of real estate loans secured by commercial real estate properties and residential properties located in the Bank's principal lending area. The interest rates charged by the Bank on loans are affected principally by the demand for such loans, the supply of money available for lending purposes and the rates offered by its competitors. These factors are, in turn, affected by general and economic conditions, monetary policies of the federal government, including the Federal Reserve Board, legislative tax policies and governmental budgetary matters.

Total loans grew \$30,093,000 or 17.6% since fiscal year end 1999. Each component of the loan portfolio contributed to the growth; however, real estate loans increased \$24,410,000 or 17.3% and unsecured business and personal loans increased \$5,422,000 or 19.5%. Growth in real estate loans is partially attributed to a change in holding strategy whereby a portion of originated residential mortgages are held in portfolio instead of being sold on the secondary market. Unsecured business and personal loans increased as a result of business development efforts.

The performance of the loan portfolio continued to be strong through December 31, 2000 with net recoveries of \$24,000. Since December 31, 1999 non-performing loans decreased \$197,000 from \$966,000 to \$769,000 representing .39% of loans, net, at December 31, 2000. The Company had no foreclosed real estate at year end. Total non-performing assets represented 0.22% of total assets at the corresponding date.

Based on management's continuing review of the overall loan portfolio and the current asset quality of the portfolio, a provision for loan losses of \$105,000 was recorded in 2000. A \$420,000 provision for loan losses was made for fiscal year end 1999. The allowance for loan losses increased to \$2,100,000 at December 31, 2000, as compared to \$1,971,000 at December 31, 1999. As a percentage of loans, the allowance was 1.04% at December 31, 2000 and 1.15% at December 31, 1999.

Loans of approximately \$4,726,000 at December 31, 2000 were classified as potential problem loans. These are loans for which management has information which indicated the borrower may not be able to comply with the present payment terms. These loans are subject to constant management attention and their classification is reviewed on at least a quarterly basis.

The Bank monitors its portfolio on a regular basis, with consideration given to detailed analysis of classified loans, delinquency trends, probable losses, past loss experience, current economic conditions, concentrations of credit and other pertinent factors. Weight is also given to input from the Bank's outside loan review consultants. Additions to the allowance are charged to expense and realized losses, net of recoveries, are charged to the allowance. Based on management's and the loan classification committee's determination of the condition of the portfolio, the overall level of reserves is periodically adjusted to account for the inherent and specific risks within the entire portfolio. At minimum, the adequacy of these reserves are adjusted quarterly, to a level deemed appropriate by management based on their risk assessment of the entire portfolio. Based on the loan classification committee's review of the classified loans and the overall reserve levels as they relate to the entire loan portfolio at the quarter ended December 31, 2000, management believes the allowance for possible loan losses is adequate.

While management uses available information to recognize losses on loans, future additions to the allowance may be necessary based on changes in conditions. In addition, various regulatory agencies, as an integral part of the examination process, periodically review the Bank's allowance for loan losses. Such agencies may require the Bank to recognize additions to the allowance based on their judgements based on the information available to them at the time of their examination.

Other Income.

Other income decreased by \$123,000 or 4.6% to \$2,546,000 in 2000 compared to \$2,669,000 in 1999. Service charges on deposit accounts for the year ended December 31, 2000 totaled \$1,057,000, an increase of \$77,000 or 7.9% over 1999. This increase primarily resulted from increased deposits and an increase in fees charged on certain deposit accounts during the second quarter of 1999 and the Bank recognizing the effect of a full year of these fees during 2000. Net gains on securities of \$1,000 were recognized in 1999. Fees

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for other customer services for the year ended December 31, 2000 totaled \$1,108,000 an increase of \$75,000 or 7.3% over 1999. The increase is due to an increase in merchant processing fees resulting from a change in the pricing structure made in the second quarter of 1999 and an increase in the volume of merchant sales during 2000. The increase was partially offset by a decrease in fees collected on residential mortgage loans of \$149,000 or 79.2% to \$39,000 in 2000 compared to \$188,000 in 1999 due to a reduction in the number of residential mortgages originated in the current year for sale into the secondary market. Decreases in other income were partially offset by fees received through the new debit card product introduced during the third quarter of 1999, and fee income recognized as a result of a referral relationship with another institution to provide wealth management services to the Bank's customers.

Other operating income for the year ended December 31, 2000 totaled \$381,000, a decrease of \$275,000 or 41.9% over the last year. The decrease primarily resulted from a decrease in income from the gain on the sale of mortgages of \$273,000 or 70.6% to \$113,000 in 2000 compared to \$386,000 in 1999. Increased competition within the Bank's market has decreased the return on residential mortgages; therefore the Bank decided to focus less attention on these products. A portion of originated residential mortgages are held in portfolio instead of being sold on the secondary market. While revenue from mortgage banking operations was down, corresponding expense reductions offset such decline.

Other Expenses.

Other expenses increased by \$1,030,000 or 10.3% to \$11,046,000 in 2000 from \$10,016,000 in 1999. The components of this change included an increase in salaries and employee benefits of \$534,000 or 11.0% reflecting salary and benefit increases and increased staffing primarily for the item processing department that the Bank moved in house in the first quarter of 2000 and for the Greenport branch office opened in the spring of 2000; an increase in net occupancy expense of \$136,000 or 18.1%; and net losses on securities of \$255,000. Increased net occupancy expense primarily resulted from increased rental expenses relative to the leasing of space for the new branch offices in Greenport and Sag Harbor. Renovation of the Sag Harbor branch office was substantially complete at year end and the office opened during the first quarter of 2001. During the second quarter of 2000, management sold a portion of the lowest yielding securities in the available for sale investment portfolio and reinvested these funds in securities earning then current market rates of return. The net loss recognized on securities sales was \$255,000.

Total other operating expenses for the year ended December 31, 2000 totaled \$3,693,000 an increase of \$76,000 or 2.1% over the prior year. The increase in both periods is partially due to large one time expenses related to the implementation of in house item processing, statement rendering and check imaging. Decreased item processing expenses paid to the former vendor of these services partially offset these increased costs. Also contributing to this increase is a change in the processing of the merchant credit card program during the first quarter of 2000, as well as increased marketing and business development costs attributed to the opening of two new branches. A new branch office was opened in Greenport in April 2000 and the scheduled fourth quarter opening of the Sag Harbor office was postponed to the first quarter of 2001 because of delays in the leasehold improvements. Additionally, during the first half of 1999, the Bank incurred non recurring expenses relative to the development of training programs and other one time expenses due to the formation of a subsidiary. The Bank operates this subsidiary as a Real Estate Investment Trust. These nonrecurring expenses were not repeated in the current year thereby partially offsetting the current year's increases in other categories of operating expenses.

Provision for Income Taxes.

The provision for income taxes increased to \$2,464,000 for 2000 from \$2,387,000 for 1999. This increase was due to income before income taxes increasing from \$7,154,000 in 1999 to \$8,100,000 in 2000. The effective tax rate for the year ended December 31, 2000 was 30% as compared to the prior year rate of 33%. This reduction is primarily due to the implementation of the Bank's tax planning strategies including holding additional tax exempt securities.

COMPARISON OF OPERATING RESULTS FOR THE YEARS ENDED DECEMBER 31, 1999 AND 1998

General.

Net income for 1999 totaled \$4,767,000, or \$1.11 per share, as compared to net income of \$3,895,000 or \$.91 per share for the year ended December 31, 1998. Net income for 1999 increased \$872,000 or 22.4%, over 1998. Highlights include: (i) a \$1,880,000 or 14.4% increase in net interest income; (ii) a \$336,000 or 11.2% decrease in total other income; and (iii) a \$379,000 or 3.9% increase in total other expenses over the same period in 1998. The provision for income taxes increased \$298,000 or 14.3%.

Net Interest Income.

Net interest income increased from \$13,041,000 in 1998 to \$14,921,000 in 1999. The increase of 14.4% reflects an increase in average interest earning assets from \$233,946,000 in 1998 to \$272,982,000 or 16.7% in 1999. Average interest bearing liabilities increased from \$164,592,000 in 1998 to \$189,478,000 or 15.1% in 1999. The tax adjusted net yield on average earning assets for 1999 decreased to 5.7% from 5.8% for 1998.

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Interest Income.

Total interest income (including loan fee income of \$241,000 in 1999 and \$322,000 in 1998) increased from \$19,019,000 in 1998 to \$21,056,000 in 1999, an increase of 10.7%. The tax adjusted yield on average interest earning assets for 1999 decreased to 8.0% from 8.4% for 1998.

Interest income on loans (including fee income) increased \$652,000 during 1999 the result of an increase in average loans of 8.0% from \$156,268,000 in 1998 to \$168,807,000 in 1999. The yield on average loans for 1999 decreased to 9.0% from 9.3% for 1998. The decrease in loan fee income is attributed to a decrease in the volume of residential mortgages sold into the secondary market.

Interest on investment in debt and equity securities increased \$1,006,000 or 24.0% over 1998. The increase resulted from an increase in average investment in debt and equity securities from \$70,994,000 in 1998 to \$89,286,000 in 1999. The tax adjusted average yield on debt and equity securities decreased from 6.8% in 1998 to 6.6% in 1999.

