PEAPACK GLADSTONE FINANCIAL CORP
Form 10-Q
November 10, 2014

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(MARK ONE)

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

For the Quarter Ended September 30, 2014

OR

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

For the transition period from to

Commission File No. 001-16197

PEAPACK-GLADSTONE FINANCIAL CORPORATION
(Exact name of registrant as specified in its charter)

New Jersey	**22-3537895**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

500 Hills Drive, Suite 300
Bedminster, New Jersey 07921-1538
(Address of principal executive offices, including zip code)

(908)234-0700
(Registrant's telephone number, including area code)

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 requirement for the past 90 days.

Yes ý No ¨.

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

Yes ý No ¨.

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

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

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

Number of shares of Common Stock outstanding as of November 3, 2014:

12,289,185

1

PEAPACK-GLADSTONE FINANCIAL CORPORATION

PART 1 FINANCIAL INFORMATION

Item 1	Financial Statements (Unaudited)	
	Consolidated Statements of Condition at September 30, 2014 and December 31, 2013	Page 3
	Consolidated Statements of Income for the three and nine months ended September 30, 2014 and 2013	Page 4
	Consolidated Statements of Comprehensive Income for the three and nine months ended September 30, 2014 and 2013	Page 5
	Consolidated Statement of Changes in Shareholders' Equity for the nine months ended September 30, 2014	Page 6
	Consolidated Statements of Cash Flows for the nine months ended September 30, 2014 and 2013	Page 7
	Notes to Consolidated Financial Statements	Page 8
Item 2	Management's Discussion and Analysis of Financial Condition and Results of Operations	Page 36
Item 3	Quantitative and Qualitative Disclosures about Market Risk	Page 57
Item 4	Controls and Procedures	Page 57

PART 2 OTHER INFORMATION

Item 1A	Risk Factors	Page 58
Item 2	Unregistered Sales of Equity Securities and Use of Proceeds	Page 58
Item 6	Exhibits	Page 58

Index

Item 1. Financial Statements (Unaudited)

PEAPACK-GLADSTONE FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF CONDITION
(Dollars in thousands)

	(unaudited) September 30, 2014	(audited) December 31, 2013
ASSETS		
Cash and due from banks	$ 6,596	$ 6,534
Federal funds sold	101	101
Interest-earning deposits	114,124	28,512
Total cash and cash equivalents	120,821	35,147
Securities available for sale	269,550	268,447
FHLB and FRB stock, at cost	9,121	10,032
Loans held for sale, at fair value	351	2,001
Loans held for sale, at lower of cost or fair value	—	—
Loans	2,040,787	1,574,201
Less: Allowance for loan losses	18,299	15,373
Net loans	2,022,488	1,558,828
Premises and equipment	30,825	28,990
Other real estate owned	949	1,941
Accrued interest receivable	5,126	4,086
Bank owned life insurance	32,448	31,882
Deferred tax assets, net	11,661	9,762
Other assets	11,181	15,832
TOTAL ASSETS	$ 2,514,521	$ 1,966,948
LIABILITIES		
Deposits:		
Noninterest-bearing demand deposits	$ 383,268	$ 356,119
Interest-bearing deposits:		
Interest-bearing deposits checking	558,537	378,340
Savings	111,897	115,785
Money market accounts	713,383	630,173
Certificates of deposit $100,000 and over	80,226	61,128
Certificates of deposit less than $100,000	85,608	90,705
Subtotal deposits	1,932,919	1,632,250
Interest-bearing demand – Brokered	138,000	10,000
Certificates of deposit - Brokered	132,500	5,000
Total deposits	2,203,419	1,647,250

Overnight borrowings with Federal Home Loan Bank	—	54,900
Federal Home Loan Bank advances	83,692	74,692
Capital lease obligation	9,734	8,754
Accrued expenses and other liabilities	12,646	10,695
Due to brokers, securities settlements	16,960	—
TOTAL LIABILITIES	2,326,451	1,796,291
SHAREHOLDERS' EQUITY		
Preferred stock (no par value; authorized 500,000 shares; liquidation preference of $1,000 per share)	—	—
Common stock (no par value; stated value $0.83 per share; authorized 21,000,000 shares; issued shares, 12,694,999 at September 30, 2014 and 12,196,695 at December 31, 2013; outstanding shares, 12,286,821 at September 30, 2014 and 11,788,517 at December 31, 2013	10,564	10,148
Surplus	147,737	140,699
Treasury stock at cost, 408,178 shares at September 30, 2014 and December 31, 2013	(8,988)	(8,988)
Retained earnings	37,653	28,775
Accumulated other comprehensive income, net of income tax	1,104	23
TOTAL SHAREHOLDERS' EQUITY	188,070	170,657
TOTAL LIABILITIES & SHAREHOLDERS' EQUITY	$ 2,514,521	$ 1,966,948

See accompanying notes to consolidated financial statements

Index

PEAPACK-GLADSTONE FINANCIAL CORPORATION

CONSOLIDATED STATEMENTS OF INCOME

(Dollars in thousands, except share data)

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
INTEREST INCOME				
Interest and fee on loans	$17,969	$13,041	$51,059	$36,819
Interest on securities available for sale:				
Taxable	960	1,141	2,998	3,503
Tax-exempt	162	199	555	591
Interest on loans held for sale	10	21	35	267
Interest-earning deposits	109	21	142	135
Total interest income	19,210	14,423	54,789	41,315
INTEREST EXPENSE				
Interest on savings and interest-bearing deposit accounts	761	363	1,818	998
Interest on certificates of deposit over $100,000	175	191	492	618
Interest on other time deposits	732	253	1,434	812
Interest on borrowed funds	377	138	1,149	322
Interest on capital lease obligation	117	105	354	317
Total interest expense	2,162	1,050	5,247	3,067
NET INTEREST INCOME BEFORE PROVISION FOR LOAN LOSSES	17,048	13,373	49,542	38,248
Provision for loan losses	1,150	750	3,625	2,100
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	15,898	12,623	45,917	36,148
OTHER INCOME				
Wealth management fee income	3,661	3,295	11,420	10,291
Service charges and fees	829	724	2,231	2,088
Bank owned life insurance	276	278	818	826
Gain on loans held for sale at fair value (Mortgage banking)	87	277	310	1,138
(Loss)/Gain on loans held for sale at lower of cost or fair value	(7)	—	169	522
Other income	167	20	356	42
Securities gains, net	39	188	216	715
Total other income	5,052	4,782	15,520	15,622
OPERATING EXPENSES				
Salaries and employee benefits	9,116	8,927	27,053	23,941
Premises and equipment	2,564	2,325	7,336	6,967
Other operating expense	3,013	2,913	9,573	9,629
Total operating expenses	14,693	14,165	43,962	40,537

INCOME BEFORE INCOME TAX EXPENSE	6,257	3,240	17,475	11,233
Income tax expense	2,393	1,276	6,797	4,367
NET INCOME	$3,864	$1,964	$10,678	$6,866
EARNINGS PER COMMON SHARE				
Basic	$0.33	$0.22	$0.91	$0.77
Diluted	$0.32	$0.22	$0.90	$0.76
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING				
Basic	11,841,777	8,950,931	11,723,873	8,910,514
Diluted	11,956,356	9,013,419	11,833,507	8,976,905

See accompanying notes to consolidated financial statements

4

Index

PEAPACK-GLADSTONE FINANCIAL CORPORATION

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Dollars in thousands)

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Net income	$ 3,864	$ 1,964	$ 10,678	$ 6,866
Other comprehensive income/(loss):				
Unrealized (losses)/gains on available for sale securities:				
Unrealized holding (losses)/gains arising during the period	(477)	(204)	1,972	(5,336)
Less: Reclassification adjustment for net gains included in net income	39	188	216	715
	(516)	(392)	1,756	(6,051)
Tax effect	190	160	(675)	2,472
Total other comprehensive (loss)/income	(326)	(232)	1,081	(3,579)
Total comprehensive income	$ 3,538	$ 1,732	$ 11,759	$ 3,287

See accompanying notes to consolidated financial statements

Index

PEAPACK-GLADSTONE FINANCIAL CORPORATION

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(Dollars in thousands)

(Unaudited)

Nine Months Ended September 30, 2014

(In thousands, except per share data)	Common Stock	Surplus	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Income	Total
Balance at January 1, 2014 11,788,517 common shares outstanding	$ 10,148	$ 140,699	$ (8,988)	$ 28,775	$ 23	$ 170,657
Net income				10,678		10,678
Net change in accumulated other comprehensive income					1,081	1,081
Issuance of restricted stock 151,695 shares	126	(126)				—
Amortization of restricted stock		1,156				1,156
Cash dividends declared on common stock ($0.15 per share)				(1,800)		(1,800)
Common stock option expense		159				159
Common stock options exercised and related tax benefits, 14,483 shares	12	143				155
Sales of shares (Dividend Reinvestment Program), 329,586 shares	275	5,639				5,914
Issuance of shares for Profit Sharing Plan 3,781 shares	3	67				70
Balance at September 30, 2014 12,286,821 common shares outstanding	$ 10,564	$ 147,737	$ (8,988)	$ 37,653	$ 1,104	$ 188,070

See accompanying notes to consolidated financial statements

Index

PEAPACK-GLADSTONE FINANCIAL CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

Dollars in thousands)

(Unaudited)

	Nine Months Ended September 30,	
	2014	2013
OPERATING ACTIVITIES:		
Net income	$ 10,678	$ 6,866
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	2,205	2,196
Amortization of premium and accretion of discount on securities, net	1,085	1,499
Amortization of restricted stock	1,156	304
Provision of loan losses	3,625	2,100
Provision for OREO losses	400	930
Provision for deferred taxes	(2,574)	3,999
Stock-based compensation	177	234
Gains on securities, available for sale	(216)	(715)
Loans originated for sale at fair value	(20,267)	(66,293)
Proceeds from sales of loans at fair value	22,227	73,168
Gains on loans held for sale at fair value	(310)	(1,138)
Net gains on loans held for sale at lower of cost or fair value	(169)	(522)
Gains on sale of other real estate owned	(139)	(2)
(Gains)/loss on disposal of fixed assets	(9)	49
Increase in cash surrender value of life insurance, net	(566)	(603)
Increase in accrued interest receivable	(1,040)	(153)
Decrease in other assets	4,651	4,002
Increase in accrued expenses, capital lease obligations and other liabilities	1,706	3,536
NET CASH PROVIDED BY OPERATING ACTIVITIES	22,620	29,457
INVESTING ACTIVITIES:		
Maturities of securities available for sale	49,115	63,106
Proceeds from redemptions for FHLB & FRB stock	24,290	5,688
Call of securities available for sale	4,000	18,115
Sales of securities available for sale	27,416	42,839
Purchase of securities available for sale	(63,811)	(100,368)
Purchase of FHLB & FRB stock	(23,380)	(8,756)
Proceeds from sales of loans held for sale at lower of cost or fair value	68,025	14,271
Net increase in loans	(535,510)	(268,263)
Sales of other real estate owned	1,100	2,928
Purchase of premises and equipment	(2,813)	(1,237)
Disposal of premises and equipment	14	—
NET CASH USED IN INVESTING ACTIVITIES	(451,554)	(231,677)

FINANCING ACTIVITIES:		
Net increase in deposits	556,169	56,136
Net decrease in overnight borrowings se in overnight borrowings	(54,900)	30,361
Proceeds from Federal Home Loan Bank advances	9,000	35,692
Repayments of Federal Home Loan Bank advances	—	(218)
Cash dividends paid on common stock	(1,800)	(1,348)
Exercise of Stock Options	155	17
Sales of shares (DRIP Program)	5,914	1,737
Purchase of shares for Profit Sharing Plan	70	130
NET CASH PROVIDED BY FINANCING ACTIVITIES	514,608	122,507
Net increase/(decrease) in cash and cash equivalents	85,674	(79,713)
Cash and cash equivalents at beginning of period	35,147	119,228
Cash and cash equivalents at end of period	$ 120,821	$ 39,515

See accompanying notes to consolidated financial statements

7

Index

PEAPACK-GLADSTONE FINANCIAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Certain information and footnote disclosures normally included in the audited consolidated financial statements prepared in accordance with U.S. generally accepted accounting principles have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission. These unaudited consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Annual Report on Form 10-K for the period ended December 31, 2013 for Peapack-Gladstone Financial Corporation (the "Corporation" or the "Company"). In the opinion of the Management of the Corporation, the accompanying unaudited Consolidated Interim Financial Statements contain all adjustments necessary to present fairly the financial position as of September 30, 2014 and the results of operations and comprehensive income for the three and nine months ended September 30, 2014 and 2013 equity and cash flow statements for the nine months ended September 30, 2014 and 2013.

Principles of Consolidation and Organization: The Corporation considers that all adjustments necessary for a fair presentation of the statement of the financial position and results of operations in accordance with U.S. generally accepted accounting principles for these periods have been made. Results for such interim periods are not necessarily indicative of results for a full year.

The consolidated financial statements of Peapack-Gladstone Financial Corporation (the "Corporation") are prepared on the accrual basis and include the accounts of the Corporation and its wholly-owned subsidiary, Peapack-Gladstone Bank (the "Bank"). The consolidated statements also include the Bank's wholly-owned subsidiary, PGB Trust & Investments of Delaware. All significant intercompany balances and transactions have been eliminated from the accompanying consolidated financial statements.

Securities: All securities are classified as available for sale and are carried at fair value, with unrealized holding gains and losses reported in other comprehensive income, net of tax.

Interest income includes amortization of purchase premium of discount. Premiums and discounts on securities are amortized on the level-yield method without anticipating prepayments, except for mortgage-backed securities where prepayments are anticipated. Gains and losses on sales are recorded on the trade date and determined using the specific identification method.

Management evaluates securities for other-than-temporary impairment on at least a quarterly basis, and more frequently when economic or market conditions warrant such an evaluation. For securities in an unrealized loss position, Management considers the extent and duration of the unrealized loss and the financial condition and near-term prospects of the issuer. Management also assesses whether it intends to sell, or it is more likely than not that it will be required to sell, a security in an unrealized loss position before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the entire difference between amortized cost and fair value is recognized as impairment through earnings. For debt securities that do not meet the aforementioned criteria, the amount of impairment is split into two components as follows: 1) other-than-temporary impairment related to credit loss, which must be recognized in the income statement and 2) other-than-temporary impairment related to other factors, which is recognized in other comprehensive income. The credit loss is defined as the difference between the present value of the cash flows expected to be collected and the amortized cost basis. For equity securities, the entire amount of impairment is recognized through earnings.

Index

Loans Held for Sale: Mortgage loans originated with the intent to sell in the secondary market are carried at fair value, as determined by outstanding commitments from investors. Net unrealized losses, if any, are recorded as a valuation allowance and charged in earnings.

Mortgage loans held for sale are generally sold with servicing rights released; therefore, no servicing rights are recorded. Gains and losses on sales of mortgage loans are based on the difference between the selling price and the carrying value of the related loan sold.

Loans originated with the intent to hold and subsequently transferred to loans held for sale are carried at the lower of cost or fair value. These are loans that the Corporation no longer has the intent to hold for the foreseeable future.

Loans: Loans that Management has the intent and ability to hold for the foreseeable future or until maturity are stated at the principal amount outstanding. Interest on loans is recognized based upon the principal amount outstanding. Loans are stated at face value, less purchased premium and discounts and net deferred fees. Loan origination fees and certain direct loan origination costs are deferred and recognized over the life of the loan as an adjustment, on a level-yield method, to the loan's yield. The definition of recorded investment in loans includes accrued interest receivable, however, for the Corporation's loan disclosures, accrued interest was excluded as the impact was not material.

Loans are considered past due when they are not paid in accordance with contractual terms. The accrual of income on loans, including impaired loans, is discontinued if, in the opinion of Management, principal or interest is not likely to be paid in accordance with the terms of the loan agreement, or when principal or interest is past due 90 days or more and collateral, if any, is insufficient to cover principal and interest. All interest accrued but not received for loans placed on nonaccrual is reversed against interest income. Payments received on nonaccrual loans are recorded as principal payments. A nonaccrual loan is returned to accrual status only when interest and principal payments are brought current and future payments are reasonably assured, generally when the Bank receives contractual payments for a minimum of six months. Commercial loans are generally charged off after an analysis is completed which indicates that collectability of the full principal balance is in doubt. Consumer loans are generally charged off after they become 120 days past due. Subsequent payments are credited to income only if collection of principal is not in doubt. If principal and interest payments are brought contractually current and future collectability is reasonably assured, loans are returned to accrual status. Nonaccrual mortgage loans are generally charged off when the value of the underlying collateral does not cover the outstanding principal balance.

The majority of the Corporation's loans are secured by real estate in the New Jersey and New York area.

Allowance for Loan Losses: The allowance for loan losses is a valuation allowance for probable incurred credit losses. Loan losses are charged against the allowance when Management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance. Management estimates the allowance balance required using past loan loss experience, the nature and volume of the portfolio, information about specific borrower situations and estimated collateral values, economic conditions and other factors. Allocations of the allowance may be made for specific loans, but the entire allowance is available for any loan that, in Management's judgment, should be charged off. The allowance consists of specific and general components. The specific component of the allowance relates to loans that are individually classified as impaired.

A loan is impaired when, based on current information and events, it is probable that the Corporation will be unable to collect all amounts due according to the contractual terms of the loan agreement. Factors considered by Management in determining impairment include payment status, collateral value and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed.

Index

All loans are individually evaluated for impairment when loans are classified as substandard by Management. If a loan is considered impaired, a portion of the allowance is allocated so that the loan is reported, net, at the present value of estimated future cash flows using the loan's existing rate or at the fair value of collateral less estimated disposition costs if repayment is expected solely from the collateral. Large groups of smaller balance homogeneous loans, such as consumer and residential real estate loans are collectively evaluated for impairment while they are performing assets. If and when a residential mortgage is placed on nonaccrual status and in the process of collection, such as through a foreclosure action, then they are evaluated for impairment on an individual basis and the loan is reported, net, at the fair value of the collateral less estimated disposition costs.

A troubled debt restructuring is a renegotiated loan with concessions made by the lender to a borrower who is experiencing financial difficulty. Troubled debt restructurings are impaired and are measured at the present value of estimated future cash flows using the loan's effective rate at inception. If a troubled debt restructuring is considered to be a collateral dependent loan, the loan is reported, net, at the fair value of the collateral, less estimated disposition costs. For troubled debt restructurings that subsequently default, the Corporation determines the amount of reserve in accordance with the accounting policy for the allowance for loan losses.

The general component of the allowance covers non-impaired loans and is based primarily on the Bank's historical loss experience adjusted for current factors. The historical loss experience is determined by portfolio segment and is based on the actual loss history experienced by the Corporation over the previous three years. This actual loss experience is adjusted by other qualitative factors based on the risks present for each portfolio segment. These economic factors include consideration of the following: levels of and trends in delinquencies and impaired loans; effects of any changes in risk selection and underwriting standards; other changes in lending policies, procedures and practices; experience, ability and depth of lending management and other relevant staff; national and local economic trends and conditions; industry conditions; and effects of changes in credit concentrations.

In determining an appropriate amount for the allowance, the Bank segments and evaluates the loan portfolio based on Federal call report codes, which are based on collateral. The following portfolio classes have been identified:

Primary Residential Mortgages. The Bank originates one to four family residential mortgage loans within or near its primary geographic market area. Loans are secured by first liens on the primary residence or investment property. Primary risk characteristics associated with residential mortgage loans typically involve major living or lifestyle changes to the borrower, including unemployment or other loss of income; unexpected significant expenses, such as for major medical issues or catastrophic events; divorce or death. In addition, residential mortgage loans that have adjustable rates could expose the borrower to higher debt service requirements in a rising interest rate environment. Further, real estate value could drop significantly and cause the value of the property to fall below the loan amount, creating additional potential exposure for the Bank.

Home Equity Lines of Credit. The Bank provides revolving lines of credit against one to four family residences within or near its primary geographic market. Primary risk characteristics associated with home equity lines of credit typically involve major living or lifestyle changes to the borrower, including unemployment or other loss of income; unexpected significant expenses, such as for major medical issues or catastrophic events; divorce or death. In addition,

home equity lines of credit typically are made with variable or floating interest rates, such as the Prime Rate, which could expose the borrower to higher debt service requirements in a rising interest rate environment. Further, real estate value could drop significantly and cause the value of the property to fall below the loan amount, creating additional potential exposure for the Bank.

Index

Junior Lien Loan on Residence. The Bank provides junior lien loans ("JLL") against one to four family properties within or near its primary geographic market area. Junior lien loans can be either in the form of an amortizing home equity loan or a revolving home equity line of credit. These loans are subordinate to a first mortgage which may be from another lending institution. Primary risk characteristics associated with junior lien loans typically involve major living or lifestyle changes to the borrower, including unemployment or other loss of income; unexpected significant expenses, such as for major medical issues or catastrophic events; divorce or death. Further, real estate value could drop significantly and cause the value of the property to fall below the loan amount, creating additional potential exposure for the Bank.

Multifamily Loans. The Bank provides mortgage loans for multifamily properties (i.e. buildings which have five or more residential units) in New Jersey, Pennsylvania and New York. Multifamily loans are expected to be repaid from the cash flow of the underlying property so the collective amount of rents must be sufficient to cover all operating expense, maintenance, taxes and debt service. Increases in vacancy rates, interest rates or other changes in general economic conditions can all have an impact on the borrower and their ability to repay the loan. Certain markets, such as New York City, are rent regulated, and as such, feature rents that are considered to be below market rates. Generally, rent regulated properties are characterized by relatively stable occupancy levels and longer term tenants. As a loan asset class for banks in the New York metropolitan area, multifamily loans have experienced much lower historical loss rates compared to other types of commercial lending.

Commercial Real Estate Loans. The Bank provides mortgage loans for commercial real estate that is either owner occupied or managed as an investment property (non-owner occupied). Principal types of investment commercial real estate properties include retail, office buildings, mixed use, medical facilities, industrial and other. The terms and conditions of all commercial mortgage loans are tailored to the specific attributes of the borrower and any guarantors as well as the nature of the property and loan purpose. Commercial real estate loans are generally considered to have a higher degree of credit risk than multifamily loans as they may be dependent on the ongoing success and operating viability of a fewer number of tenants who are occupying the property and who may have a greater degree of exposure to various industry or economic conditions.

Commercial and Industrial Loans. The Bank provides lines of credit and term loans to operating companies for business purposes. The loans are generally secured by business assets such as accounts receivable, inventory and equipment. Commercial and industrial loans are typically repaid first by the cash flow generated by the borrower's business operation. The primary risk characteristics are specific to the underlying business and its ability to generate sustainable profitability and resulting positive cash flow. Factors that may influence a business's profitability include, but are not limited to, demand for its products or services, quality and depth of management, degree of competition, regulatory changes, and general economic conditions. Commercial and industrial loans are generally secured by business assets; however, the ability of the Bank to foreclose and realize sufficient value from the assets is often highly uncertain.

Commercial Construction. The Bank has substantially wound down its commercial construction lending activity given the current economic environment. New construction loans would be considered only to experienced and reputable local builders and developers that have the capital and liquidity to carry a project to completion and stabilization.

Construction loans are considered riskier than commercial financing on improved and established commercial real estate. The risk of potential loss increases if the original cost estimates or time to complete are significantly underestimated.

Index

Consumer and Other. These are loans to individuals for household, family and other personal expenditures as well as obligations of states and political subdivisions in the U.S. This also represents all other loans that cannot be categorized in any of the previous mentioned loan segments.

Stock-Based Compensation: The Corporation's Stock Incentive Plans allow the granting of shares of the Corporation's common stock as incentive stock options, nonqualified stock options, restricted stock awards and stock appreciation rights. Grants have been made to directors, officers, and employees of the Corporation and its Subsidiaries. The options granted under these plans are exercisable at a price equal to the fair value of common stock on the date of grant and expire not more than ten years after the date of grant. Stock options may vest during a period of up to five years after the date of grant.

For the three months ended September 30, 2014 and 2013, the Corporation recorded total compensation cost for stock options of $53 thousand and $65 thousand respectively, with a recognized tax benefit of $5 thousand and $11 thousand for the quarters ended September 30, 2014 and 2013, respectively. The Corporation recorded total compensation cost for stock options for the nine months ended September 30, 2014 and 2013, of $159 thousand and $234 thousand, respectively, with a recognized tax benefit of $15 thousand for the nine months ended September 30, 2014 and $41 thousand for the nine months ended September 30, 2013. There was approximately $352 thousand of unrecognized compensation cost related to non-vested share-based compensation arrangements granted under the Corporation's stock incentive plans at September 30, 2014. That cost is expected to be recognized over a weighted average period of 1.04 years.

For the Corporation's stock option plans, changes in options outstanding during the nine months ended September 30, 2014 were as follows:

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value (In thousands)
Balance, January 1, 2014	652,179	$ 21.30		
Granted during 2014	9,000	18.86		
Exercised during 2014	(14,483)	12.54		
Expired during 2014	(278,107)	27.19		
Forfeited during 2014	(15,257)	13.22		
Balance, September 30, 2014	353,332	$ 17.30	5.63 years	$ 478
Vested and expected to vest (1)	323,806	$ 17.66	5.63 years	$ 312
Exercisable at September 30, 2014	243,977	$ 18.87	4.70 years	$ 66

(1) Does not include shares which are not expected to vest as a result of anticipated forfeitures.

The aggregate intrinsic value represents the total pre-tax intrinsic value (the difference between the Corporation's closing stock price on the last trading day of the third quarter of 2014 and the exercise price, multiplied by the number of in-the-money options). The Corporation's closing stock price on September 30, 2014 was $17.50.

Index

For the third quarter of 2014, the per share weighted-average fair value of stock options granted was $7.77 compared to $6.89 for the same quarter of 2013 using the Black-Scholes option-pricing model with the following weighted average assumptions:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Dividend Yield	1.13 %	1.09 %	1.02 %	1.31 %
Expected volatility	40 %	41 %	40 %	39 %
Expected life	7 years	7 years	7 years	7 years
Risk-free interest rate	2.19 %	1.88 %	2.18 %	1.13 %

The Corporation also awards restricted stock to certain executives and certain key employees. In the third quarter of 2014, the Corporation issued 2,616 restricted stock awards, at a fair value equal to the market price of the Corporation's common stock at the date of grant. The awards may vest fully during a period of up to three years after the date of award. In addition, awards granted in 2013 and prior years, vest in varying terms between three and five years. In December 2013, the Corporation granted restricted stock awards to the Chief Executive Officer, Chief Financial Officer and Chief Operations Officer, of which 50 percent vest in five years. The vesting of the other 50 percent is dependent on the Corporation meeting certain performance criteria. At December 31, 2013 and September 30, 2014, the Corporation believes that these targets would be met within the prescribed period so 100 percent of these awards are being expensed over a five-year period from the date of grant. For the three months ended September 30, 2014 and 2013, the Corporation recorded total compensation cost for restricted shares of $435 thousand and $264 thousand, respectively. For the nine months ended September 30, 2014 and 2013, the Corporation recorded total compensation cost for restricted stock awards of $1.2 million and $461 thousand respectively. As of September 30, 2014, there was approximately $4.7 million of unrecognized compensation cost related to non-vested restricted stock awards granted under the Corporation's stock incentive plans, which is expected to be recognized over a weighted average period of 4.2 years.