Interest Expense.

Interest expense increased \$157,000 to \$6,135,000 in 1999 from \$5,978,000 in 1998. The increase of 2.6% in interest expense was caused by an increase in average interest bearing liabilities of 15.1% from \$164,592,000 in 1998 to \$189,478,000 in 1999. The cost of average interest bearing liabilities decreased to 3.2% during 1999 from 3.6% in 1998.

Provision for Loan Losses.

The provision for loan losses decreased \$5,000 in 1999 to \$420,000. The allowance for loan losses increased to \$1,971,000 at December 31, 1999 as compared with \$1,713,000 at December 31, 1998. As a percentage of loans, the allowance was 1.15% at December 31, 1999 in comparison to 1.02% at December 31, 1998.

Loans of approximately \$4,810,000 at December 31, 1999, were classified as potential problem loans. These are loans for which management has information which indicated that the borrower may not be able to comply with the present payment terms. These loans are subject to constant management attention and their classification is reviewed on at least a quarterly basis.

The adequacy of the allowance for loan losses is determined based on management's detailed analysis of classified loans, input from the Bank's outside loan review consultants, past loss experience, current economic conditions, delinquency trends and other pertinent factors. Additions to the allowance are charged to expense and realized losses, net of recoveries, are charged to the allowance.

Management believes that the allowance for loan losses is adequate. While management uses available information to recognize losses on loans, future additions to the allowance may be necessary based on changes in conditions. In addition, various regulatory agencies, as an integral part of the examination process, periodically review the Bank's allowance for loan losses. Such agencies may require the Bank to recognize additions to the allowance based on their judgements from the information available to them at the time of their examination.

Other Income.

Other income decreased by \$123,000 or 4.6% to \$2,669,000 in 1999 compared to \$3,005,000 in 1998. Service charges on deposit accounts for the year ended December 31, 1999 totaled \$980,000, an increase of \$141,000 or 16.8% over 1998. This increase primarily resulted from the Bank increasing fees charged on certain deposit accounts during the second quarter of 1999. Net gains on securities were \$1,000 in 1999 compared to \$47,000 in 1998. These gains resulted primarily from sales of securities in accordance with the Bank's investment strategies. Fees for other customer services for the year ended December 31, 1999 totaled \$1,033,000 an increase of \$94,000 or 10.0% over 1998. The increase is due to an increase in merchant processing fees resulting from a change in the pricing structure made in the second quarter and an increase in the volume of merchant sales during 1999. The increase was partially offset by a decrease in fees collected on residential mortgage loans of \$155,000 or 45.2% to \$188,000 in 1999 compared to \$343,000 in 1998.

Other operating income for the year ended December 31, 1999 totaled \$655,000, a decrease of \$525,000 or 44.5% over the last year. The decrease primarily resulted from a decrease in income from the gain on the sale of mortgages of \$521,000 or 57.4% to \$386,000 in 1999 compared to \$907,000 in 1998. Increased competition within the Bank's market has decreased the return on residential mortgages; therefore the Bank decided to focus less attention on these products. While revenue from mortgage banking operations was down, corresponding expense reductions partially offset such decline.

Other Expenses.

Other expenses increased by \$379,000 or 3.9% to \$10,016,000 in 1999 from \$9,637,000 in 1998. The components of this change included an increase in furniture and fixture expense of \$89,000 or 12.8%; an increase in salaries and employee benefits of \$61,000 or 1.3%; and an increase in other operating expenses of \$216,000 or 6.4%. Increased furniture and fixture expense primarily resulted

from increased depreciation expenses relative to equipment upgrades in preparation for Year 2000 readiness. The increase in other operating expenses is primarily attributed to increased consulting and legal fees relative to the formation of a subsidiary in the second quarter of 1999. It is the Bank's intention to operate this subsidiary as a Real Estate Investment Trust.

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Provision for Income Taxes.

The provision for income taxes increased to \$2,387,000 for 1999 from \$2,089,000 for 1998. This increase was due to income before income taxes increasing from \$5,984,000 in 1998 to \$7,154,000 in 1999. The effective tax rate for the year ended December 31, 1999 was 33% as compared to the prior year rate of 35%. This reduction is primarily due to the implementation of the Bank's tax planning strategies.

LIQUIDITY

The objective of liquidity management is to ensure the availability of sufficient resources to meet all financial commitments. Liquidity management addresses the ability to meet deposit withdrawals either on demand or contractual maturity, to repay other borrowings as they mature and to make new loans and investments as opportunities arise.

The Company's principal source of liquidity is dividends from the Bank. Due to regulatory restrictions (see note 1k to the Consolidated Financial Statements), dividends from the Bank to the Company at December 31, 2000 were limited to \$8,624,000 which represents the Bank's 2000 retained net income and the net undivided profits from the previous two years. The dividends received from the Bank are used primarily for dividends to the shareholders. In the event 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 Company'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 Company's operating, financing, lending and investing activities during any given period. Other sources of liquidity include loan and security principal repayments and maturities, lines of credit with other financial institutions including the Federal Home Loan Bank, the sale of securities from the available for sale portfolio, and growth in the core deposit base. While scheduled loan amortization, maturing securities and short term investments are a relatively predictable source of funds, deposit flows and loan 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 deposit outflows, loans, asset/liability objectives and suggested O.C.C. measurements such as loan to capital ratios. At December 31, 2000, the Company had aggregate lines of credit of \$20,000,000 with correspondent banks to provide short term credit for liquidity requirements. The Company also has the ability, as a member of the Federal Home Loan Bank ("FHLB") system, to borrow against its unencumbered residential mortgages owned by the Bank. At December 31, 2000 the Company had \$9,700,000 outstanding in borrowed funds.

The Company's liquidity positions are monitored daily to ensure the maintenance of an optimum level and efficient use of available funds. Excess short-term liquidity is invested in overnight federal funds sold. Management believes the Company has sufficient liquidity to meet its operating requirements.

CAPITAL RESOURCES

As a result of undistributed net income, plus the change in net unrealized appreciation in securities available for sale, net of tax, and the issuance of shares of common stock pursuant to the equity incentive plan, the Company's stockholders' equity increased to \$28,788,000 at December 31, 2000 from \$23,672,000 at December 31, 1999. The ratio of stockholders' equity to total assets increased to 8.12% at year end 2000 from 7.89% at year end 1999.

The loan commitments outstanding as of December 31, 2000 totaled approximately \$64,062,000. The funding of such commitments is derived from the primary sources of liquidity stated previously. See note 9b to the Consolidated Financial Statements for a discussion of loan commitments.

The Company exceeds the risk-based capital adequacy ratio levels required by the regulatory agencies (see note 11 to the Consolidated Financial Statements). Management believes that the current capital levels along with future retained earnings will allow the Bank to maintain a position exceeding required levels which will be more than adequate to meet the growth of the Bank or any higher ratios required by the discretionary authority of the regulators. The Company is prepared to issue additional common stock should the need arise.

The Company had return on average equity of 21.86%, 21.00%, and 19.19% and return on average assets of 1.62%, 1.59%, and 1.51% for the years ended December 31, 2000, 1999 and 1998, respectively.

IMPACT OF INFLATION AND CHANGING PRICES

The Consolidated Financial Statements and notes thereto presented herein have been prepared in accordance with generally accepted accounting principles ("GAAP"), which require the measurements of financial position and operating results in historical dollars

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without considering the changes in the relative purchasing power of money over time due to inflation. The impact of inflation is reflected in the increased costs of the Company's operations. Unlike industrial companies, nearly all the assets and liabilities of the Company are monetary in nature. As a result, interest rates have a greater impact on the Company's performance than do the effects of general levels of inflation. Interest rates do not necessarily move in the same direction or, to the same extent, as the price of goods or services.

IMPACT OF PROSPECTIVE ACCOUNTING STANDARDS

For discussion regarding the impact of new accounting standards, refer to Note 1q of Notes to Consolidated Financial Statements.

PRIVATE SECURITIES LITIGATION REFORM ACT SAFE HARBOR STATEMENT

In addition to historical information, this filing includes certain forward-looking statements based on current management expectations. The Bank's actual results could differ materially from those management expectations contemplated by the forward-looking statements. Factors that could cause future results to vary from current management expectations include, but are not limited to, general economic conditions, legislative and regulatory changes, 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, demand for loan products, demand for financial services, competition, changes in the quality and composition of the Bank's loan and investment portfolios, changes in accounting principles, policies or guidelines, and other economic, competitive, governmental and technological factors affecting the Bank's operations, markets, products, services and prices. In addition, the Bank assumes no duty to update forward-looking statements.

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Item 8. Financial Statements and Supplementary Data

CONSOLIDATED STATEMENTS OF CONDITION

(In thousands, except share and per share amounts)

	December 31, 2000	December 31, 1999
ASSETS		
Cash and due from banks	\$ 16,005	\$ 11,604
Interest earning deposits with banks	39	417
Federal funds sold	-	8,000
Total cash and cash equivalents	<u>16,044</u>	<u>20,021</u>
Investment in debt and equity securities, net:		
Securities available for sale, at fair value	114,454	84,596
Securities held to maturity (fair value of \$12,414 and \$13,361, respectively)	<u>12,397</u>	<u>13,373</u>
Total investment in debt and equity securities, net	<u>126,851</u>	<u>97,969</u>
Loans	201,092	170,870
Less:		
Allowance for loan losses	<u>(2,100)</u>	<u>(1,971)</u>
Loans, net	<u>198,992</u>	<u>168,899</u>
Banking premises and equipment, net	9,210	8,466
Accrued interest receivable	2,165	1,857
Other assets	<u>1,380</u>	<u>2,832</u>
Total Assets	<u>\$354,642</u>	<u>\$300,044</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Demand deposits	\$ 99,979	\$ 84,392
Savings, N.O.W. and money market deposits	<u>158,904</u>	<u>128,917</u>

Certificates of deposit of \$100,000 or more	21,892	26,204
Other time deposits	<u>32,604</u>	<u>34,809</u>
Total deposits	313,379	274,322
Overnight borrowings	9,700	-
Accrued interest on depositors' accounts	786	761
Other liabilities and accrued expenses	<u>1,989</u>	<u>1,289</u>
Total Liabilities	<u>325,854</u>	<u>276,372</u>
Stockholders' equity:		
Common stock, par value \$.01 per share:		
Authorized: 20,000,000 shares; 4,217,597 outstanding at 12/31/00		
and 4,257,597 shares issued and outstanding at 12/31/99	43	43
Surplus	21,261	21,261
Undivided profits	6,793	3,233
Less: Treasury Stock at cost, 40,000 shares	<u>(653)</u>	<u>-</u>
	27,444	24,537
Accumulated other comprehensive income(loss), net of taxes	<u>1,344</u>	<u>(865)</u>
Total Stockholders' Equity	<u>28,788</u>	<u>23,672</u>
Commitments and contingencies (Note 9)		
Total Liabilities and Stockholders' Equity	<u>\$354,642</u>	<u>\$300,044</u>

See the accompanying notes to the Consolidated Financial Statements.

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CONSOLIDATED STATEMENTS OF INCOME

(In thousands, except per share amounts)

Year Ended December 31,	2000	1999	1998
Interest income:			
Loans (including fee income)	\$17,012	\$15,113	\$ 14,461
Mortgage-backed securities	4,242	2,936	2,030
State and municipal obligations	1,842	1,346	1,177
U.S. Treasury and government agency securities	1,099	852	916
Federal funds sold	948	641	202
Deposits with banks	240	95	155
Other securities	75	73	78
Total interest income	<u>25,458</u>	<u>21,056</u>	<u>19,019</u>
Interest expense:			
Savings, N.O.W. and money market deposits	5,449	2,986	2,095
Certificates of deposit of \$100,000 or more	1,665	1,392	1,574
Other time deposits	1,582	1,754	2,242
Other borrowed money	57	3	67
Total interest expense	<u>8,753</u>	<u>6,135</u>	<u>5,978</u>
Net interest income	<u>16,705</u>	<u>14,921</u>	<u>13,041</u>
Provision for loan losses	<u>105</u>	<u>420</u>	<u>425</u>
Net interest income after provision for loan losses	<u>16,600</u>	<u>14,501</u>	<u>12,616</u>
Other income:			
Service charges on deposit accounts	1,057	980	839
Net securities gains	-	1	47
Fees for other customer services	1,108	1,033	939
Other operating income	<u>381</u>	<u>655</u>	<u>1,180</u>
Total other income	<u>2,546</u>	<u>2,669</u>	<u>3,005</u>
Other expenses:			
Salaries and employee benefits	5,396	4,862	4,801
Net occupancy expense	886	750	737
Furniture and fixture expense	816	787	698
Net securities losses	255	-	-
Other operating expenses	<u>3,693</u>	<u>3,617</u>	<u>3,401</u>
Total other expenses	<u>11,046</u>	<u>10,016</u>	<u>9,637</u>
Income before provision for income taxes	<u>8,100</u>	<u>7,154</u>	<u>5,984</u>
Provision for income taxes	<u>2,464</u>	<u>2,387</u>	<u>2,089</u>
Net income	<u>\$ 5,636</u>	<u>\$ 4,767</u>	<u>\$ 3,895</u>
Basic earnings per share	<u>\$ 1.33</u>	<u>\$ 1.12</u>	<u>\$ 0.92</u>
Diluted earnings per share	<u>\$ 1.32</u>	<u>\$ 1.11</u>	<u>\$ 0.91</u>

See accompanying notes to the Consolidated Financial Statements. All per share amounts have been adjusted to reflect the effect of the split.

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CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(In thousands, except share and per share amounts)

	Shares	Common Stock Amount	Surplus	Comprehensive Income	Undivided profits	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total
Balance at December 31, 1997	1,407,999	7,202	607		11,509	(621)	754	19,451
Net income	-	-	-	\$3,895	3,895	-	-	3,895
Exercise of stock options	3,600	18	142					160
Effect of stock split (in the form of a stock dividend)	2,823,198	14,440	(698)		(13,742)			-
Cash dividends declared, \$.35 per share					(1,482)			(1,482)
Net change in unrealized appreciation in securities available for sale, net of tax	-	-	-	208	-	-	208	208
Comprehensive Income	-	-	-	<u>\$4,103</u>	-	-	-	-
Balance at December 31, 1998	4,234,797	21,660	51		180	(621)	962	22,232
Net income	-	-	-	\$4,767	4,767	-	-	4,767
Exercise of stock options	22,800	72	142		72			286
Retirement of Treasury Stock	-	(486)	(135)			621		-
Reduction in Par Value from \$5.00 to \$.01	-	(21,203)	21,203					-
Cash dividends declared, \$.42 per share					(1,786)			(1,786)
Net change in unrealized (depreciation) in securities available for sale, net of tax	-	-	-	(1,827)	-	-	(1,827)	(1,827)
Comprehensive Income	-	-	-	<u>\$2,940</u>	-	-	-	-
Balance at December 31, 1999	4,257,597	\$ 43	\$21,261		\$ 3,233	\$ 0	\$ (865)	\$23,672
Net income	-	-	-	\$5,636	5,636	-	-	5,636
Purchase of Treasury Stock	-	-	-			(653)		(653)
Cash dividends declared, \$.49 per share					(2,076)			(2,076)
Net change in unrealized appreciation in securities available for sale, net of tax	-	-	-	2,209	-	-	2,209	2,209
Comprehensive Income	-	-	-	<u>\$7,845</u>	-	-	-	-
Balance at December 31, 2000	4,257,597	\$ 43	\$21,261		\$ 6,793	\$ (653)	\$ 1,344	\$28,788

CONSOLIDATED STATEMENTS OF CASH FLOWS

Year Ended December 31,	2000	1999	1998
(In thousands)			
Operating activities:			
Net Income	\$ 5,636	\$ 4,767	\$ 3,895
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for possible loan losses	105	420	425
Depreciation and amortization	838	756	698
Accretion of discounts	(134)	(104)	(85)
Amortization of premiums	152	170	143
Earned or allocated expense of restricted stock awards	35	-	-
Gain on the sale of assets	-	-	(1)
Net securities losses (gains)	255	(1)	(47)
(Increase) in accrued interest receivable	(308)	(332)	(65)
Benefit (provision) for deferred income taxes	76	(135)	(144)
Decrease (increase) in other assets	141	(437)	(233)
Increase (decrease) in accrued and other liabilities	338	(456)	289
Net cash provided by operating activities	7,134	4,648	4,875
Investing activities:			
Purchases of securities available for sale	(49,602)	(54,371)	(21,955)
Purchases of securities held to maturity	(11,314)	(12,290)	(3,969)
Proceeds from sales of securities available for sale	15,541	25,100	2,052
Proceeds from maturing securities available for sale	1,085	125	2,870
Proceeds from maturing securities held to maturity	12,290	3,969	10,729
Proceeds from principal payments on mortgage-backed securities	6,562	10,833	8,118
Net (increase) in loans	(30,198)	(2,336)	(30,165)
Purchases of banking premises and equipment, net of retirements	(1,583)	(639)	(553)
Net cash used by investing activities	(57,219)	(29,609)	(32,873)
Financing activities:			
Net increase in deposits	39,057	32,791	37,834
Increase(decrease) in other borrowings	9,700	0	(6,500)
Payment for the purchase of Treasury Stock	(653)		
Net proceeds from exercise of stock options issued pursuant to equity incentive plan	-	286	160
Cash dividends paid	(1,996)	(2,377)	(2,043)
Net cash provided by financing activities	46,108	30,700	29,451
(Decrease)increase in cash and cash equivalents	(3,977)	5,739	1,453
Cash and cash equivalents beginning of period	20,021	14,282	12,829
Cash and cash equivalents end of period	\$16,044	\$20,021	\$14,282
Supplemental information-Cash Flows:			
Cash paid for:			
Interest	\$ 8,728	\$ 6,813	\$ 5,783
Income taxes	\$ 2,290	\$ 2,606	\$ 2,149
Noncash investing and financing activities:			
Dividends declared and unpaid	\$ 548	\$ 468	\$ 1,059

See accompanying notes to the Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2000, 1999 and 1998

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Bridge Bancorp, Inc. (the Company) is chartered by the State of New York as a single bank holding company. The Company's business currently consists of the operations of its wholly-owned subsidiary, The Bridgehampton National Bank (the Bank). The accounting and reporting policies of the Bank conform to generally accepted accounting principles and to general practices within the financial institution industry. The following is a description of the more significant accounting policies that the Company follows in preparing its Consolidated Financial Statements.

a) Basis of Financial Statement Presentation

The accompanying Consolidated Financial Statements are prepared on the accrual basis of accounting and include the accounts of the Company and its wholly-owned subsidiary, the Bank. All material intercompany transactions and balances have been eliminated.