Changes in non-vested, restricted common shares for 2014 were as follows:

	Number of Shares	Weighted Average Grant Date Fair Value
Balance, January 1, 2014	253,540	$ 15.95
Granted during 2014	151,695	19.44
Vested during 2014	(36,755)	18.94
Forfeited during 2014	(3,748)	18.49
Balance, September 30, 2014	364,732	$ 17.08

On April 22, 2014, the shareholders of Peapack-Gladstone Financial Corporation approved the 2014 Employee Stock Purchase Plan ("ESPP"). The ESPP provides for the granting of purchase rights of up to 150,000 shares of

Peapack-Gladstone Financial Corporation common stock. Subject to certain eligibility requirements and restrictions, the ESPP allows employees to purchase shares during four three-month Offering Periods. Each participant in the Offering Period is granted an option to purchase a number of shares and may contribute between 1% and 15% of their compensation. At the end of each Offering Period on the Purchase Date, the number of shares to be purchased by the employee is determined by dividing the employee's contributions accumulated during the Offering Period by the applicable Purchase Price. The Purchase Price is an amount equal to 85% of the closing market price of a share of common stock on the Purchase Date. During the Offering Period commencing on August 18, 2014, purchase rights for approximately 10,700 shares were granted with an aggregate fair value of $35 thousand, based on the Black-Scholes options pricing model. Participation in the ESPP is entirely voluntary and employees can cancel their purchases at any time during the period without penalty. For the three and nine month periods ending September 30, 2014, the Company recorded $17 thousand of share based compensation expense related to the ESPP.

Index

Earnings per Common share – Basic and Diluted: The following is a reconciliation of the calculation of basic and diluted earnings per share. Basic net income per common share is calculated by dividing net income available to common shareholders by the weighted average common shares outstanding during the reporting period. Diluted net income per common share is computed similarly to that of basic net income per common share, except that the denominator is increased to include the number of additional common shares that would have been outstanding if all common shares underlying potentially dilutive stock options were issued or restricted stock would vest during the reporting period utilizing the Treasury stock method.

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In thousands, except per share data)	2014	2013	2014	2013
Net income to common shareholders	$3,864	$1,964	$10,678	$6,866
Basic weighted-average common shares outstanding	11,841,777	8,950,931	11,723,873	8,910,514
Plus: common stock equivalents	114,579	62,488	109,634	66,391
Diluted weighted-average common shares outstanding	11,956,356	9,013,419	11,833,507	8,976,905
Net income per common share				
Basic	$0.33	$0.22	$0.91	$0.77
Diluted	0.32	0.22	0.90	0.76

Stock options totaling 178,149 and 463,964 shares were not included in the computation of diluted earnings per share in the third quarters of 2014 and 2013, respectively, because they were considered antidilutive. Stock options totaling 191,945 and 479,827 shares were not included in the computation of diluted earnings per share in the nine months ended September 30, 2014 and 2013, respectively, because they were considered antidilutive.

Income Taxes: The Corporation files a consolidated Federal income tax return. Separate state income tax returns are filed for each subsidiary based on current laws and regulations.

The Corporation recognizes deferred tax assets and liabilities for the expected future tax consequences of events that have been included in its financial statements or tax returns. The measurement of deferred tax assets and liabilities is based on the enacted tax rates. Such tax assets and liabilities are adjusted for the effect of a change in tax rates in the period of enactment.

The Corporation recognizes a tax position as a benefit only if it is “more likely than not” that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50 percent likely of being realized on examination. For tax positions not meeting the “more likely than not” test, no tax benefit is recorded.

The Corporation is no longer subject to examination by the U.S. Federal tax authorities for years prior to 2010 or by New Jersey tax authorities for years prior to 2009.

The Corporation recognizes interest and/or penalties related to income tax matters in income tax expense.

14

Index

2. INVESTMENT SECURITIES AVAILABLE FOR SALE

A summary of amortized cost and approximate fair value of securities available for sale included in the consolidated statements of condition as of September 30, 2014 and December 31, 2013 follows:

(In thousands)	September 30, 2014 Amortized Cost	Gross Unrecognized Gains	Gross Unrecognized Losses	Fair Value
U.S. government-sponsored entities	$23,326	$ 15	$ (212)	$23,129
Mortgage-backed securities – residential	194,879	2,416	(599)	196,696
State and political subdivisions	43,551	634	—	44,185
Single-issuer trust preferred security	2,999	—	(389)	2,610
CRA investment	3,000	—	(70)	2,930
Total	$267,755	$ 3,065	$ (1,270)	$269,550

(In thousands)	December 31, 2013 Amortized Cost	Gross Unrecognized Gains	Gross Unrecognized Losses	Fair Value
U.S. government-sponsored entities	$15,986	$ —	$ (1,216)	$14,770
Mortgage-backed securities – residential	187,574	2,651	(1,145)	189,080
State and political subdivisions	58,849	565	(71)	59,343
Single-issuer trust preferred security	2,999	—	(629)	2,370
CRA investment	3,000	—	(116)	2,884
Total	$268,408	$ 3,216	$ (3,177)	$268,447

The following tables present the Corporation’s available for sale securities with continuous unrealized losses and the approximate fair value of these investments as of September 30, 2014 and December 31, 2013.

	September 30, 2014 Duration of Unrecognized Loss					
	Less Than 12 Months		12 Months or Longer		Total	
(In thousands)	Approximate Fair Value	Unrecognized Losses	Approximate Fair Value	Unrecognized Losses	Approximate Fair Value	Unrecognized Losses
U.S. government sponsored entities	$6,292	$ (39)	$ 8,817	$ (173)	$15,109	$ (212)
Mortgage-backed securities-residential	50,554	(173)	25,329	(426)	75,883	(599)
State and political						

subdivisions	—	—	—	—	—	—
Single-issuer trust Preferred security	—	—	2,610	(389)	2,610	(389)
CRA investment fund	—	—	2,930	(70)	2,930	(70)
Total	$56,846	$ (212)	$ 39,686	$ (1,058)	$96,532	$ (1,270)

	December 31, 2013					
	Duration of Unrecognized Loss					
	Less Than 12 Months		12 Months or Longer		Total	
(In thousands)	Approximate Fair Value	Unrecognized Losses	Approximate Fair Value	Unrecognized Losses	Approximate Fair Value	Unrecognized Losses
U.S. government sponsored entities	$14,770	$ (1,216)	$ —	$ —	$14,770	$ (1,216)
Mortgage-backed securities-residential	71,154	(1,142)	84	(3)	71,238	(1,145)
State and political subdivisions	5,589	(71)	—	—	5,589	(71)
Single-issuer trust Preferred security	—	—	2,370	(629)	2,370	(629)
CRA investment fund	2,884	(116)	—	—	2,884	(116)
Total	$94,397	$ (2,545)	$ 2,454	$ (632)	$96,851	$ (3,177)

Index

Management believes that the unrealized losses on investment securities available for sale are temporary and are due to interest rate fluctuations and/or volatile market conditions rather than the creditworthiness of the issuers. As of September 30, 2014, the Corporation does not intend to sell these securities nor is it likely that it will be required to sell the securities before their anticipated recovery; therefore, none of the securities in unrealized loss position were determined to be other-than-temporarily impaired.

At September 30, 2014, the unrealized loss on the single-issuer trust preferred security of $389 thousand was related to a debt security issued by a large bank holding company that has experienced declines in all its securities due to the turmoil in the financial markets and a merger. The security was downgraded to below investment grade by Moody’s and is currently rated Ba1. Management monitors the performance of the issuer on a quarterly basis to determine if there are any credit events that could result in deferral or default of the security. Management believes the depressed valuation is a result of the nature of the security, a trust preferred bond, and the bond’s very low yield. As Management does not intend to sell this security nor is it likely that it will be required to sell the security before its anticipated recovery, the security is not considered other-than-temporarily impaired at September 30, 2014.

3. LOANS

Loans outstanding, by general ledger classification, as of September 30, 2014 and December 31, 2013, consisted of the following:

(In thousands)	September 30, 2014	% of Totals Loans	December 31, 2013	% of Total Loans
Residential mortgage	$ 470,030	23.03 %	$ 532,911	33.85 %
Commercial mortgage	1,260,561	61.77	831,997	52.85
Commercial loans	225,814	11.07	131,795	8.37
Construction loans	6,025	0.30	5,893	0.38
Home equity lines of credit	48,200	2.36	47,905	3.04
Consumer loans, including fixed rate home equity loans	27,597	1.35	21,852	1.39
Other loans	2,560	0.12	1,848	0.12
Total loans	$ 2,040,787	100.00 %	$ 1,574,201	100.00 %

In determining an appropriate amount for the allowance, the Bank segments and evaluates the loan portfolio based on federal call report codes. The following portfolio classes have been identified as of September 30, 2014 and December 31, 2013:

(In thousands)	September 30, 2014	% of Totals Loans	December 31, 2013	% of Total Loans
Primary residential mortgage	$ 482,631	23.69 %	$ 546,827	34.82 %
Home equity lines of credit	48,361	2.37	47,905	3.05

Junior lien loan on residence	12,450	0.61	13,114	0.84
Multifamily property	928,054	45.55	541,503	34.48
Owned-occupied commercial real estate	96,534	4.74	79,735	5.08
Investment commercial real estate	355,742	17.46	267,406	17.03
Commercial and industrial	83,782	4.11	51,638	3.29
Secured by farmland	190	0.01	197	.01
Commercial construction loans	4,735	0.23	5,893	0.37
Consumer and other loans	25,074	1.23	16,212	1.03
Total loans	$ 2,037,553	100.00%	$ 1,570,430	100.00%
Net deferred fees	3,234		3,771	
Total loans including net deferred costs	$ 2,040,787		$ 1,574,201	

16

Index

Included in the totals above for September 30, 2014 are $56 thousand of unamortized discount as compared to $396 thousand of unamortized discount for December 31, 2013.

In June of 2014, the Corporation sold $67 million of longer-duration, lower-coupon residential first mortgage loans as part of its strategy to de-emphasize residential first mortgage lending, while benefitting its liquidity and interest rate risk positions. Income for the nine months ended September 30, 2014, included the gain on sale of $169 thousand.

The following tables present the loan balances by portfolio class, based on impairment method, and the corresponding balances in the allowance for loan losses as of September 30, 2014 and December 31, 2013:

	September 30, 2014					
(In thousands)	Total Loans Individually Evaluated For Impairment	Ending ALLL Attributable To Loans Individually Evaluated for Impairment	Total Loans Collectively Evaluated For Impairment	Ending ALLL Attributable To Loans Collectively Evaluated for Impairment	Total Loans	Total Ending ALL
Primary residential mortgage	$6,342	$ 368	$476,289	$ 2,553	$482,631	$2,921
Home equity lines of credit	110	—	48,251	147	48,361	147
Junior lien loan on residence	201	—	12,249	122	12,450	122
Multifamily property	—	—	928,054	7,440	928,054	7,440
Owner-occupied commercial real estate	2,076	—	94,458	1,879	96,534	1,879
Investment commercial real estate	12,715	419	343,027	4,118	355,742	4,537
Commercial and industrial	377	278	83,405	860	83,782	1,138
Secured by farmland	—	—	190	2	190	2
Commercial construction	—	—	4,735	32	4,735	32
Consumer and other	13	13	25,061	68	25,074	81
Total ALLL	$21,834	$ 1,078	$2,015,719	$ 17,221	$2,037,553	$18,299

	December 31, 2013					
	Total Loans Individually Evaluated	Ending ALLL Attributable To Loans Individually	Total Loans Collectively Evaluated	Ending ALLL Attributable To Loans Collectively		Total

(In thousands)	For Impairment	Evaluated for Impairment	For Impairment	Evaluated for Impairment	Total Loans	Ending ALLL
Primary residential mortgage	$3,691	$ 126	$543,136	$ 2,235	$546,827	$2,361
Home equity lines of credit	111	—	47,794	181	47,905	181
Junior lien loan on residence	260	—	12,854	156	13,114	156
Multifamily property	—	—	541,503	4,003	541,503	4,003
Owner-occupied commercial real estate	3,250	464	76,485	2,099	79,735	2,563
Investment commercial real estate	9,949	741	257,457	4,342	267,406	5,083
Commercial and industrial	470	309	51,168	516	51,638	825
Secured by farmland	—	—	197	3	197	3
Commercial construction	—	—	5,893	120	5,893	120
Consumer and other	13	13	16,199	65	16,212	78
Total ALLL	$17,744	$ 1,653	$1,552,686	$ 13,720	$1,570,430	$15,373

Index

Impaired loans include nonaccrual loans of $8.8 million at September 30, 2014 and $6.6 million at December 31, 2013. Impaired loans also include performing troubled debt restructured loans of $13.0 million at September 30, 2014 and $11.1 million at December 31, 2013. At September 30, 2014, the allowance allocated to troubled debt restructured loans totaled $906 thousand of which $257 thousand was allocated to nonaccrual loans. At December 31, 2013, the allowance allocated to troubled debt restructured loans totaled $1.6 million of which $720 thousand was allocated to nonaccrual loans. All accruing troubled debt restructured loans were paying in accordance with restructured terms as of September 30, 2014. The Corporation has not committed to lend additional amounts as of September 30, 2014 to customers with outstanding loans that are classified as loan restructurings.

The following tables present loans individually evaluated for impairment by class of loans as of September 30, 2014 and December 31, 2013:

	September 30, 2014				
(In thousands)	Unpaid Principal Balance	Recorded Investment	Specific Reserves	Average Impaired Loans	Interest Income Recognized
With no related allowance recorded:					
Primary residential mortgage	$4,400	$ 3,650	$ —	$ 3,166	$ 52
Owned-occupied commercial real estate	2,217	2,076	—	2,817	62
Investment commercial real estate	6,557	6,477	—	5,521	117
Commercial and industrial	99	99	—	119	6
Home equity lines of credit	111	110	—	110	3
Junior lien loan on residence	326	201	—	233	4
Total loans with no related allowance	$13,710	$ 12,613	$ —	$ 11,966	$ 244
With related allowance recorded:					
Primary residential mortgage	$2,887	$ 2,692	$ 368	$ 1,298	$ 26
Investment commercial real estate	6,238	6,238	419	5,823	71
Commercial and industrial	303	278	278	295	5
Consumer and other	14	13	13	15	1
Total loans with related allowance	$9,442	$ 9,221	$ 1,078	$ 7,431	$ 103
Total loans individually evaluated for impairment	$23,152	$ 21,834	$ 1,078	$ 19,397	$ 347

	December 31, 2013				
(In thousands)	Unpaid Principal Balance	Recorded Investment	Specific Reserves	Average Impaired Loans	Interest Income Recognized
With no related allowance recorded:					
Primary residential mortgage	$3,777	$ 2,984	$ —	$ 4,813	$ 55
Owned-occupied commercial real estate	1,346	1,193	—	1,893	36
Investment commercial real estate	5,000	5,000	—	314	4
Commercial and industrial	176	161	—	121	4
Home equity lines of credit	111	111	—	119	5
Junior lien loan on residence	370	260	—	312	5
Total loans with no related allowance	$10,780	$ 9,709	$ —	$ 7,572	$ 109
With related allowance recorded:					

Primary residential mortgage	$707	$ 707	$ 126	$636	$ 29
Owned-occupied commercial real estate	2,190	2,057	464	2,100	16
Investment commercial real estate	4,949	4,949	741	4,949	618
Commercial and industrial	323	309	309	269	4
Consumer and other	13	13	13	—	—
Total loans with related allowance	$8,182	$ 8,035	$ 1,653	$7,954	$ 667
Total loans individually evaluated for impairment	$18,962	$ 17,744	$ 1,653	$15,526	$ 776

18

Index

The Corporation did not recognize any income on nonaccruing impaired loans for the three and nine months ended September 30, 2014 and 2013.

The following tables present the recorded investment in nonaccrual and loans past due over 90 days still on accrual by class of loans as of September 30, 2014 and December 31, 2013:

	September 30, 2014	
(In thousands)	Nonaccrual (A)	Loans Past Due Over 90 Days And Still Accruing Interest
Primary residential mortgage	$ 4,547	$ —
Home equity lines of credit	110	—
Junior lien loan on residence	201	—
Owned-occupied commercial real estate	2,076	—
Investment commercial real estate	1,499	—
Commercial and industrial	344	—
Consumer and other	13	—
Total	$ 8,790	$ —

(A) September 30, 2014 amount includes a $1.5 million commercial nonaccrual loan that was paid in full on October 8, 2014.

	December 31, 2013	
(In thousands)	Nonaccrual	Loans Past Due Over 90 Days And Still Accruing Interest
Primary residential mortgage	$ 2,641	$ —
Home equity lines of credit	111	—
Junior lien loan on residence	260	—
Owned-occupied commercial real estate	3,250	—
Commercial and industrial	355	—
Consumer and other	13	—
Total	$ 6,630	$ —

The following tables present the aging of the recorded investment in past due loans as of September 30, 2014 and December 31, 2013 by class of loans, excluding nonaccrual loans:

	September 30, 2014			
(In thousands)	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days Past Due	Total Past Due
Primary residential mortgage	$746	$ 153	$ —	$ 899
Owner-occupied commercial real estate	—	245	—	245

Investment commercial real estate	1,133	—	—	1,133
Consumer and other	1	—	—	1
Total	$1,880	$ 398	$ —	$ 2,278

19

Index

(In thousands)	December 31, 2013 30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days Past Due	Total Past Due
Primary residential mortgage	$1,443	$ 677	$ —	$ 2,120
Home equity lines of credit	12	—	—	12
Owned-occupied commercial real estate	703	—	—	703
Investment commercial real estate	118	—	—	118
Total	$2,276	$ 677	$ —	$ 2,953

Credit Quality Indicators:

The Corporation categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. The Corporation analyzes loans individually by classifying the loans as to credit risk. The risk rating analysis of loans is performed (i) when the loan is initially underwritten, (ii) annually for loans in excess of $500,000, (iii) on a random quarterly basis from either internal reviews with the Senior Credit Officer or externally through an independent loan review firm, or (iv) whenever Management otherwise identifies a potentially negative trend or issue relating to a borrower. In addition, for all loan types, the Corporation evaluates credit quality based on the aging status of the loan, which was previously presented.

The Corporation uses the following definitions for risk ratings:

Special Mention: Loans subject to special mention have a potential weakness that deserves Management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loans or of the institution's credit position at some future date.

Substandard: Loans classified as substandard are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected.

Doubtful: Loans classified as doubtful have all the weakness inherent in those classified as substandard, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

Index

Loans not meeting the criteria above that are analyzed individually as part of the above described process are considered to be pass-rated loans. As of September 30, 2014, and based on the most recent analysis performed, the risk category of loans by class of loans is as follows:

(In thousands)	Pass	Special Mention	Substandard	Doubtful
Primary residential mortgage	$473,690	$1,372	$ 7,569	$ —
Home equity lines of credit	48,251	—	110	—
Junior lien loan on residence	12,249	—	201	—
Multifamily property	925,335	1,888	831	—
Owned-occupied commercial real estate	90,029	510	5,995	—
Investment commercial real estate	324,517	11,804	19,421	—
Commercial and industrial	83,383	22	377	—
Farmland	190	—	—	—
Agricultural production loans	—	—	—	—
Commercial construction	4,585	150	—	—
Consumer and other loans	24,826	—	248	—
Total	$1,987,055	$15,746	$ 34,752	$ —

As of December 31, 2013, and based on the most recent analysis performed, the risk category of loans by class of loans is as follows:

(In thousands)	Pass	Special Mention	Substandard	Doubtful
Primary residential mortgage	$540,609	$1,510	$ 4,708	$ —
Home equity lines of credit	47,794	—	111	—
Junior lien loan on residence	12,854	—	260	—
Multifamily property	540,993	510	—	—
Owned-occupied commercial real estate	70,218	619	8,898	—
Investment commercial real estate	238,722	9,573	19,111	—
Commercial and industrial	51,144	23	471	—
Farmland	197	—	—	—
Commercial construction	4,340	1,553	—	—
Consumer and other loans	15,106	837	269	—
Total	$1,521,977	$14,625	$ 33,828	$ —

At September 30, 2014, $21.8 million of substandard and special mention loans were also considered impaired as compared to December 31, 2013, when $17.7 million were also impaired.

Index

The activity in the allowance for loan losses for the three months ended September 30, 2014 is summarized below:

(In thousands)	July 1, 2014 Beginning ALLL	Charge-offs	Recoveries	Provision (Credit)	September 30, 2014 Ending ALLL
Primary residential mortgage	$ 3,002	$ (105)	$ —	$ 24	$ 2,921
Home equity lines of credit	176	24	—	(53)	147
Junior lien loan on residence	148	—	30	(56)	122
Multifamily property	6,288	—	—	1,152	7,440
Owned-occupied commercial real estate	1,839	(25)	—	65	1,879
Investment commercial real estate	4,597	—	4	(64)	4,537
Agricultural production loans	2	—	—	(2)	—
Commercial and industrial	1,041	—	21	76	1,138
Secured by farmland	2	—	—	—	2
Commercial construction	33	—	—	(1)	32
Consumer and other loans	76	(5)	1	9	81
Total ALLL	$ 17,204	$ (111)	$ 56	$ 1,150	$ 18,299

The activity in the allowance for loan losses for the nine months ended September 30, 2014 is summarized below:

(In thousands)	January 1, 2014 Beginning ALLL	Charge-offs	Recoveries	Provision (Credit)	September 30, 2014 Ending ALLL
Primary residential mortgage	$ 2,361	$ (150)	$ —	$ 710	$ 2,921
Home equity lines of credit	181	—	—	(34)	147
Junior lien loan on residence	156	(1)	74	(107)	122
Multifamily property	4,003	—	—	3,437	7,440
Owned-occupied commercial real estate	2,563	(670)	80	(94)	1,879
Investment commercial real estate	5,083	—	12	(558)	4,537
Commercial and industrial	825	(97)	54	356	1,138
Secured by farmland	3	—	—	(1)	2
Commercial construction	120	—	—	(88)	32
Consumer and other loans	78	(7)	6	4	81
Total ALLL	$ 15,373	$ (925)	$ 226	$ 3,625	$ 18,299

Index

The activity in the allowance for loan losses for the three months ended September 30, 2013 is summarized below:

(In thousands)	July 1, 2013 Beginning ALLL	Charge-offs	Recoveries	Provision (Credit)	September 30, 2013 Ending ALLL
Primary residential mortgage	$ 3,062	$ (155)	$ 35	$ (40)	$ 2,902
Home equity lines of credit	253	—	—	(15)	238
Junior lien loan on residence	71	(50)	2	179	202
Multifamily property	2,159	—	—	751	2,910
Owned-occupied commercial real estate	2,414	—	19	(358)	2,075
Investment commercial real estate	4,160	—	6	402	4,568
Commercial and industrial	1,130	—	12	(159)	983
Secured by farmland	3	—	—	(1)	2
Commercial construction	112	—	—	(2)	110
Consumer and other loans	74	(3)	2	(7)	66
Total ALLL	$ 13,438	$ (208)	$ 76	$ 750	$ 14,056

The activity in the allowance for loan losses for the nine months ended September 30, 2013 is summarized below:

(In thousands)	January 1, 2013 Beginning ALLL	Charge-offs	Recoveries	Provision (Credit)	September 30, 2013 Ending ALLL
Primary residential mortgage	$ 3,047	$ (611)	$ 48	$ 418	$ 2,902
Home equity lines of credit	267	—	—	(29)	238
Junior lien loan on residence	314	(345)	9	224	202
Multifamily property	1,305	—	11	1,594	2,910
Owned-occupied commercial real estate	2,509	—	57	(491)	2,075
Investment commercial real estate	4,155	—	18	395	4,568
Commercial and industrial	803	(15)	49	146	983
Secured by farmland	3	—	—	(1)	2
Commercial construction	240	—	1	(131)	110
Consumer and other loans	92	(7)	6	(25)	66
Total ALLL	$ 12,735	$ (978)	$ 199	$ 2,100	$ 14,056

Troubled Debt Restructurings:

The Corporation has allocated $649 thousand and $913 thousand of specific reserves on accruing TDRs to customers whose loan terms have been modified in troubled debt restructurings as of September 30, 2014 and December 31, 2013, respectively. There were no unfunded commitments to lend additional amounts to customers with outstanding loans that are classified as troubled debt restructurings.

During the nine month period ending September 30, 2014 and 2013, the terms of certain loans were modified as troubled debt restructurings. The modification of the terms of such loans included one or a combination of the following: a reduction of the stated interest rate of the loan; a deferral of scheduled payments with an extension of the maturity date; a permanent reduction of the recorded investment in the loan; or some other modification or extension

which would not be readily available in the market.

Index

The following table presents loans by class modified as troubled debt restructurings that occurred during the three month period ending September 30, 2014:

(Dollars in thousands)	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Primary residential mortgage	3	$ 772	$ 772
Total	3	$ 772	$ 772

The following table presents loans by class modified as troubled debt restructurings that occurred during the nine month period ending September 30, 2014:

(Dollars in thousands)	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Primary residential mortgage	5	$ 1,374	$ 1,374
Investment commercial real estate	2	2,787	2,787
Total	7	$ 4,161	$ 4,161

The identification of the troubled debt restructured loans did not have a significant impact on the allowance for loan losses.

The following table presents loans by class modified as troubled debt restructurings that occurred during the three month period ending September 30, 2013:

	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Primary residential mortgage	1	$ 278	$ 278
Total	1	$ 278	$ 278

The following table presents loans by class modified as troubled debt restructurings that occurred during the nine month period ending September 30, 2013:

	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Primary residential mortgage	4	$ 760	$ 760
Total	4	$ 760	$ 760

There were no loans that were modified as troubled debt restructurings for which there was a payment default, within twelve months of modification, during the three months ended September 30, 2014 and 2013.

Index

The following table presents loans by class modified as troubled debt restructurings for which there was a payment default, within twelve months of modification, during the nine month period ended September 30, 2014:

(Dollars in thousands)	Number of Contracts	Recorded Investment
Primary residential mortgage	1	$ 54
Total	1	$ 54

The following table presents loans by class modified as troubled debt restructurings for which there was a payment default, within twelve months of modification, during the nine month period ended September 30, 2013:

(Dollars in thousands)	Number of Contracts	Recorded Investment
Primary residential mortgage	1	$ 59
Total	1	$ 59

The defaults that occurred during the periods presented did not have a significant impact on the allowance for loan losses.

In order to determine whether a borrower is experiencing financial difficulty, an evaluation is performed of the probability that the borrower will be in payment default on any of its debt in the foreseeable future without the modification. This evaluation is performed under the Corporation’s internal underwriting policy. At the time a loan is restructured, the Bank performs a full re-underwriting analysis, which includes, at a minimum, obtaining current financial statements and tax returns, copies of all leases, if applicable, and an updated independent appraisal of any property. A loan will continue to accrue interest if it can be reasonably determined that the borrower should be able to perform under the modified terms, that the loan has not been chronically delinquent (both to debt service and real estate taxes) or in nonaccrual status since its inception, and that there have been no charge-offs on the loan. Restructured loans with previous charge-offs would not accrue interest at the time of the troubled debt restructuring. At a minimum, six months of contractual payments would need to be made on a restructured loan before returning a loan to accrual status. Once a loan is classified as a TDR, the loan is reported as a TDR until the loan is paid in full, sold or charged-off. In rare circumstances, a loan may be removed from TDR status, if it meets the requirements of ASC 310-40-50-2.

4. FEDERAL HOME LOAN BANK ADVANCES AND OTHER BORROWINGS

Advances from the Federal Home Loan Bank of New York (FHLB) totaled $83.7 million and $74.7 million at September 30, 2014 and December 31, 2013, respectively, with a weighted average interest rate of 1.78 percent and 1.80 percent, respectively.

At September 30, 2014 advances totaling $71.7 million with a weighted average rate of 1.57 percent have fixed maturity dates. The fixed rate advances are secured by blanket pledges of certain 1-4 family residential mortgages totaling $405.1 million at September 30, 2014.

Also at September 30, 2014, the Corporation had $12.0 million in variable rate advances, with a weighted average interest rate of 3.01 percent, that are noncallable for two or three years and then callable quarterly with final maturities

of ten years from the original date of the advance. All of these advances are beyond their initial noncallable periods. These advances are secured by pledges of investment securities totaling $12.6 million at September 30, 2014.