The preparation of financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of each consolidated statement of condition and the related consolidated statement of income for the year then ended. Actual results could differ from those estimates.

Certain reclassifications have been made to prior year amounts to conform to the current year presentation.

b) Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents include cash on hand, amounts due from banks and federal funds sold which mature overnight.

c) Investment in Debt and Equity Securities

The Company follows Statement of Financial Accounting Standard (SFAS) No. 115 "Accounting for Certain Investments in Debt and Equity Securities." Under SFAS No. 115, the Company is required to report readily-marketable equity and debt securities in one of the following categories: (i) "held-to-maturity" (management has a positive intent and ability to hold to maturity) which are to be reported at amortized cost; (ii) "trading" (held for current resale) which are to be reported at fair value, with unrealized gains and losses included in earnings; and (iii) "available for sale" (all other debt and marketable equity securities) which are to be reported at fair value, with unrealized gains and losses reported net of tax, as accumulated other comprehensive income, a separate component of stockholders' equity.

Included in investment securities are mortgage-backed securities that represent participating interests in pools of long term mortgage loans originated and serviced by the issuers of the securities. These securities are carried at fair value.

Premiums and discounts on investment in debt and equity securities are amortized to expense and accreted to income over the estimated life of the respective securities using the interest method. Gains and losses on the sales of securities are recognized upon realization based on the specific identification method.

d) Loans and Loan Interest Income Recognition

Loans are stated at unpaid principal balances, less unearned discounts and net deferred origination and commitment fees. Loan origination and commitment fees and certain direct costs incurred in connection with loan originations are deferred and amortized to income over the life of the related loans as an adjustment to yield. When a loan prepays, the remaining unamortized fee is taken into income. Interest on loans is credited to income based on the principal outstanding during the period. Loans that are 90 days past due are placed on a nonaccrual basis. Exceptions to this policy are loans that are fully and adequately secured and are in the process of collection.

All of the Bank's nonaccruing loans are considered impaired under SFAS No. 114 "Accounting by Creditors for Impairment of a Loan." In accordance with SFAS No. 114, a valuation allowance is established on impaired loans to reflect the difference, if any, between face amount of the loan and the present value of expected future cash flow discounted at the loan's effective interest rate, or as a practical expedient, at the loan's observable market price or the fair value of the collateral.

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e) Allowance for Loan Losses

The adequacy of the allowance for loan losses is determined based on management's detailed analysis of classified loans, input from the Bank's outside loan review consultants, past loss experience, current economic conditions, delinquency trends and other pertinent factors. The reserves are reviewed on a quarterly basis to determine if any adjustments are necessary. The information reviewed also includes past due trends, charge-off trends, and concentrations of credit. Based on the loan classification committee's review of the classified loans and the overall reserve levels as they relate to the entire loan portfolio, management believes the allowance for possible loan losses is adequate.

While management uses available information to recognize losses on loans, future additions to the allowance may be necessary based on changes in conditions. In addition, various regulatory agencies, as an integral part of the examination process, periodically review the Bank's allowance for loan losses. Such agencies may require the Bank to recognize additions to the allowance based on their judgments about information available to them at the time of their examination.

f) Banking Premises and Equipment

Banking premises and equipment are recorded at cost. Depreciation and amortization are provided for in amounts sufficient to relate the cost of depreciable assets to operations over their estimated service lives (fifty years for buildings and two to ten years for equipment, furniture and fixtures) on a straight-line basis. Leasehold improvements are amortized over the lives of the respective leases or the service lives of the improvements, whichever is shorter.

Expenditures for improvements and major renewals are capitalized, while the cost of ordinary maintenance, repairs and minor improvements is charged to operations.

g) Other Real Estate Owned

Other real estate owned consists of real estate acquired by foreclosure or deed in lieu of foreclosure and is recorded at the lower of the net unpaid principal balance at the foreclosure date plus acquisition costs or fair value. Subsequent valuation adjustments are made if fair value less estimated costs to sell the property falls below the carrying amount. At December 31, 2000 and 1999, the Company carried no other real estate owned.

h) Income Taxes

The Company follows SFAS No. 109, which requires an asset and liability approach for accounting for income taxes. The asset and liability approach requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Under SFAS No. 109, deferred tax assets are recognized if it is more likely than not that a future benefit will be realized. It is management's position, as currently supported by the facts and circumstances, that no valuation allowance is necessary against any of the Company's deferred tax assets.

i) Treasury Stock

Repurchases of common stock are recorded as treasury stock at cost.

j) Earnings Per Share

For the year ended December 31, 2000, 1999 and 1998, diluted weighted average common stock and common stock equivalent shares outstanding for the diluted earnings per share calculation were 4,258,709, 4,277,079 and 4,270,991, respectively. For the year ended December 31, 2000, 1999 and 1998, the total weighted average number of shares of common stock outstanding for the basic earnings per share calculation were 4,236,668, 4,250,823 and 4,229,307, respectively. Diluted earnings per share is calculated using the same method as basic earnings per share, but reflects potential dilution of common stock equivalents.

k) Dividends

Cash available for dividend distribution to shareholders of the Company must initially come from dividends paid by the Bank to the Company. The approval of the Regional Administrator of National Banks 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. The Bank had approximately \$8,624,000 available as of December 31, 2000 which may be paid to the Company as a dividend.

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l) Stock Splits

On July 20, 1998, the Board of Directors declared a three-for-one stock split in the form of a stock dividend payable August 31, 1998 to stockholders of record as of August 19, 1998. The stock split increased outstanding common shares from 1,411,599 to 4,234,797. Stockholders' equity has been reclassified to give retroactive recognition to the stock split for all periods presented by reclassifying from undivided profits and capital surplus to common stock the par value of additional shares resulting from the stock splits. In addition, all references in the Consolidated Financial Statements and Notes thereto to number of shares, per share amounts, stock option data and market prices of the common stock have been restated giving retroactive recognition to the stock split.

m) Change in Par Value

The equity section of the consolidated statements of condition also reflects the decrease in the par value of the Company's Common Stock from a par value of Five Dollars (\$5.00) per share to a par value of One Cent (\$0.01) per share. This change was authorized by the Board of Directors and adopted by the Shareholders at the Company's April 19, 1999 annual meeting. The change was effectuated during the second quarter of 1999 by filing an amendment to the Company's certificate of incorporation. Such reduction in par value permitted the Company to decrease its stated capital by approximately \$21,203,000. Capital surplus increased by approximately \$21,203,000, thereby providing the Company with the ability to allow payments of dividends from surplus if deemed advisable or necessary by the Board of Directors. Capital surplus has not been restated for prior periods. It should be realized, however, that as a practical matter the Company would only have the ability to pay out a moderate proportion of the aggregate increase in capital surplus as dividends since there are regulatory restrictions on the payment of dividends.

n) Segment Reporting

SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information" requires public companies to report certain financial information about significant revenue-producing segments of the business for which such information is available and utilized by the chief operating decision maker. Specific information to be reported for individual operating segments includes a measure of profit and loss, certain revenue and expense items, and total assets. As a community-oriented financial institution, substantially all of the Company's operations involve the delivery of loan and deposit products to customers. Management makes operating decisions and assesses performance based on an ongoing review of these community banking operations, which constitute the Company's only operating segment for financial reporting purposes under SFAS No. 131.

o) Stock Based Compensation Plans

SFAS No. 123 "Accounting for Stock-Based Compensation," encourages, but does not require companies to record compensation cost for stock-based compensation plans at fair value. The Company continues to account for stock based compensation using the intrinsic value method prescribed in Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees."

p) Comprehensive Income

Comprehensive income includes net income and all other changes in equity during a period except those resulting from investments by owners and distributions to owners. Other comprehensive income includes revenues, expenses, gains and losses that under generally accepted accounting principles are included in comprehensive income but excluded from net income. Comprehensive income and accumulated other comprehensive income are reported net of related income taxes. Accumulated other comprehensive income for the Company consists solely of unrealized holding gains or losses on available for sale securities. Such gains or losses are net of reclassification adjustments for realized gains (losses) on sales of available for sale securities.

q) New Accounting Pronouncements

In June 1998, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 133 "Accounting for Derivative Instruments and Hedging Activities" (SFAS No. 133). This Statement established accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. It requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measures those instruments at fair value. The accounting for changes in the fair value of a derivative depends on the intended use of a derivative and the resulting designation. In June 1999, the FASB issued SFAS No. 137 "Accounting for Derivative Instruments and Hedging Activities - Deferral of the Effective Date of FASB Statement No. 133." SFAS No. 133 is now effective for fiscal quarters of fiscal years beginning after June 2000 and does not require restatement of prior periods. In management's opinion, the adoption of SFAS No. 133 and 137 will not have a material effect on the Company's consolidated financial statements.