Index

The final maturity dates of the Federal Home Loan Bank advances and other borrowings are scheduled as follows:

(In thousands)	
2014	$—
2015	—
2016	21,897
2017	23,897
2018	34,898
Over 5 years	3,000
Total	$83,692

At September 30, 2014 there were no overnight borrowings with the Federal Home Loan Bank. At December 31, 2013 there were overnight borrowings with the Federal Home Loan Bank of $54.9 million.

5. BUSINESS SEGMENTS

The Corporation assesses its results among two operating segments, Banking and Peapack-Gladstone Bank's Private Wealth Management Division. Management uses certain methodologies to allocate income and expense to the business segments. A funds transfer pricing methodology is used to assign interest income and interest expense. Certain indirect expenses are allocated to segments. These include support unit expenses such as technology and operations and other support functions. Taxes are allocated to each segment based on the effective rate for the period shown.

Banking

The Banking segment includes lending and depository products and services, as well as various electronic banking services.

Private Wealth Management Division

Peapack-Gladstone Bank's Private Wealth Management Division includes asset management services provided for individuals and institutions; personal trust services, including services as executor, trustee, administrator, custodian and guardian; corporate trust services including services as trustee for pension and profit sharing plans; and other financial planning and advisory services.

The following table presents the statements of income and total assets for the Corporation's reportable segments for the three and nine months ended September 30, 2014 and 2013.

	Three Months Ended September 30, 2014		
(In thousands)	Banking	Wealth Management Division	Total
Net interest income	$ 16,207	$ 841	$ 17,048
Noninterest income	1,324	3,728	5,052
Total income	17,531	4,569	22,100
Provision for loan losses	1,150	—	1,150
Salaries and benefits	6,674	2,442	9,116

Premises and equipment expense	2,367	197	2,564
Other noninterest expense	2,102	911	3,013
Total noninterest expense	12,293	3,550	15,843
Income before income tax expense	5,238	1,019	6,257
Income tax expense	1,966	427	2,393
Net income	$ 3,272	$ 592	$ 3,864

Index

	Three Months Ended September 30, 2013		
(In thousands)	Banking	Wealth Management Division	Total
Net interest income	$ 12,537	$ 836	$ 13,373
Noninterest income	1,427	3,355	4,782
Total income	13,964	4,191	18,155
Provision for loan losses	750	—	750
Salaries and benefits	6,975	1,952	8,927
Premises and equipment expense	2,181	144	2,325
Other noninterest expense	1,894	1,019	2,913
Total noninterest expense	11,800	3,115	14,915
Income before income tax expense	2,164	1,076	3,240
Income tax expense	850	426	1,276
Net income	$ 1,314	$ 650	$ 1,964

	Nine Months Ended September 30, 2014		
(In thousands)	Banking	Wealth Management Division	Total
Net interest income	$ 46,733	$ 2,809	$ 49,542
Noninterest income	3,921	11,599	15,520
Total income	50,654	14,408	65,062
Provision for loan losses	3,625	—	3,625
Salaries and benefits	21,490	5,563	27,053
Premises and equipment expense	6,802	534	7,336
Other noninterest expense	6,338	3,234	9,573
Total noninterest expense	38,255	9,331	47,587
Income before income tax expense	12,399	5,077	17,475
Income tax expense	4,822	1,975	6,797
Net income	$ 7,576	$ 3,102	$ 10,678
Total assets for period end	$ 2,487,076	$ 27,445	$ 2,514,521

	Nine Months Ended September 30, 2013		
(In thousands)	Banking	Wealth Management Division	Total
Net interest income	$ 35,602	$ 2,646	$ 38,248
Noninterest income	5,051	10,571	15,622
Total income	40,653	13,217	53,870
Provision for loan losses	2,100	—	2,100
Salaries and benefits	19,464	4,477	23,941

Premises and equipment expense	6,531	436	6,967
Other noninterest expense	6,311	3,318	9,629
Total noninterest expense	34,406	8,231	42,637
Income before income tax expense	6,247	4,986	11,233
Income tax expense	2,429	1,938	4,367
Net income	$ 3,818	$ 3,048	$ 6,866
Total assets for period end	$ 1,796,440	$ 1,264	$ 1,797,704

27

Index

6. FAIR VALUE

Fair value is the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. There are three levels of inputs that may be used to measure fair values:

Level 1:	Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.
Level 2:	Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.
Level 3:	Significant unobservable inputs that reflect a company's own assumptions about the assumptions that market participants would use in pricing as asset or liability.

The Corporation used the following methods and significant assumptions to estimate the fair value:

Investment Securities: The fair values for investment securities are determined by quoted market prices, if available (Level 1). For securities where quoted prices are not available, fair values are calculated based on market prices of similar securities (Level 2). For securities where quoted prices or market prices of similar securities are not available, fair values are calculated using discounted cash flows or other market indicators (Level 3).

Loans Held for Sale, at Fair Value: The fair value of loans held for sale is determined using quoted prices for similar assets, adjusted for specific attributes of that loan or other observable market data, such as outstanding commitments from third party investors (Level 2).

Impaired Loans: The fair value of impaired loans with specific allocations of the allowance for loan losses is generally based on recent real estate appraisals. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the independent appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are usually significant and typically result in a Level 3 classification of the inputs for determining fair value.

Other Real Estate Owned: Nonrecurring adjustments to certain commercial and residential real estate properties classified as other real estate owned (OREO) are measured at fair value, less costs to sell. Fair values are based on recent real estate appraisals. These appraisals may use a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the independent appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are usually significant and typically result in a Level 3 classification of the inputs for determining fair value.

Appraisals for both collateral-dependent impaired loans and other real estate owned are performed by certified general appraisers (for commercial properties) or certified residential appraisers (for residential properties) whose qualifications and licenses have been reviewed and verified by Management. Once received, a member of the Credit Department reviews the assumptions and approaches utilized in the appraisal, as well as, the overall resulting fair value in comparison with independent data sources such as recent market data or industry-wide statistics. Appraisals on collateral dependent impaired loans and other real estate owned (consistent for all loan types) are obtained on an annual basis, unless a significant change in the market or other factors warrants a more frequent appraisal. On an annual basis, Management compares the actual selling price of any collateral that has been sold to the most recent appraised value to determine what additional adjustment should be made to the appraisal value to arrive at fair value for other properties. The most recent analysis performed indicated that a discount up to 15 percent should be applied to appraisals on properties. The discount is determined based on the nature of the underlying properties, aging of appraisal and other factors. For each collateral dependent impaired loans we consider other factors, such as certain indices or other market information, as well as property specific circumstances to determine if an adjustment to the appraised value is needed. In situations where there is evidence of change in value, the Bank will determine if there is need for an adjustment to the specific reserve on the collateral dependent impaired loans. When the Bank applies an interim adjustment, it generally shows the adjustment as an incremental specific reserve against the loan until it has received the full updated appraisal. As of September 30, 2014, all collateral dependent impaired loans and other real estate owned valuations were supported by an appraisal less than 12 months old, except for one property that has an appraisal that is 14 months old. An updated appraisal had been ordered on the property but an administrative error caused a delay. The loan has been performing and was current at September 30, 2014.

Index

The following table summarizes, for the periods indicated, assets measured at fair value on a recurring basis, including financial assets for which the Corporation has elected the fair value option:

Assets Measured on a Recurring Basis

		Fair Value Measurements Using		
(In thousands)	September 30, 2014	Quoted Prices in Active Markets For Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Available for sale:				
U.S. government-sponsored entities	$ 23,129	$ —	$ 23,129	$ —
Mortgage-backed securities-residential	196,696	—	196,696	—
State and political subdivisions	44,185	—	44,185	—
Single-Issuer Trust Preferred	2,610	—	2,610	—
CRA investment fund	2,930	2,930	—	—
Loans held for sale, at fair value	351	—	351	—
Total	$ 269,901	$ 2,930	$ 266,971	$ —

Index

(In thousands)	December 31, 31, 2013	Fair Value Measurements Using Quoted Prices in Active Markets For Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Available for sale:				
U.S. government-sponsored entities	$ 14,770	$ —	$ 14,770	$ —
Mortgage-backed securities-residential	189,080	—	189,080	—
State and political subdivisions	59,343	—	59,343	—
Single-Issuer Trust Preferred	2,370	—	2,370	—
CRA investment fund	2,884	2,884	—	—
Loans held for sale, at fair value	2,001	—	2,001	—
Total	$ 270,448	$ 2,884	$ 267,564	$ —

The Corporation has elected the fair value option for certain loans held for sale. These loans are intended for sale and the Corporation believes that the fair value is the best indicator of the resolution of these loans. Interest income is recorded based on the contractual terms of the loan and in accordance with the Corporation’s policy on loans held for investment. None of these loans are 90 days or more past due nor on nonaccrual as of September 30, 2014 and December 31, 2013.

The following tables present residential loans held for sale, at fair value for the periods indicated:

	September 30, 2014	December 31, 2013
Residential loans contractual balance	$ 345	$ 1,975
Fair value adjustment	6	26
Total fair value of residential loans held for sale	$ 351	$ 2,001

There were no transfers between Level 1 and Level 2 during the three or nine months ended September 30, 2014.

Index

The following table summarizes, for the periods indicated, assets measured at fair value on a non-recurring basis:

Assets Measured on a Non-Recurring Basis

		Fair Value Measurements Using		
(In thousands)	September 30, 2014	Quoted Prices in Active Markets For Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant observable Unobservable Inputs (Level 3)
Assets:				
Impaired loans:				
Primary residential mortgage	$ 1,310	$ —	$ —	$ 1,310
OREO	580	—	—	580
(In thousands)	December 31, 2013			
Assets:				
Impaired loans:				
Primary residential mortgage	$ 85	$ —	$ —	$ 85
Owner occupied commercial real estate	1,593	—	—	1,593
OREO	980	—	—	980

Impaired loans that are measured for impairment using the fair value of the collateral for collateral dependent loans had a recorded investment of $1.5 million, with a valuation allowance of $172 thousand at September 30, 2014 and $2.1 million, with a valuation allowance of $471 thousand at December 31, 2013.

At both September 30, 2014 and December 31, 2013, OREO at fair value represents one commercial property. The Corporation recorded a valuation allowance of $400 thousand during the nine months ended September 30, 2014 and the Corporation recorded a valuation allowance of $930 thousand during the nine months ended September 30, 2013.

The carrying amounts and estimated fair values of financial instruments at September 30, 2014 are as follows:

		Fair Value Measurements at September 30, 2014 Using			
(In thousands)	Carrying Amount	Level 1	Level 2	Level 3	Total
Financial assets					
Cash and cash equivalents	$ 120,821	$ 120,321	$ 500	$ —	$ 120,821
Securities available for sale	269,550	2,930	266,620	—	269,550
FHLB and FRB stock	9,121	—	—	—	N/A
Loans held for sale, at fair value	351	—	351	—	351
Loans, net of allowance for loan losses	2,022,488	—	—	2,000,355	2,000,355

Accrued interest receivable	5,126	—	754	4,372	5,126
Financial liabilities					
Deposits	$2,203,419	$1,905,085	$296,727	$—	$2,201,812
Federal home loan bank advances	83,692	—	84,474	—	84,474
Accrued interest payable	402	95	307	—	402

31

Index

The carrying amounts and estimated fair values of financial instruments at December 31, 2013 are as follows:

		Fair Value Measurements at December 31, 2013 Using			
(In thousands)	Carrying Amount	Level 1	Level 2	Level 3	Total
Financial assets					
Cash and cash equivalents	$35,147	$34,397	$750	$—	$35,147
Securities available for sale	268,447	2,884	265,563	—	268,447
FHLB and FRB stock	10,032	—	—	—	N/A
Loans held for sale, at fair value	2,001	—	2,001	—	2,001
Loans, net of allowance for loan losses	1,558,828	—	—	1,528,937	1,528,937
Accrued interest receivable	4,086	—	817	3,269	4,086
Financial liabilities					
Deposits	$1,647,250	$1,490,417	$156,078	$—	$1,646,495
Overnight borrowings	54,900	—	54,900	—	54,900
Federal home loan bank advances	74,692	—	75,728	—	75,728
Accrued interest payable	340	49	291	—	340

The methods and assumptions, not previously presented, used to estimate fair values are described as follows:

Cash and cash equivalents: The carrying amounts of cash and short-term instruments approximate fair values and are classified as either Level 1 or Level 2.

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

Loans: For variable rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying values resulting in a Level 3 classification. Fair values for other loans are estimated using discounted cash flow analyses, using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality resulting in a Level 3 classification. Impaired loans are valued at the lower of cost or fair value as described previously. The methods utilized to estimate the fair value of loans do not necessarily represent an exit price.

Deposits: The fair values disclosed for demand deposits (e.g., interest and noninterest checking, savings and money market accounts) are, by definition, equal to the amount payable on demand at the reporting date, (i.e., the carrying amount) resulting in a Level 1 classification. The carrying amounts of certificates of deposit approximate the fair values at the reporting date resulting in Level 2 classification. Fair values for fixed rate certificates of deposit are estimated using a discounted cash flow calculation that applies interest rates currently being offered on certificates to a

schedule of aggregated expected monthly maturities on time deposits resulting in a Level 2 classification.

Overnight borrowings: The carrying amounts of overnight borrowings, generally maturing within ninety (90) days, approximate their fair values resulting in a Level 2 classification.

Federal Home Loan Bank advances: The fair values of the Corporation's long-term borrowings are estimated using discounted cash flow analyses based on the current borrowing rates for similar types of borrowing arrangements resulting in a Level 2 classification.

Accrued interest receivable/payable: The carrying amounts of accrued interest approximate fair value resulting in a Level 2 or Level 3 classification.

Off-balance sheet instruments: Fair values for off-balance sheet, credit-related financial instruments are based on fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the counterparties' credit standing. The fair value of commitments is not material.