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r) Reclassifications

Certain reclassifications have been made to prior year amounts to conform to the current year presentation.

2. INVESTMENT IN DEBT AND EQUITY SECURITIES

A summary of the amortized cost, gross unrealized gains, gross unrealized losses and estimated fair value of investment securities is as follows:

December 31, (In thousands)	2000				1999				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	Amortized Cost
Available for sale:									
U.S. Treasury securities	\$ 2,017	\$ 15	-	\$ 2,032	\$ 8,078	\$ 33	-	\$ 8,111	\$12,065
Oblig. of U.S. Government agencies	6,944	106	-	7,050	4,984	-	(72)	4,912	-
Oblig. of NY State & pol. subs.	34,318	492	(29)	34,781	28,489	72	(447)	28,114	21,395
Mortgage-backed securities	68,923	1,724	(56)	70,591	44,511	16	(1,068)	43,459	34,354
Total available for sale	\$112,202	\$2,337	\$(85)	\$114,454	\$86,062	\$121	\$(1,587)	\$84,596	\$67,814
Held to maturity:									
Oblig. of NY State & pol. subs.	\$ 11,314	\$ 17	-	\$ 11,331	\$12,290	\$ 4	\$(16)	\$12,278	\$ 3,969
Nonmarketable equity securities:									
Federal Reserve Bank Stock	\$ 36	-	-	\$ 36	\$ 36	-	-	\$ 36	\$ 36
Federal Home Loan Bank Stock	1,047	-	-	1,047	1,047	-	-	1,047	1,047
Total held to maturity	\$ 12,397	\$ 17	-	\$ 12,414	\$13,373	\$ 4	\$(16)	\$13,361	\$ 5,052
Total debt and equity securities	\$124,599	\$2,354	\$(85)	\$126,868	\$99,435	\$125	\$(1,603)	\$97,957	\$72,866

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The following table sets forth the book value, maturities and approximated weighted average yield (based on the estimated annual income divided by the average book value) at December 31, 2000. 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. Yields on tax-exempt obligations have not been computed on a tax-equivalent basis.

(In thousands)	Principal Maturing									
	Within One Year		After One But Within Five Years		After Five But Within Ten Years		After Ten Years		No Stated Maturity	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
Available for sale:										
U.S. Treasury securities	\$ 2,017	6.47%	-	-	-	-	-	-	-	-
U.S. Agency securities	-	-	6,944	6.98%	-	-	-	-	-	-
Mortgage-backed securities	-	-	-	-	-	-	68,923	7.36%	-	-
Oblig. of state and pol. subs.	1,458	5.17%	18,873	4.51%	13,987	4.69%	-	-	-	-
Total available for sale	\$ 3,475	5.92%	\$25,817	5.17%	\$13,987	4.69%	\$68,923	7.36%	-	-
Held to maturity:										
Oblig. of state and pol. subs.	\$11,314	4.33%	-	-	-	-	-	-	-	-
	11,314	4.33%	-	-	-	-	-	-	-	-
Nonmarketable equity securities:										
Federal Reserve Bank Stock	-	-	-	-	-	-	-	-	36	6.00%
Federal Home Loan Bank Stock	-	-	-	-	-	-	-	-	1,047	6.93%
Total nonmarketable equity securities	-	-	-	-	-	-	-	-	1,083	6.90%
Total held to maturity	\$11,314	4.33%	-	-	-	-	-	-	\$1,083	6.90%
Total debt and equity securities	\$14,789	4.70%	\$25,817	5.17%	\$13,987	4.69%	\$69,923	7.36%	\$1,083	6.90%

Proceeds from sales of available for sale securities were approximately \$15,541,000, \$25,100,000 and \$2,052,000 in 2000, 1999 and 1998, respectively. Gross gains of approximately \$24,000, \$184,000 and \$47,000 were realized on sales of available for sale securities during 2000, 1999 and 1998, respectively. Gross losses of approximately \$279,000 and \$183,000 were realized on sales of available for sale securities during 2000 and 1999, respectively. During 1998 there were no gross losses recognized on sales of available for sale securities. There were no sales of held to maturity securities during 2000, 1999 and 1998.

Investment securities having an amortized cost of approximately \$49,601,000 and \$44,690,000 at December 31, 2000 and 1999, respectively, were pledged to secure public deposits.

There were no investments in debt and equity securities which exceeded 10% of stockholders' equity for any one issuer (other than U.S. Government securities) at December 31, 2000.

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3. LOANS

The following table sets forth the major classifications of loans:

(In thousands)	2000	1999	1998	1997	1996
Real estate loans	\$165,889	\$141,479	\$141,625	\$114,357	\$ 93,639
Unsecured business and personal loans	33,291	27,869	23,639	17,638	13,211
Secured business and personal loans	1,059	1,086	2,534	725	317
Installment/consumer loans	963	675	1,182	5,916	11,714
Total loans	\$201,202	\$171,109	\$168,980	\$138,636	\$118,881
Unearned income	(110)	(239)	(284)	-	-
	\$201,092	\$170,870	\$168,696	\$138,636	\$118,881
Allowance for loan losses	(2,100)	(1,971)	(1,713)	(1,393)	(1,238)
Net loans	\$198,992	\$168,899	\$166,983	\$137,243	\$117,643

At December 31, 2000, there were no loan concentrations as defined by the North American Industry Classification System (NAICS).

Lending Risk.

The principal business of the Bank is lending, primarily in commercial real estate loans, construction loan mortgages, home equity loans, land loans, consumer loans, home advantage loans, residential mortgages and commercial loans. The Bank considers its primary lending area as the five East End towns of Suffolk County, New York. Since the primary lending area of the Bank is the two forks of the eastern end of Long Island, the loan portfolio as a whole is dependent on the economic conditions of the geographic market served by the Bank.

Allowance for Loan Losses.

The Bank monitors its portfolio on a regular basis, with consideration given to detailed analysis of classified loans, delinquency trends, probable losses, past loss experience, current economic conditions, concentrations of credit and other pertinent factors. Weight is also given to input from the Bank's outside loan review consultants. Additions to the allowance are charged to expense and realized losses, net of recoveries, are charged to the allowance. Based on management's and the loan classification committee's determination of the condition of the portfolio, the overall level of reserves is periodically adjusted to account for the inherent and specific risks within the entire portfolio. At minimum, the adequacy of these reserves are adjusted quarterly, to a level deemed appropriate by management based on their risk assessment of the entire portfolio. Based on the loan classification committee's review of the classified loans and the overall reserve levels as they relate to the entire loan portfolio at the quarter ended December 31, 2000, management believes the allowance for possible loan losses is adequate.

While management uses available information to recognize losses on loans, future additions to the allowance may be necessary based on changes in conditions. In addition, various regulatory agencies, as an integral part of the examination process, periodically review the Bank's allowance for loan losses. Such agencies may require the Bank to recognize additions to the allowance based on their judgements based on the information available to them at the time of their examination.

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

December 31, (In thousands)	2000	1999	1998	1997	1996
Allowance for loan losses balance at beginning of period	\$1,971	\$1,713	\$1,393	\$1,238	\$1,038
Charge-offs:					
Real estate loans	9	170	-	-	-
Unsecured business & personal loans	62	39	31	87	11
Installment/consumer loans	36	62	165	229	264
Total	107	271	196	316	275
Recoveries:					
Real estate loans	58	-	-	-	-
Unsecured business & personal loans	1	4	32	6	79
Installment/consumer loans	72	105	59	55	66
Total	131	109	91	61	145
Net (recoveries) charge-offs	(24)	162	105	255	130
Provision for loan losses charged to operations	105	420	425	410	330
Balance at end of period	\$2,100	\$1,971	\$1,713	\$1,393	\$1,238
Ratio of net charge-offs during period to average loans outstanding	(.01%)	0.10%	0.07%	0.20%	0.11%

Allocation of Allowance for Loan Losses.

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

Year Ended December 31, (In thousands)	2000		1999		1998		1997		1996	
	Amount	Percentage of Loans to Total Loans	Amount	Percentage of Loans to Total Loans	Amount	Percentage of Loans to Total Loans	Amount	Percentage of Loans to Total Loans	Amount	Percentage of Loans to Total Loans
Real estate loans	\$1,335	82.5%	\$1,196	82.7%	\$1,122	83.8%	\$ 868	82.5%	\$ 685	78.8%
Unsecured business and personal loans	648	16.6%	639	16.3%	38	14.0%	336	12.7%	301	11.1%
Secured business and personal loans	21	0.5%	28	0.6%	507	1.5%	1	0.5%	1	0.3%
Installment/consumer loans	96	0.4%	108	0.4%	46	0.7%	188	4.3%	251	9.8%
Total	\$2,100	100.0%	\$1,971	100.0%	\$1,713	100.0%	\$1,393	100.0%	\$1,238	100.0%

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Selected Loan Maturity Information.