Index

7. OTHER OPERATING EXPENSES

The following table presents the major components of other operating expenses for the periods indicated:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In thousands)	2014	2013	2014	2013
FDIC assessment	$ 350	$ 275	$ 928	$ 835
Wealth management division other expense	404	384	1,404	1,285
Professional and legal fees	413	525	1,383	1,455
Loan expense	119	120	342	482
Provision for ORE losses	—	—	400	930
Other operating expenses	1,727	1,609	5,116	4,642
Total other operating expenses	$ 3,013	$ 2,913	$ 9,573	$ 9,629

8. OTHER COMPREHENSIVE INCOME

The following is a summary of the accumulated other comprehensive income balances, net of tax, for the three months ended September 30, 2014 and 2013:

(In thousands)	Balance at July 1, 2014	Other Comprehensive Income Before Reclassifications	Amount Reclassified From Accumulated Other Comprehensive Income	Other Comprehensive Income Three Months Ended September 30, 2014	Balance at September 30, 2014
Net unrealized holding gain on securities available for sale, Net of tax	$ 1,430	$ (300)	$ (26)	$ (326)	$ 1,104
Accumulated other comprehensive income, net of tax	$ 1,430	$ (300)	$ 26	$ (326)	$ 1,104

(In thousands)	Balance at July 1, 2013	Other Comprehensive Income/(Loss) Before Reclassifications	Amount Reclassified From Accumulated Other Comprehensive Income	Other Comprehensive Income/(Loss) Three Months Ended September 30, 2013	Balance at September 30, 2013

Net unrealized holding gain/(loss) on securities available for sale, Net of tax	$ 952	$ (110)	$ (122)	$ (232)	$ 720
Accumulated other comprehensive income/(loss), net of tax	$ 952	$ (110)	$ (122)	$ (232)	$ 720

33

Index

The following represents the reclassifications out of accumulated other comprehensive income for the three months ended September 30, 2014 and 2013:

(In thousands)	Three Months Ended June 30, 2014	2013	Affected Line Item in Statements of Income
Unrealized gains on securities available for sale:			
Realized net gain on securities sales	$ 39	$ 188	Securities gains, net
Income tax expense	(13)	(66)	Income tax expense
Total reclassifications, net of tax	$ 26	$ 122	

The following is a summary of the accumulated other comprehensive income balances, net of tax, for the nine months ended September 30, 2014 and 2013:

(In thousands)	Balance at December 31, 2013	Other Comprehensive Income Before Reclassifications	Amount Reclassified From Accumulated Other Comprehensive Income	Other Comprehensive Income Nine Months Ended September 30, 2014	Balance at September 30, 2014
Net unrealized holding gain on securities available for sale, Net of tax	$ 23	$ 1,220	$ (139)	$ 1,081	$ 1,104
Accumulated other comprehensive income, net of tax	$ 23	$ 1,220	$ (139)	$ 1,081	$ 1,104

(In thousands)	Balance at December 31, 2012	Other Comprehensive Income/(Loss) Before Reclassifications	Amount Reclassified From Accumulated Other Comprehensive Income	Other Comprehensive Income/(Loss) Nine Months Ended September 30, 2013	Balance at September 30, 2013
Net unrealized holding gain on securities available for sale, Net of tax	$ 4,299	$ (3,114)	$ (465)	$ (3,579)	$ 720
Accumulated other comprehensive income, net of tax	$ 4,299	$ (3,114)	$ (465)	$ (3,579)	$ 720

The following represents the reclassifications out of accumulated other comprehensive income for the nine months ended September 30, 2014 and 2013:

(In thousands)	Nine Months Ended September 30, 2014	2013	Affected Line Item in Statements of Income
Unrealized gains on securities available for sale:			
Realized net gain on securities sales	$ 216	$ 715	Securities gains, net
Income tax expense	(77)	(250)	Income tax expense
Total reclassifications, net of tax	$ 139	$ 465	

34

Index

9. SUBSEQUENT EVENTS

The Corporation announced on October 23, 2014 that it filed a prospectus supplement with the Securities and Exchange Commission (the “SEC”) and entered into a Sales Agency Agreement with Sandler O’ Neill & Partners, L.P., as sales agent, under which the Company may sell up to $50,000,000 of its no par value common stock from time to time pursuant to an “at-the-market” equity offering.

Sales of the Company’s common shares under the at-the-market offering would be made by means of ordinary brokers’ transactions on the Nasdaq Global Select Market at market prices or as otherwise agreed with the sales agent. The Company intends to use the net proceeds from any sales of the common shares for general corporate purposes, which may include, among other things, funding the Company’s growth and expansion plans, working capital and pursuing strategic opportunities which may be presented from time to time.

Index

Item 2

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

AND RESULTS OF OPERATIONS

GENERAL: The following discussion and analysis contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements are not historical facts and include expressions about Management's view of future interest income and net loans, Management's confidence and strategies and Management's expectations about new and existing programs and products, relationships, opportunities and market conditions. These statements may be identified by such forward-looking terminology as "expect", "look", "believe", "anticipate", "may", "will", or similar statements or variations of such terms. Actual results may differ materially from such forward-looking statements. Factors that may cause actual results to differ materially from those contemplated by such forward-looking statements include, among others, those risk factors identified in the Corporation's Form 10-K for the year ended December 31, 2013 and the following:

- inability to successfully grow our business and implement our strategic plan including an inability to generate revenues to offset the increased personnel and other costs related to the strategic plan;
- inability to manage our growth;
- inability to successfully integrate our expanded employee base;
- a continued or unexpected decline in the economy, in particular in our New Jersey and New York market areas;
- declines in value in our investment portfolio;
- higher than expected increases in our allowance for loan losses;
- higher than expected increases in loan losses or in the level of non-performing loans;
- declines in our net interest margin caused by the low interest rate environment and highly competitive market;
- unexpected changes in interest rates;
- a continued or unexpected decline in real estate values within our market areas;
- legislative and regulatory actions (including the impact of the Dodd-Frank Wall Street Reform and Consumer Protection Act, Basel III and related regulations) subject us to additional regulatory oversight which may result in increased compliance costs;
- successful cyber-attacks against our IT infrastructure or that of our IT providers;
- higher than expected FDIC insurance premiums;
- adverse weather conditions;
- inability to successfully generate new business in new geographic markets;
- inability to execute upon new business initiatives;
- lack of liquidity to fund our various cash obligations;
- reduction in our lower-cost funding sources;
- our inability to adapt to technological changes;
- claims and litigation pertaining to fiduciary responsibility, environmental laws and other matters; and
- other unexpected material adverse changes in our operations or earnings.

Index

The Corporation assumes no responsibility to update such forward-looking statements in the future even if experience shows that the indicated results or events will not be realized. Although we believe that the expectations reflected in the forward-looking statements are reasonable, the Corporation cannot guarantee future results, levels of activity, performance, or achievements.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES: Management's Discussion and Analysis of Financial Condition and Results of Operations is based upon the Corporation's consolidated financial statements, which have been prepared in accordance with U.S. generally accepted accounting principles. The preparation of these financial statements requires the Corporation to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. Note 1 to the Corporation's Audited Consolidated Financial Statements for the year ended December 31, 2013, contains a summary of the Corporation's significant accounting policies.

Management believes that the Corporation's policy with respect to the methodology for the determination of the allowance for loan losses involves a higher degree of complexity and requires management to make difficult and subjective judgments, which often requires assumptions or estimates about highly uncertain matters. Changes in these judgments, assumptions or estimates could materially impact results of operations. This critical policy and its application are periodically reviewed with the Audit Committee and the Board of Directors.

The provision for loan losses is based upon Management's evaluation of the adequacy of the allowance, including an assessment of probable incurred losses in the portfolio, giving consideration to the size and composition of the loan portfolio, actual loan loss experience, level of delinquencies, detailed analysis of individual loans for which full collectability may not be assured, the existence and estimated fair value of any underlying collateral and guarantees securing the loans, and current economic and market conditions.

Although Management uses the best information available, the level of the allowance for loan losses remains an estimate, which is subject to significant judgment and short-term change. Various regulatory agencies, as an integral part of their examination process, periodically review the Corporation's allowance for loan losses. Such agencies may require the Corporation to make additional provisions for loan losses based upon information available to them at the time of their examination. Furthermore, the majority of the Corporation's loans are secured by real estate in the State of New Jersey and New York. Accordingly, the collectability of a substantial portion of the carrying value of the Corporation's loan portfolio is susceptible to changes in local market conditions and may be adversely affected should real estate values continue to decline or New Jersey or New York experience continuing adverse economic conditions. Future adjustments to the allowance for loan losses may be necessary due to economic, operating, regulatory and other conditions beyond the Corporation's control.

The Corporation accounts for its securities in accordance with "Accounting for Certain Investments in Debt and Equity Securities," which was codified into ASC 320. All securities are classified as available for sale and are carried at fair value, with unrealized holding gains and losses reported in other comprehensive income, net of tax.

For declines in the fair value of securities below their cost that are other-than-temporary, the amount of impairment is split into two components – other-than-temporary impairment related to other factors, which is recognized in other comprehensive income and other-than-temporary impairment related to credit loss, which must be recognized in the income statement. The credit loss is defined as the difference between the present value of the cash flows expected to be collected and the amortized cost basis. In estimating other-than-temporary losses on a quarterly basis, Management considers the length of time and extent that fair value has been less than cost; the financial condition and near-term prospects of the issuer; and whether the Corporation has the intent to sell these securities or it is likely that it will be required to sell the securities before their anticipated recovery.

Index

Securities are evaluated on at least a quarterly basis to determine whether a decline in their values is other-than-temporary. To determine whether a loss in value is other-than-temporary, Management utilizes criteria such as the reasons underlying the decline, the magnitude and the duration of the decline and whether the Corporation intends to sell or is likely to be required to sell the security before its anticipated recovery. "Other-than-temporary" is not intended to indicate that the decline is permanent, but indicates that the prospects for a near-term recovery of value is not necessarily favorable, or that there is a lack of evidence to support a realizable value equal to or greater than the carrying value of the investment. The Corporation recognized no other-than-temporary impairment charges in the three or nine months ended September 30, 2014 and 2013.

EXECUTIVE SUMMARY: The following table presents certain key aspects of our performance for the three months ended September 30, 2014 and 2013.

	Three Months Ended September 30,				Change	
(In thousands, except per share data)	2014		2013		2014 v 2013	
Results of Operations:						
Interest income	$ 19,210		$ 14,423		$ 4,787	
Interest expense	2,162		1,050		1,112	
Net interest income	17,048		13,373		3,675	
Provision for loan losses	1,150		750		400	
Net interest income after provision for loan losses	15,898		12,623		3,275	
Other income	5,052		4,782		270	
Other operating expense	14,693		14,165		528	
Income before income tax expense	6,257		3,240		3,017	
Income tax expense	2,393		1,276		1,117	
Net income	$ 3,864		$ 1,964		$ 1,900	
Per Share Data:						
Basic earnings per common share	$ 0.33		$ 0.22		$ 0.11	
Diluted earnings per common share	0.32		0.22		0.10	
Average common shares outstanding	11,841,777		8,950,931		2,890,846	
Diluted average common shares outstanding	11,956,356		9,013,419		2,942,937	
Average equity to average assets	7.52	%	7.20	%	0.32	%
Return on average assets annualized	0.63		0.45		0.18	
Return on average equity annualized	8.35		6.28		2.07	

Index

The following table presents certain key aspects of our performance for the nine months ended September 30, 2014 and 2013.

(In thousands, except per share data)	Nine Months Ended September 30, 2014	2013	Change 2014 v 2013
Results of Operations:			
Interest income	$ 54,789	$ 41,315	$ 13,474
Interest expense	5,247	3,067	2,180
Net interest income	49,542	38,248	11,294
Provision for loan losses	3,625	2,100	1,525
Net interest income after provision for loan losses	45,917	36,148	9,769
Other income	15,520	15,622	(102)
Other operating expense	43,962	40,537	3,425
Income before income tax expense	17,475	11,233	6,242
Income tax expense	6,797	4,367	2,430
Net income	$ 10,678	$ 6,866	$ 3,812
Per Share Data:			
Basic earnings per common share	$ 0.91	$ 0.77	$ 0.14
Diluted earnings per common share	0.90	0.76	0.14
Average common shares outstanding	11,723,873	8,910,514	2,813,359
Diluted average common shares outstanding	11,833,507	8,976,905	2,856,602
Average equity to average assets	7.93 %	7.43 %	0.50 %
Return on average assets annualized	0.63	0.55	0.08
Return on average equity annualized	7.95	7.35	0.60

The earnings per share calculations for the three months and nine months ended September 30, 2014 included all of the 2.47 million shares issued in the December 12, 2013 capital raise.

	At September 30, 2014	2013	Change 2014 v 2013
Selected Balance Sheet Ratios:			
Total capital (Tier I + II) to risk-weighted assets	13.36 %	12.55 %	0.81 %
Tier I Leverage ratio	7.57	7.20	0.37
Average loans to average deposits year-to-date	93.34	80.85	12.49
Allowance for loan losses to total Loans	0.90	1.01	(0.11)
Allowance for loan losses to			

nonperforming loans	208.18	203.98	4.20
Nonperforming loans to total loans	0.43	0.49	(0.06)
Noninterest bearing deposits to total deposits	17.39	21.99	(4.60)
Time deposits to total deposits	13.54	10.25	3.29

For the third quarter of 2014, the Corporation recorded net income of $3.9 million compared to $2.0 million for the same quarter of 2013. For the three months ended September 30, 2014 and 2013, diluted earnings per common share were $0.32 and $0.22, respectively. Annualized return on average assets was 0.63 percent and annualized return on average common equity was 8.35 percent for the third quarter of 2014, as compared to 0.45 percent and 6.28 percent for the third quarter of 2013.

The Corporation recorded net income of $10.7 million for the nine months ended September 30, 2014 compared to $6.9 million for the same period of 2013. Diluted earnings per common share were $0.90 and $0.76 for the first nine months of 2014 and 2013, respectively. Annualized return on average assets was 0.63 percent and annualized return on average common equity was 7.95 percent for the nine months ended September 30, 2014, as compared to 0.55 percent and 7.35 percent for the nine months ended September 30, 2013.

Index

For the three and nine months ended September 30, 2014, increased earnings were due to increased net interest income, due principally to the Corporation's loan growth, and increased wealth management fee income partially offset by increased provision for loan losses, lower gains on mortgage loans sold and increased expenses largely due to costs associated with the continued implementation of the Strategic Plan.

CONTRACTUAL OBLIGATIONS: For a discussion of our contractual obligations, see the information set forth in the Corporation's 2013 Annual Report on Form 10-K under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations – Contractual Obligations" which is incorporated herein by reference.

OFF-BALANCE SHEET ARRANGEMENTS: For a discussion of our off-balance sheet arrangements, see the information set forth in the Corporation's 2013 Annual Report on Form 10-K under the heading "Management's Discussion and Analysis – Off-Balance Sheet Arrangements" which is incorporated herein by reference.

EARNINGS ANALYSIS

NET INTEREST INCOME/AVERAGE BALANCE SHEET:

The primary source of the Corporation's operating income is net interest income, which is the difference between interest and dividends earned on earning assets and fees earned on loans, and interest paid on interest-bearing liabilities. Earning assets include loans to individuals and businesses, investment securities, interest-earning deposits and federal funds sold. Interest-bearing liabilities include interest-bearing checking, savings and time deposits, Federal Home Loan Bank advances and other borrowings. Net interest income is determined by the difference between the yields earned on earning assets and the rates paid on interest-bearing liabilities ("Net Interest Spread") and the relative amounts of earning assets and interest-bearing liabilities. The Corporation's Net Interest Spread is affected by regulatory, economic and competitive factors that influence interest rates, loan demand and deposit flows and general levels of nonperforming assets.

The following table summarizes the Company's net interest income and related spread and margin, on a fully tax-equivalent basis, for the periods indicated:

	Three Months Ended September 30,			
(In thousands)	2014		2013	
Net interest income	$ 17,172		$ 13,526	
Interest rate spread	2.79	%	3.20	%
Net interest margin	2.89		3.28	

	Nine Months Ended September 30,			
(In thousands)	2014		2013	
Net interest income	$ 49,960		$ 38,702	
Interest rate spread	2.97	%	3.18	%
Net interest margin	3.06		3.26	

Loan growth, principally from multifamily and commercial mortgages, over the past 15 months was the primary reason net interest income grew for the three and nine months ended September 30, 2014. Net interest margin for the third quarter of 2014, as well as for the nine months ended September 30, 2014, declined when compared to the same 2013 periods partially due to the maintenance of much larger average interest earning deposit/cash balances, as the Company has decided to maintain greater liquidity on its balance sheet, in light of its growth. Margin also continues to be affected by low market yields as well as competitive pressures in attracting new loans and deposits.

Index

The following table summarizes the Company's loans closed for the periods indicated:

	For the Three Months Ended		
	September 30, 2014		September 30, 2013
Residential mortgage loans retained	$ 20,540		$ 31,517
Residential mortgage loans sold	5,561		13,516
Total residential mortgage loans	26,101		45,033
Commercial real estate loans	3,208		20,357
Multifamily properties	105,584		143,727
Commercial loans	74,029	(A)	40,654
Total commercial loans	182,821		204,738
Installment loans	9,410		2,489
Home equity lines of credit	2,550	(A)	3,982
Total loans closed	$ 220,882		$ 256,242

(A) Includes lines of credit that closed in the period, but not necessarily funded.

	For the Nine Months Ended		
	September 30, 2014		September 30, 2013
Residential mortgage loans retained	$ 49,438		$ 100,299
Residential mortgage loans sold	19,916		65,569
Total residential mortgage loans	69,354		165,868
Commercial real estate loans	39,224		46,927
Multifamily properties	480,664		242,252
Commercial loans	152,654	(A)	65,400
Total commercial loans	672,542		354,579
Installment loans	16,471		4,915
Home equity lines of credit	13,927	(A)	11,053
Total loans closed	$ 772,294		$ 536,415

(A) Includes lines of credit that closed in the period, but not necessarily funded.

Index

The following table reflects the components of the average balance sheet and of net interest income for the periods indicated:

Average Balance Sheet

Unaudited

Three Months Ended

	September 30, 2014			September 30, 2013		
	Average Balance	Income/ Expense	Yield	Average Balance	Income/ Expense	Yield
ASSETS:						
Interest-earning assets:						
Investments:						
Taxable (1)	$192,207	$960	2.00 %	$237,559	$1,141	1.92 %
Tax-exempt (1) (2)	47,701	268	2.25	54,465	328	2.41
Loans held for sale	1,026	10	3.90	1,617	21	5.27
Loans (2) (3):						
Mortgages	464,227	3,879	3.34	543,722	4,611	3.39
Commercial mortgages	1,231,798	11,790	3.83	595,073	6,453	4.34
Commercial	166,092	1,597	3.85	108,042	1,264	4.68
Commercial construction	6,029	65	4.31	8,173	105	5.14
Installment	24,965	249	3.99	19,672	216	4.39
Home equity	48,371	394	3.26	47,562	401	3.37
Other	563	13	9.24	598	15	10.03
Total loans	1,942,045	17,987	3.70	1,322,842	13,065	3.95
Federal funds sold	101	—	0.10	101	—	0.10
Interest-earning deposits	197,705	109	0.22	35,168	21	0.24
Total interest-earning assets	2,380,785	19,334	3.25 %	1,651,752	14,576	3.53 %
Noninterest-earning assets:						
Cash and due from banks	6,262			5,962		
Allowance for loan losses	(17,720)			(13,615)		
Premises and equipment	30,985			28,984		
Other assets	60,717			65,163		
Total noninterest-earning assets	80,244			86,494		
Total assets	$2,461,029			$1,738,246		
LIABILITIES:						
Interest-bearing deposits:						
Checking	$541,920	$232	0.17 %	$349,392	$73	0.08 %
Money markets	689,721	430	0.25	580,819	275	0.19
Savings	113,802	15	0.05	115,711	15	0.05
Certificates of deposit - retail	158,472	357	0.90	160,347	429	1.07
Subtotal interest-bearing deposits	1,503,915	1,034	0.28	1,206,269	792	0.26
Interest-bearing demand - brokered	138,000	84	0.24	—	—	—
Certificates of deposit - brokered	144,872	550	1.52	5,000	15	1.20
Total interest-bearing deposits	1,786,787	1,668	0.37	1,211,269	807	0.27

Borrowings	83,692	377	1.80	45,149	138	1.22
Capital lease obligation	9,770	117	4.79	8,828	105	4.76
Total interest-bearing liabilities	1,880,249	2,162	0.46	1,265,246	1,050	0.33
Noninterest-bearing liabilities:						
Demand deposits	383,423			337,684		
Accrued expenses and other liabilities	12,165			10,241		
Total noninterest-bearing liabilities	395,588			347,925		
Shareholders' equity	185,192			125,075		
Total liabilities and shareholders' equity	$2,461,029			$1,738,246		
Net interest income (tax-equivalent basis)		17,172			13,526	
Net interest spread			2.79 %			3.20 %
Net interest margin (4)			2.89 %			3.28 %
Tax equivalent adjustment		(124)			(153)	
Net interest income		$17,048			$13,373	

(1) Average balances for available for sale securities are based on amortized cost.
(2) Interest income is presented on a tax-equivalent basis using a 35 percent federal tax rate.
(3) Loans are stated net of unearned income and include nonaccrual loans.
(4) Net interest income on a tax-equivalent basis as a percentage of total average interest-earning assets.

Index

Average Balance Sheet

Unaudited

Nine Months Ended

	September 30, 2014			September 30, 2013		
	Average Balance	Income/ Expense	Yield	Average Balance	Income/ Expense	Yield
ASSETS:						
Interest-earning assets:						
Investments:						
Taxable (1)	$196,313	$2,998	2.04 %	$235,677	$3,503	1.98 %
Tax-exempt (1) (2)	55,209	917	2.21	51,582	974	2.52
Loans held for sale	1,124	35	4.17	6,950	268	5.14
Loans (2) (3):						
Mortgages	497,692	12,635	3.38	533,697	14,065	3.51
Commercial mortgages	1,108,732	31,943	3.84	504,444	16,888	4.46
Commercial	147,666	4,442	4.01	107,095	3,752	4.67
Commercial construction	5,989	197	4.39	8,853	317	4.77
Installment	22,906	710	4.13	20,228	670	4.42
Home equity	47,569	1,149	3.22	47,447	1,153	3.24
Other	562	39	9.25	605	44	9.70
Total loans	1,831,116	51,115	3.72	1,222,369	36,889	4.02
Federal funds sold	101	—	0.10	101	—	0.10
Interest-earning deposits	94,120	142	0.20	68,211	135	0.26
Total interest-earning assets	2,177,983	55,207	3.38 %	1,584,890	41,769	3.51 %
Noninterest-earning assets:						
Cash and due from banks	6,548			5,887		
Allowance for loan losses	(17,012)			(13,406)		
Premises and equipment	30,966			29,344		
Other assets	60,216			70,674		
Total noninterest-earning assets	80,718			92,499		
Total assets	$2,258,701			$1,677,389		
LIABILITIES:						
Interest-bearing deposits:						
Checking	$458,811	$438	0.13 %	$351,975	$225	0.09 %
Money markets	666,986	1,137	0.23	561,713	729	0.17
Savings	115,746	45	0.05	113,486	44	0.05
Certificates of deposit - retail	154,091	1,081	0.94	166,235	1,385	1.11
Subtotal interest-bearing deposits	1,395,634	2,701	0.26	1,193,409	2,383	0.27
Interest-bearing demand - brokered	117,348	198	0.22	—	—	—
Certificates of deposit - brokered	86,986	845	1.30	5,000	45	1.20
Total interest-bearing deposits	1,599,968	3,744	0.31	1,198,409	2,428	0.27
Borrowings	97,359	1,149	1.57	23,226	322	1.85
Capital lease obligation	9,861	354	4.79	8,882	317	4.76
Total interest-bearing liabilities	1,707,188	5,247	0.41	1,230,517	3,067	0.33

Noninterest-bearing liabilities:						
Demand deposits	361,726			313,420		
Accrued expenses and other liabilities	10,597			8,887		
Total noninterest-bearing liabilities	372,323			322,307		
Shareholders' equity	179,190			124,565		
Total liabilities and shareholders' equity	$2,258,701			$1,677,389		
Net interest income (tax-equivalent basis)		49,960			38,702	
Net interest spread			2.97 %			3.18 %
Net interest margin (4)			3.06 %			3.26 %
Tax equivalent adjustment		(418)			(454)	
Net interest income		$49,542			$38,248	

(1) Average balances for available for sale securities are based on amortized cost.
(2) Interest income is presented on a tax-equivalent basis using a 35 percent federal tax rate.
(3) Loans are stated net of unearned income and include nonaccrual loans.
(4) Net interest income on a tax-equivalent basis as a percentage of total average interest-earning assets.

43

Index

The effect of volume and rate changes on net interest income (on a tax-equivalent basis) for the periods indicated are shown below:

	Three Months Ended September 30, 2014 Difference due to Change In:		Compared With Three months ended September 30, 2013 Change In Income/
(In Thousands):	Volume	Rate	Expense
ASSETS:			
Investments	$ (245)	$ 4	$ (241)
Loans	6,132	(1,210)	4,922
Loans held for sale	(5)	(6)	(11)
Federal funds sold	—	—	—
Interest-earning deposits	90	(2)	88
Total interest income	$ 5,972	$ (1,214)	$ 4,758
LIABILITIES:			
Checking	$ 218	$ 26	$ 244
Money market	77	77	154
Savings	—	—	—
Certificates of deposit	525	(62)	463
Borrowed funds	286	(47)	239
Capital lease obligation	11	1	12
Total interest expense	$ 1,117	$ (5)	$ 1,112
Net interest income	$ 4,855	$ (1,209)	$ 3,646

	Nine Months Ended September 30, 2014 Difference due to Change In:		Compared With Nine months ended September 30, 2013 Change In Income/
(In Thousands):	Volume	Rate	Expense
ASSETS:			
Investments	$ (447)	$ (115)	$ (562)
Loans	18,035	(3,809)	14,226
Loans held for sale	(182)	(51)	(233)
Federal funds sold	—	—	—
Interest-earning deposits	43	(36)	7
Total interest income	$ 17,449	$ (4,011)	$ 13,438
LIABILITIES:			
Checking	$ 412	$ (1)	$ 411
Money market	196	211	407
Savings	2	—	2
Certificates of deposit	698	(202)	496
Borrowed funds	978	(151)	827
Capital lease obligation	33	4	37
Total interest expense	$ 2,319	$ (139)	$ 2,180

Net interest income	$ 15,130	$ (3,872)	$ 11,258

Interest income on earning assets, on a fully tax-equivalent basis, totaled $19.3 million for the third quarter of 2014 compared to $14.6 million for the same quarter of 2013, reflecting an increase of $4.8 million or 32.6 percent from the third quarter in 2013. Average earning assets totaled $2.38 billion for the third quarter of 2014, an increase of $729.0 million or 44.1 percent from the same period of 2013. The commercial mortgage portfolio increased $636.7 million from the third quarter of 2013, averaging $1.23 billion for the same quarter of 2014. The increase was attributable to the addition of seasoned banking professionals over the course of 2013; a more concerted focus on the client service aspect of the lending process; more of a focus on New Jersey markets; and a focus on New York City multifamily markets beginning in mid-2013. The increase was also due to demand from borrowers looking to refinance multifamily and other commercial mortgages held by other institutions.

Index

For the quarters ended September 30, 2014 and 2013, the average rates earned on earning assets was 3.25 percent and 3.53 percent, respectively, a decrease of 28 basis points. The decline in the average rates on earning assets was partially due to the maintenance of much larger average interest earning deposit/cash balances as the Company has decided to maintain greater liquidity on its balance sheet, in light of its growth. The decline in the average rate was also affected by the continued effect of low market yields, as well as competitive pressures in attracting new loans and deposits, partially offset by a shift in mix from lower yielding securities into higher yielding loans.