The following table sets forth the approximate maturities and sensitivity to changes in interest rates of certain loans, exclusive of non-commercial real estate mortgages and consumer loans to individuals as of December 31, 2000.

(In thousands)	Within One Year	After One But Within Five Years	After Five Years	Total
Commercial loans	\$ 7,056	\$5,326	\$77,662	\$ 90,044
Construction loans	8,727	1,504	-	10,231
Total loans	\$15,783	\$6,830	\$77,662	\$100,275
Rate provisions:				
Amounts with fixed interest rates	\$ 1,009	\$1,599	\$ 510	\$ 3,118
Amounts with variable interest rates	14,774	5,231	77,152	97,157
Total	\$15,783	\$6,830	\$77,662	\$100,275

Past Due, Nonaccrual and Restructured Loans.

The following table sets forth selected information about past due, nonaccrual and restructured loans.

December 31, (In thousands)	2000	1999	1998	1997	1996
Loans 90 days or more past due and still accruing	\$ -	\$ 1	\$ 4	\$ 1	\$ 1
Nonaccrual loans	769	189	1,208	975	269
Restructured loans	-	776	-	-	-
Other real estate owned, net	-	-	-	-	-
Total	\$769	\$966	\$1,212	\$976	\$270
Year Ended December 31, Gross interest income that would have been recorded during the year under original terms:					
Nonaccrual loans	\$ 97	\$ 63	\$ 128	\$163	\$ 50
Restructured loans	-	-	-	-	-
Gross interest income recorded during the year:					
Nonaccrual loans	\$ 10	\$ 4	\$ 37	\$151	\$ 42
Restructured loans	-	-	-	-	-
Commitments for additional funds	-	-	-	-	-

As of December 31, 2000 and 1999, the Bank did not have any impaired loans as defined in SFAS No. 114 except for the restructured and nonaccrual loans noted above. The valuation allowance at December 31, 2000 was \$41,000. No valuation allowance has been recorded at December 31, 1999. The average recorded investment in impaired loans for the years ended December 31, 2000 and 1999 was approximately \$648,000 and \$705,000, respectively.

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4. DEPOSITS

The following table sets forth major classifications of average deposits and average rates paid on these deposits for the periods indicated.

Year Ended December 31, (In thousands)	2000		1999		1998	
	Average Deposits	Average Rates Paid	Average Deposits	Average Rates Paid	Average Deposits	Average Rates Paid
Demand deposits	\$102,525	-	\$ 87,475	-	\$ 70,352	-
Savings, N.O.W. and money market deposits	155,680	3.5%	122,118	2.4%	90,522	2.3%
Certificates of deposit of \$100,000 or more	29,779	5.6%	28,493	4.9%	29,412	5.4%
Other time deposits	33,832	4.7%	38,823	4.5%	43,428	5.2%
Total	\$321,816	2.7%	\$276,909	2.2%	\$233,714	2.5%

Time Deposits of \$100,000 or More.

The following table sets forth the remaining maturities of the Bank's time certificates of deposit in amounts of \$100,000 or more.

<u>(In thousands)</u>	
3 months or less	\$12,982
Over 3 thru 6 months	2,306
Over 6 thru 12 months	1,502
Over 12 months	<u>5,102</u>
Total	<u>\$21,892</u>

5. BANKING PREMISES AND EQUIPMENT

Banking premises and equipment consist of:

<u>December 31,</u>	<u>2000</u>	<u>1999</u>
<u>(In thousands)</u>		
Land	\$1,496	\$1,496
Building and improvements	5,722	5,587
Furniture and fixtures	4,424	3,591
Leasehold improvements	<u>836</u>	<u>424</u>
	12,478	11,098
Less accumulated depreciation and amortization	<u>3,268</u>	<u>2,632</u>
	<u>\$9,210</u>	<u>\$8,466</u>

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6. INCOME TAXES

The components of the provision for income taxes are as follows:

<u>Year Ended December 31,</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>
<u>(In thousands)</u>			
Current:			
Federal	\$2,070	\$1,976	\$1,606
State	<u>422</u>	<u>546</u>	<u>627</u>
	2,492	2,522	2,233
Deferred:			
Federal	5	(100)	(106)
State	<u>(33)</u>	<u>(35)</u>	<u>(38)</u>
	(28)	(135)	(144)
Total	<u>\$2,464</u>	<u>\$2,387</u>	<u>\$2,089</u>

The reconciliation of the expected Federal income tax expense at the statutory tax rate to the actual provision follows:

<u>Year Ended December 31,</u>	<u>2000</u>		<u>1999</u>		<u>1998</u>	
<u>(In thousands)</u>	Percentage of Pre-tax Earnings		Percentage of Pre-tax Earnings		Percentage of Pre-tax Earnings	
	Amount		Amount		Amount	
Federal income tax expense computed by applying the statutory rate to income before income taxes	\$2,754	34%	\$2,433	34%	\$2,034	34%
Tax exempt interest	(626)	(8)	(436)	(6)	(381)	(6)
State taxes, net of Federal income tax benefit	257	3	337	4	388	6
Interest disallowed	71	1	43	1	40	1
Other	8	-	10	-	8	-
Provision for income taxes	<u>\$2,464</u>	<u>30%</u>	<u>\$2,387</u>	<u>33%</u>	<u>\$2,089</u>	<u>35%</u>

Deferred tax assets and liabilities are comprised of the following:

<u>December 31,</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>
<u>(In thousands)</u>			
Deferred tax assets:			
Allowance for loan losses	\$ 754	\$ 716	\$ 603
Other	83	148	117
Securities available for sale	<u>907</u>	<u>600</u>	-
Total	<u>\$1,744</u>	<u>\$1,464</u>	<u>\$ 720</u>
Deferred tax liabilities:			
Pension expense	\$ (113)	\$ (58)	\$ (32)
Depreciation	(89)	(95)	(112)
Securities available for sale	-	-	(667)
Total	<u>\$ (202)</u>	<u>\$ (153)</u>	<u>\$ (811)</u>
Net deferred tax asset (liability)	<u>\$1,542</u>	<u>\$1,311</u>	<u>\$ (91)</u>

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7. EMPLOYEE BENEFITS**a. Pension Plan**

The Bank maintains a non-contributory pension plan through the New York State Bankers Association Retirement System covering all eligible employees. The following table sets forth the plan's funded status projected to September 30, 2000 and 1999 (measurement dates).

<u>Pension Benefits</u>	<u>2000</u>	<u>1999</u>
<u>(In thousands)</u>		
Change in projected benefit obligation		
Projected benefit obligation at beginning of year	\$1,644	\$1,457
Service cost	156	146
Expenses	(29)	(26)
Interest cost	113	101
Benefits paid	(75)	(46)
Assumption changes and other	<u>98</u>	<u>12</u>
Projected benefit obligation at end of year	<u>\$1,907</u>	<u>\$1,644</u>
Change in plan assets		
Fair value of plan assets at beginning of year	\$2,100	\$1,746
Actual return on plan assets	220	279
Employer contribution	214	147
Benefit paid	(75)	(46)
Expenses	(29)	(26)
Fair value of plan assets at end of year	<u>\$2,430</u>	<u>\$2,100</u>
Funded Status	\$ 523	\$ 456
Unrecognized net actuarial (gain) loss	(188)	(252)
Unrecognized prior service cost	(16)	(18)
Unrecognized transition asset	(47)	(56)
Prepaid benefit cost	<u>\$ 272</u>	<u>\$ 130</u>
Components of net periodic benefit cost	<u>2000</u>	<u>1999</u>
		<u>1998</u>

Service cost	\$156	\$146	\$160
Interest cost	113	101	98
Expected return on plan assets	(184)	(150)	(141)
Amortization of net(gain) loss	-	(2)	(3)
Amortization of unrecognized prior service cost	(2)	(1)	(1)
Amortization of unrecognized transition asset	(9)	(9)	(9)
Net periodic benefit cost	<u>\$ 74</u>	<u>\$ 85</u>	<u>\$104</u>

At December 31, 2000, 1999, and 1998 a weighted average discount rate of 7.0%, and a rate of increase in future compensation levels of 4.0% were used in determining the actuarial present value of the projected benefit obligation. The expected long-term rate of return on assets was 8.5% at September 30, 2000, 1999 and 1998.

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b. Equity Incentive Plan

During 1996, the Bridge Bancorp, Inc. Equity Incentive Plan was approved by the stockholders to provide for the grant of options to purchase up to a total of 432,000 shares of common stock of the Company and for the award of shares of common stock as a bonus. During the year ended December 31, 2000, the Company granted restricted stock awards of 5,346 shares. These awards vest over three years on the anniversary date of the awards. Such shares are subject to restrictions based on continued service as employees of the Company or subsidiaries of the Company. Compensation expense attributable to these awards was approximately \$35,000 for the year ended December 31, 2000. Options awarded under the plan are determined by the Incentive Compensation Committee of the Board of Directors. The Company accounts for this plan under APB Opinion No. 25, under which no compensation cost has been recognized for stock options granted. Had compensation cost for these stock options been determined consistent with SFAS No. 123, the Company's net income and earnings per share would have been reduced to the following pro forma amounts:

<u>2000</u>		
Net Income:	As Reported:	\$5,636
	Pro Forma:	5,575
Diluted EPS:	As Reported:	\$ 1.32
	Pro Forma:	1.31
Basic EPS:	As Reported:	\$ 1.33
	Pro Forma:	1.32

<u>1999</u>		
Net Income:	As Reported:	\$4,767
	Pro Forma:	4,611
Diluted EPS:	As Reported:	\$ 1.11
	Pro Forma:	1.07
Basic EPS:	As Reported:	\$ 1.12
	Pro Forma:	1.08

The fair value of each option granted is estimated on the date of the grant using the Black-Scholes option pricing model with the following weighted average assumptions used for grants in 2000: a risk-free interest rate of 6.68%; an expected dividend yield of 1.27%; expected lives of five years; and expected volatility of 32.0%.

<u>For the Year Ended,</u>	<u>2000</u>		<u>1999</u>	
(In thousands)				
	<u>Shares</u>	<u>Weighted Average Exercise Price</u>	<u>Shares</u>	<u>Weighted Average Exercise Price</u>
Outstanding, beginning of the year	92,100	\$15.80	77,400	\$ 10.91
Granted	14,850	\$19.75	37,500	\$22.00
Exercised			(22,800)	\$9.38
Forfeited				-
Outstanding and exercisable, end of the year	<u>106,950</u>	<u>\$16.35</u>	<u>92,100</u>	<u>\$15.80</u>
Weighted average fair value of options granted		<u>\$ 7.04</u>		<u>\$ 7.04</u>

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8. OTHER INCOME AND EXPENSES

a) There were no components of other operating income which exceeded one percent of the aggregate of total interest income and other income at December 31, 2000.

b) Components of other operating expenses which exceed one percent of the aggregate of total interest income and other income are as follows:

<u>December 31,</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>
(In thousands)			
Data\Item processing	\$287	\$443	\$413
Advertising	\$345	\$281	\$294
Consulting	\$141	\$306	\$ 92
Merchant credit card processing	\$327	\$205	\$150

9. COMMITMENTS AND CONTINGENCIES AND OTHER MATTERS

a. Leases

The Company is obligated to make minimum annual rental payments under non-cancellable operating leases on its premises. The projected minimum rentals under existing leases at December 31, 2000 are as follows (in thousands):

2001	\$405
2002	\$370
2003	\$362
2004	\$259
2005	\$ 22
Thereafter	\$ 0

Certain leases contain renewal options and rent escalation clauses. In addition, certain leases provide for additional payments based upon real estate taxes, interest and other charges. Rental expenses under these leases for the years ended December 31, 2000, 1999 and 1998 approximated \$354,000, \$296,000 and \$286,000, respectively.

b. Loans

In the normal course of business, there are various outstanding commitments and contingent liabilities, such as guarantees and commitments to extend credit, which are not reflected in the accompanying financial statements. No material losses are anticipated as a result of these transactions.

The following represents commitments outstanding:

<u>December 31,</u>	<u>2000</u>	<u>1999</u>
(In thousands)		
Standby letters of credit	\$ 1,883	\$ 1,618
Loan commitments outstanding	14,044	12,898
Unused equity lines	18,261	14,252
Unused construction lines	10,722	5,543
Unused lines of credit	12,452	11,241
Unused overdraft lines	6,700	5,328
Total commitments outstanding	<u>\$64,062</u>	<u>\$50,880</u>

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During 2000, the Bank was required to maintain certain cash balances with the Federal Reserve Bank of New York for reserve and clearing requirements. These balances averaged \$1,735,000 in 2000.

During 2000, 1999, and 1998, the Bank maintained an overnight line of credit with the Federal Home Loan Bank of New York. The Bank has the ability to borrow against its unencumbered residential mortgages and investment securities owned by the Bank. There were no amounts outstanding at December 31, 2000 and 1999.

10. ESTIMATED FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value estimates are made at a specific point 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 Bank's entire holdings of a particular financial instrument, or the tax consequences of realizing gains or losses on the sale of financial instruments.

The following method and assumptions were used by the Company 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.

Securities Available for Sale and Held to Maturity: The estimated fair values are based on independent dealer quotations and quoted market prices.

Loans: The estimated fair values of real estate mortgage loans and other loans receivable are based on discounted cash flow calculations that apply interest rates currently being offered by the Bank for loans with similar remaining maturities to a schedule of aggregated expected monthly maturities.

Deposits: The estimated fair values of deposits are based on discounted cash flow calculations that apply interest rates currently being offered by the Bank for deposits with similar remaining maturities to a schedule of aggregated expected monthly maturities.

Borrowings: The estimated fair value of borrowed funds is based on the discounted value of contractual cash flows using interest rates currently in effect for borrowings with similar maturities and collateral requirements.

Accrued Interest Receivable and Payable: For these short term instruments, the carrying amount is a reasonable estimate of the fair value.

The estimated fair values and recorded carrying values of the Bank's financial instruments are as follows:

December 31, (In thousands)	2000		1999	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Assets:				
Cash and due from banks	\$ 16,005	\$ 16,005	\$ 11,604	\$ 11,604
Interest bearing deposits with banks	39	39	417	417
Federal funds sold	-	-	8,000	8,000
Securities available-for-sale	114,454	114,454	84,596	84,596
Securities held-to-maturity	12,397	12,414	13,373	13,361
Loans	198,092	188,298	168,899	167,974
Accrued interest receivable	2,165	2,165	1,857	1,857
Financial Liabilities:				
Demand and other deposits	313,379	313,503	274,322	273,997
Federal funds purchased	9,700	9,700	-	-
Accrued interest payable	786	786	761	761

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11. REGULATORY MATTERS

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

Quantitative measures established by regulation to ensure capital adequacy require the 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 December 31, 2000, that the Bank meets all capital adequacy requirements to which it is subject.

As of December 31, 2000, the most recent notification from the Federal Deposit Insurance Corporation categorized the Bank as "well capitalized" under the regulatory framework for prompt corrective action. To be categorized as "well capitalized," the Bank must maintain minimum total risk-based, Tier 1 risk-based and Tier 1 leverage ratios as set forth in the table. Since that notification, there are no conditions or events that management believes have changed the institution's category.

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The Company and the Bank's actual capital amounts and ratios are presented in the following table:

Bridge Bancorp, Inc. (Consolidated)

As of December 31, 2000
(In thousands)

	Actual		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)	\$29,544	12.6%	\$18,799	>8.0%	\$23,498
Tier 1 Capital (to risk weighted assets)	27,444	11.7%	9,399	>4.0%	14,099	> 6.0%
Tier 1 Capital (to average assets)	27,444	7.9%	13,911	>4.0%	17,389	> 5.0%

As of December 31, 1999

	Actual		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)	\$26,508	13.2%	\$16,090	>8.0%	\$20,113
Tier 1 Capital (to risk weighted assets)	24,537	12.2%	8,045	>4.0%	12,068	> 6.0%
Tier 1 Capital (to average assets)	24,537	8.2%	12,024	>4.0%	15,030	> 5.0%

Bridgehampton National Bank

As of December 31, 2000

	Actual		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)	\$29,407	12.5%	\$18,799	>8.0%	\$23,498
Tier 1 Capital (to risk weighted assets)	27,307	11.6%	9,399	>4.0%	14,099	> 6.0%
Tier 1 Capital (to average assets)	27,307	7.9%	13,911	>4.0%	17,389	> 5.0%

As of December 31, 1999

(In thousands)

	Actual		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)	\$26,049	13.0%	\$16,090	>8.0%	\$20,113
Tier 1 Capital (to risk weighted assets)	24,078	12.0%	8,045	>4.0%	12,068	> 6.0%
Tier 1 Capital (to average assets)	24,078	8.0%	12,062	>4.0%	15,078	> 5.0%

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12. BRIDGE BANCORP INC. (PARENT COMPANY ONLY)

Condensed Statements of Financial Condition

December 31,	2000	1999
(In thousands)		
Assets		
Cash and cash equivalents	\$ 137	\$ 329
Dividend receivable	551	468
Other assets	-	130
Investment in the Bank	28,651	23,213
Total Assets	\$29,339	\$24,140
Liabilities		
Dividends payable	548	468
Other liabilities	3	-
Total Liabilities	\$ 551	\$ 468
Stockholders' Equity		
Stockholders' Equity	29,441	23,672
Treasury stock at cost, 40,000 shares	(653)	-
Total Stockholders' Equity	\$28,788	\$23,672
Total Liabilities and Stockholders' Equity	\$29,339	\$24,140

Condensed Statements of Income

Year Ended December 31,	2000	1999	1998
(In thousands)			
Dividend income from the Bank	\$2,409	\$1,786	\$1,482
Other operating expenses	1	1	4
Income before income taxes and equity in undistributed earnings of the Bank	2,408	1,785	1,478
Income tax provision	0	0	(2)
Income before equity in undistributed earnings of the Bank	2,408	1,785	1,480
Equity in undistributed earnings of the Bank	3,228	2,982	2,415
Net income	\$5,636	\$4,767	\$3,895

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Condensed Statements of Cash Flows

Year Ended December 31,	2000	1999	1998
(In thousands)			
Cash flows used by operations:			
Other operating expenses	\$ 129	\$ (1)	\$ (4)
Net cash used by operating activities	129	(1)	(4)
Cash flows from investing activities:			
Payment for the purchase of treasury stock	\$ (653)	-	-
Dividends received	2,325	2,377	2,043
Net cash provided by investing activities	1,672	2,377	2,043
Cash flows used by financing activities:			
Net proceeds from issuance of common stock upon exercise of stock options	-	214	109
Dividends paid	(1,993)	(2,377)	(2,043)
Net cash used by financing activities	(1,993)	(2,163)	(1,934)
Net increase in cash and cash equivalents	(192)	213	105
Cash and cash equivalents at beginning of year	329	116	11
Cash and cash equivalents at end of year	\$ 137	\$ 329	\$ 116
Reconciliation of net income to net cash used by operating activities:			
Net income	\$5,636	\$4,767	\$3,895
Adjustments to reconcile net income to net cash used by operating activities:			
Equity in undistributed earnings of the Bank	(3,228)	(2,982)	(2,415)
Dividend income	(2,409)	(1,786)	(1,482)
Income tax benefit from exercise of employee stock options	-	72	51
Increase in other assets	130	(72)	(53)
Net cash used by operating activities	\$ 129	\$ (1)	\$ (4)

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13. QUARTERLY FINANCIAL DATA (Unaudited)

Selected Consolidated Quarterly Financial Data

2000 Quarter Ended,	March 31,	June 30,	September 30,	December 31,
(In thousands, except per share amounts)				
Interest income	\$5,621	\$6,109	\$6,846	\$6,882
Interest expense	1,735	1,977	2,509	2,532
Net interest income	3,886	4,132	4,337	4,350
Provision for loan losses	105	-	-	-
Net interest income after provision for loan losses	3,781	4,132	4,337	4,350
Other income	530	628	675	713
Other expenses	2,605	2,889	2,750	2,792
Income before income taxes	1,706	1,771	2,262	2,361
Provision for income taxes	496	521	709	738
Net income	\$1,210	\$1,250	\$1,553	\$1,623
Basic earnings per share	\$ 0.29	\$ 0.29	\$ 0.37	\$ 0.38
Diluted earnings per share	\$ 0.28	\$ 0.29	\$ 0.37	\$ 0.38

1999 Quarter Ended,	March 31,	June 30,	September 30,	December 31,
(In thousands, except per share amounts)				
Interest income	\$4,856	\$5,157	\$5,386	\$5,657
Interest expense	1,489	1,503	1,529	1,614
Net interest income	3,367	3,654	3,857	4,043
Provision for loan losses	105	105	105	105
Net interest income after provision for loan losses	3,262	3,549	3,752	3,938
Other income	601	809	676	583
Other expenses	2,403	2,563	2,487	2,563
Income before income taxes	1,460	1,795	1,941	1,958
Provision for income taxes	507	628	637	615
Net income	\$ 953	\$1,167	\$1,304	\$1,343

Basic earnings per share
Diluted earnings per share

\$ 0.22	\$ 0.28	\$ 0.31	\$ 0.31
\$ 0.22	\$ 0.27	\$ 0.31	\$ 0.31

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REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

The Board of Directors and Stockholders
Bridge Bancorp, Inc.:

We have audited the accompanying consolidated statements of condition of Bridge Bancorp, Inc. and subsidiary as of December 31, 2000 and 1999, and the related consolidated statements of income, stockholders' equity and cash flows for each of the years in the three year period ended December 31, 2000. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Bridge Bancorp, Inc. and subsidiary as of December 31, 2000 and 1999, and the results of their operations and their cash flows for each of the years in the three year period ended December 31, 2000, in conformity with accounting principles generally accepted in the United States.

/s/ Arthur Andersen LLP

New York, New York
January 21, 2001

Item 9. Changes in and disagreements with Accountants on Accounting and Financial Disclosure

None

PART III

Item 10. Directors and Executive Officers of the Registrant

"Nominees for Director and Directors Continuing in Office," "Shares Beneficially Owned by other Executive Officers and All Directors" and "Compliance with Section 16 (a) of the Exchange Act" set forth on pages 3 through 6 of the Registrant's Proxy Statement dated March 9, 2001 are incorporated herein by reference.

Item 11. Executive Compensation

"Compensation of Directors," "Compensation of Executive Officers," and "Employment Contracts and Severance Agreements" set forth on pages 8 through 14 of the Registrant's Proxy Statement dated March 9, 2001 are incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management

"Beneficial Ownership" and "Nominees for Director and Directors Continuing in Office" set forth on pages 2 through 6 of the Registrant's Proxy Statement dated March 9, 2001 are incorporated herein by reference.

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Item 13. Certain Relationships and Related Transactions

"Certain Relationships and Related Transactions" set forth on page 17 of the Registrant's Proxy Statement dated March 9, 2001 is incorporated herein by reference.

Related Party Loans.

Certain directors and related parties, including their immediate families and companies in which they are principal owners, were loan customers of the Bank during 2000 and 1999. Such loans were made in the ordinary course of business on substantially the same terms, including interest rate and security, as those prevailing at the time for comparable transactions with other persons, and do not represent more than normal risk of collection or present other unfavorable features. The aggregate amount of these loans was approximately \$429,000 and \$67,000 at December 31, 2000 and 1999, respectively. During 2000 \$410,000 of new loans to such persons were made and repayments totaled \$25,000. There were no loans to directors which were nonaccruing at December 31, 2000 or 1999.

PART IV

Item 14. Exhibits, Financial Statement Schedules and Reports on Form 8-K

Exhibits.

The Following Exhibits are incorporated herein by reference:

3.1	Certificate of Incorporation of the Registrant
3.1(i)	Certificate of Amendment of the Certificate of Incorporation of the Registrant
3.2	By-laws of the Registrant
10.1	Employment Contract - Thomas J. Tobin, Dated January 27, 1997
10.3	Annual Incentive Plan
10.4	Service Agreement - Fiserv Boston, Inc.
10.5	Equity Incentive Plan
10.6	Change in Control Agreement - Christopher Becker, Dated January 19, 1999

Reports on Form 8-K.

On October 18, 2000 the registrant filed a form 8K relative to the purchase of 20,000 shares or .5% of its outstanding common stock to be held as treasury stock.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15 (d) of the Securities and Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

BRIDGE BANCORP, INC.
Registrant

March 19, 2001

By /s/ Thomas J. Tobin
Thomas J. Tobin,
President/CEO

March 19, 2001

By /s/ Christopher Becker

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

March 19, 2001	<u>/s/ Raymond Wesnofske</u> Raymond Wesnofske	Director
March 19, 2001	<u>/s/ Thomas J. Tobin</u> Thomas J. Tobin	Director
March 19, 2001	<u>/s/ Thomas E. Halsey</u> Thomas E. Halsey	Director
March 19, 2001	<u>/s/ Marcia Z. Hefter</u> Marcia Z. Hefter	Director
March 19, 2001	<u>/s/ R. Timothy Maran</u> R. Timothy Maran	Director
March 19, 2001	<u>/s/ Albert E. McCoy</u> Albert E. McCoy	Director
March 19, 2001	<u>/s/ Walter A. Preische, Jr.</u> Walter A. Preische, Jr.	Director
March 19, 2001	<u>/s/ L.H. Strickland</u> L.H. Strickland	Director

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EXHIBIT INDEX

Exhibit Number	Description of Exhibit	Exhibit
3.1	Certificate of Incorporation of the Registrant (incorporated by reference to Registrant's amended Form 10, File No. 0-18546, filed October 15, 1990)	*
3.1(i)	Certificate of Amendment of the Certificate of Incorporation of the Registrant (incorporated by reference to Registrant's Form 10, File No. 0-18546, filed August 13, 1999)	*
3.2	By-laws of the Registrant (incorporated by reference to Registrant's amended Form 10, File No. 0-18546, filed October 15, 1990)	*
10.1	Employment Contract - Thomas J. Tobin (incorporated by reference to Registrant's Form 10-KSB, File No. 0-18546, filed March 31, 1997)	*
10.3	Annual Incentive Plan (incorporated by reference to Registrant's Form 10-KSB, File No. 0-18546, filed March 31, 1994)	*
10.4	Service Agreement - Fiserv Boston, Inc. (incorporated by reference to Registrant's Form 10-KSB, File No 0-18546, filed March 31, 1994)	*
10.5	Equity Incentive Plan (incorporated by reference to Registrant's Form 14A, File No. 0-18546, filed April 1, 1996)	*
10.6	Change in Control Agreement - Christopher Becker (incorporated by reference to Registrant's Form 10-K, File No. 0-18546, filed March 31, 1999)	*

* Denotes incorporated by reference

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