For the third quarter of 2014, total deposits averaged $2.17 billion, increasing $621.3 million or 40.1 percent from the average balance for the same period of 2013. Growth in customer deposits (non-brokered deposits) has come from the addition of seasoned banking professionals over the course of 2013 and 2014, including relationship bankers and private bankers; an intense focus on providing high-touch client service; and a new full array of treasury management products that support core deposit growth. Brokered certificates of deposit are generally medium/longer term and have been used in the Company’s interest rate risk management practices. Brokered interest-bearing demand deposits have been utilized in the Company’s liquidity management. These deposits are more cost effective than other short term alternatives and do not require any pledging of collateral. These deposits have generally funded the Company’s larger average interest earning deposit/cash balances previously discussed. The Company does have available ample available collateralized liquidity as a backup to these short-term brokered deposits. Average rates paid on interest-bearing deposits were 37 basis points and 27 basis points for the third quarters of 2014 and 2013, respectively.

There were no overnight borrowings from the Federal Home Loan Bank of New York for the third quarter of 2014 compared to $18.9 million for the same quarter of 2013. For the third quarters of 2014 and 2013, average other borrowings totaled $83.7 million and $26.2 million, respectively, increasing $57.5 million when compared to the same period of 2013. The Company has utilized medium/longer term Federal Home Loan Bank advances in its interest rate risk management.

For the nine months ended September 30, 2014, the Corporation recorded net interest income, on a fully tax-equivalent basis, of $50.0 million compared to $38.7 million for the same period of 2013, an increase of $11.3 million or 29.1 percent. The net interest margin was 3.06 percent for the nine months ended September 30, 2014, compared to 3.26 percent for the same period last year.

Interest income on earning assets, on a fully tax-equivalent basis, for the nine months ended September 30, 2014 and 2013, totaled $55.2 million and $41.8 million, respectively, reflecting an increase of $13.4 million or 32.2 percent from the nine months of 2013 to the nine months ended September 30, 2014. Average earning assets increased $593.1 million from the nine months ended September 30, 2013 to $2.18 billion for the nine months ended September 30, 2014. The commercial mortgage portfolio more than doubled, from the year ago period, to an average $1.11 billion for the nine months ended September 30, 2014. The increase was attributable to the addition of seasoned banking professionals over the course of 2013 and 2014; a more concerted focus on the client service aspect of the lending process; more of a focus on New Jersey markets; and a focus on New York City multifamily markets beginning in mid-2013. The increase was also due to demand from borrowers looking to refinance multifamily and other commercial mortgages held by other institutions.

For the nine months ended September 30, 2014, the average rates earned on earning assets was 3.38 percent compared to 3.51 percent for the same period of 2013, a decline of 13 basis points. The decline in the average rates on earning assets was partially due to the maintenance of much larger average interest earning deposit/cash balances discussed previously. The decline in the average rate was also affected by the continued effect of low market yields, as well as competitive pressures in attracting new loans and deposits, partially offset by a shift in mix from lower yielding securities into higher yielding loans.

Index

For the first nine months of 2014, total deposits averaged $1.96 billion, increasing $449.9 million or 29.8 percent from the average balance for the same period of 2013. Growth in customer deposits (non-brokered deposits) has come from the addition of seasoned banking professionals over the course of 2013 and 2014, including relationship bankers and private bankers; an intense focus on providing high touch client service; and a new full array of treasury management products that support core deposit growth. Brokered certificates of deposit are generally medium/longer term and have been used in the Company's interest rate risk management practices. Brokered interest-bearing demand deposits have been utilized in the Company's liquidity management. These deposits are more cost effective than other short term alternatives and do not require any pledging of collateral. These deposits have generally funded the Company's larger average interest earning deposit/cash balances previously discussed. For the nine months ended September 30, 2014 and 2013, average rates paid on interest-bearing deposits were 31 basis points and 27 basis points, respectively.

Overnight borrowings from the Federal Home Loan Bank of New York averaged $14.5 million for the first nine months of 2014 compared to $6.4 million for the same period of 2013. For the nine months ended September 30, 2014, average other borrowings totaled $82.8 million compared to $16.8 million for the nine months ended September 30, 2103 increasing $66.0 million when compared to the same period of 2013. The Company has utilized medium/longer term Federal Home Loan Bank advances in its interest rate risk management.

OTHER INCOME: The following table presents the major components of other income:

	Three Months Ended September 30,		Change
(In thousands)	2014	2013	2014 v 2013
Service charges and fees	$ 829	$ 724	$ 105
Gain on sale of loans (mortgage banking)	87	277	(190)
Loss on sale of loans at lower of cost or market	(7)	—	(7)
Bank owned life insurance	276	278	(2)
Securities gains	39	188	(149)
Other income	167	20	147
Total other income	$ 1,391	$ 1,487	$ (96)

	Nine Months Ended September 30,		Change
(In thousands)	2014	2013	2014 v 2013
Service charges and fees	$ 2,231	$ 2,088	$ 143
Gain on sale of loans (mortgage banking)	310	1,138	(828)
Gain on sale of loans at lower of cost or market	169	522	(353)
Bank owned life insurance	818	826	(8)
Securities gains	216	715	(499)
Other income	356	42	314
Total other income	$ 4,100	$ 5,331	$ (1.231)

Service charges and fees for the three and nine months ended September 30, 2014 reflected slight improvement compared to the same periods last year, partially due to increased income associated with a new set of checking products put in place in the middle of 2014.

For the three and nine months ended September 30, 2014 and continuing a trend that began in the middle of 2013 with an increase in mortgage rates, the Corporation experienced continued low levels of mortgage banking income, as expected and for which Management had expected and planned for. This resulted in a decrease in residential mortgage loan originations and lower levels of mortgage banking income. Additionally, a shift in the Company's strategy, emphasizing shorter duration mortgage loans for relationship purposes and de-emphasizing origination for sale, also contributed to lower levels of mortgage banking income.

Index

As part of the Corporation’s strategy to de-emphasize residential mortgage lending and benefit its liquidity and interest rate risk positions, the Corporation sold $67 million of longer-duration, lower coupon first mortgage loans over the nine months of 2014. The sales also benefitted earnings for the nine month period as a net $169 thousand gain on sale of loans held at lower of cost or market was recorded. A gain of $522 thousand was recognized in the first nine months of 2013 on the sale of classified loans which were held for sale at the lower of cost or market as of December 31, 2012.

Securities gains were $39 thousand and $188 thousand for the three months ended September 30, 2014 and 2013, respectively. For the nine months ended September 30, 2014, the Corporation recorded securities gains of $216 thousand compared to $715 thousand for the same 2013 period. Sales of securities have been generally employed to benefit interest rate risk, prepayment risk, and/or liquidity risk. Given the short duration of the securities portfolio, sales have been employed less often in recent periods.

Other income for the nine month period of 2014 increased partially due to increased letter of credit fees, increased unused credit line fees and increased loan servicing income, all associated with the Company’s growth. Additionally the 2014 periods included net gains on dispositions of OREO properties.

Index

OPERATING EXPENSES: The following table presents the components of operating expenses for the periods indicated:

	Three Months Ended September 30,		Change
(In thousands)	2014	2013	2014 v 2013
Salaries and employee benefits	$ 9,116	$ 8,927	$ 189
Premises and equipment	2,564	2,325	239
Other Operating Expenses:			
FDIC assessment	350	275	75
Wealth management division other expense	404	384	20
Professional and legal fees	413	525	(112)
Loan expense	119	120	(1)
Telephone	225	170	55
Advertising	162	131	31
Postage	99	95	4
Other operating expenses	1,241	1,213	28
Total operating expenses	$ 14,693	$ 14,165	$ 528

	Nine Months Ended September 30,		Change
(In thousands)	2014	2013	2014 v 2013
Salaries and employee benefits	$ 27,053	$ 23,941	$ 3,112
Premises and equipment	7,336	6,967	369
Other Operating Expenses:			
FDIC assessment	928	835	93
Wealth management division other expense	1,404	1,285	119
Professional and legal fees	1,383	1,455	(72)
Loan expense	342	482	(140)
Telephone	688	528	160
Advertising	369	394	(25)
Postage	294	299	(5)
Provision for ORE losses	400	930	(530)
Other operating expenses	3,765	3,421	344
Total operating expenses	$ 43,962	$ 40,537	$ 3,425

For the third quarters of 2014 and 2013, the Corporation recorded operating expenses of $14.7 million and $14.2 million, respectively, an increase of $528 thousand or 3.7 percent. Salary and benefits expense increased $189 thousand or 2.1 percent to $9.1 million for the third quarter of 2014. In addition to normal salary increases and increased bonus/incentive accruals, the increase is largely due to the Company's growth and its strategic hiring in line with the Company's Strategic Plan, including private bankers, relationship bankers, commercial lenders, wealth advisors, risk management professionals and various support staff. The third quarter of 2013 included approximately $933 thousand of compensations expense accruals related to the retirement of two senior officers. For the third quarter of 2014, premises and equipment expense increased $239 thousand or 10.3 percent due to increased expense associated with the Princeton and Teaneck offices. Professional and legal fees declined $112 thousand or 21.3 percent

from $525 thousand for the third quarter of 2013 to $413 thousand for the same quarter of 2014 due to lower consulting fees related to strategic initiatives as well as decreased legal fees.

Index

The Corporation recorded operating expenses of $44.0 million for the nine months ended September 30, 2014 compared to $40.5 million for the same period of 2013, an increase of $3.4 million or 8.4 percent. The largest of these expenses, salary and benefits expense, was $27.1 million and $23.9 million for the nine months ended September 30, 2014 and 2013, respectively, an increase of $3.1 million or 13.0 percent. As noted above, the increase is largely due to strategic hiring, normal salary increases and increased bonus and incentive accruals. The nine months of 2013 included approximately $933 thousand of compensations expense accruals related to the retirement of two senior officers. Premises and equipment expense totaled $7.3 million for the nine months ended September 30, 2014, an increase of $369 thousand or 5.3 percent over the $7.0 million recorded in the same period of 2013 and was due to increased occupancy costs associated with the new Princeton and Teaneck Private Banking offices. Loan expense declined $140 thousand or 29 percent from the first nine months of 2013 to $342 thousand for the nine months ended September 30, 2014 and is attributed to a decline in problem loan expense. Professional and legal fee expense was $1.4 million and $1.5 million for the nine months ended September 30, 2014 and 2013, respectively, declining $72 thousand or 4.9 percent. As noted above, the Corporation reduced consulting expenses associated with implementing its Strategic Plan. The Corporation recorded a $930 thousand write down in the first nine months of 2013 on one of its ORE properties and an additional $400 thousand during the same period of 2014.

The Corporation strives to operate in an efficient manner and control costs. However, expense increases that were contemplated with the Company's strategy, Expanding Our Reach, are tracking consistent with projections. The Company expects that the trend of higher operating expenses will continue as it closes out 2014 and goes into 2015, as it brings on high caliber revenue producers, and continues to invest in infrastructure in line with its Strategic Plan. Further, the Company generally expects revenue and profitability related to new personnel to lag those expenses by several quarters. It is important to note, however, that the Company has seen an improvement in quarterly revenue since launching its Plan, particularly in the recent quarters, as the Plan began to gain momentum.

PRIVATE WEALTH MANAGEMENT DIVISION: This division has served in the roles of executor and trustee while providing investment management, custodial, tax, retirement and financial services to its growing client base. Officers from the Private Wealth Management Division are available to provide trust and investment services at the Bank's corporate headquarters in Bedminster, at private banking locations in Bedminster, Morristown, Princeton and Teaneck, New Jersey and at the Bank's subsidiary, PGB Trust & Investments of Delaware in Greenville, Delaware.

The following table presents certain key aspects of the Bank's Private Wealth Management Division performance for the quarters ended September 30, 2014 and 2013.

(In thousands)	Three Months Ended September 30, 2014	2013	Change 2014 v 2013
Total fee income	$ 3,661	$ 3,295	$ 366
Salaries and benefits (included in			

Operating Expenses section above)	2,442	1,952	490
Other operating expense (included in Operating Expenses section above)	1,108	1,163	(55)

49

Index

The following table presents certain key aspects of the Bank's Private Wealth Management Division performance for the nine months ended September 30, 2014 and 2013.

	Nine Months Ended September 30,		Change
(In thousands)	2014	2013	2014 v 2013
Total fee income	$ 11,420	$ 10,291	$ 1,129
Salaries and benefits (included in Operating Expenses section above)	5,563	4,477	1,086
Other operating expense (included in Operating Expenses section above)	3,768	3,754	14
Assets under administration (market value)	$ 2,857,727	$ 2,581,813	$ 275,914

The market value of assets under administration for the Private Wealth Management Division was approximately $2.86 billion at September 30, 2014 compared to $2.58 billion at September 30, 2013, reflecting an increase of 10.7 percent.

The Private Wealth Management Division generated fee income of $3.7 million for the third quarter of 2014 compared to $3.3 million for the same quarter of 2013, an increase of $366 thousand or 11.1 percent. For the first nine months of 2014, the Private Wealth Management Division generated fee income of $11.4 million, an increase of $1.1 million, or 11.0 percent, when compared to $10.3 million for the same 2013 period. The increase reflects increased relationships, a greater mix of higher margin business and an improvement in the market value of assets under management.

While the "Operating Expenses" section above offers an overall discussion of the Corporation's expenses including the Private Wealth Management Division, operating expenses relative to the Private Wealth Management Division totaled $3.6 million and $3.1 million for the third quarters of 2014 and 2013, respectively, an increase of $435 thousand or 14.0 percent. For the nine months ended September 30, 2014, other expenses for the Private Wealth Management Division totaled $9.3 million compared to $8.2 million for the same period in 2013, an increase of $1.1 million, or 13.4 percent. Increased expenses are in line with the Company's Strategic Plan, particularly the hiring of key management and revenue producing personnel. Revenue and profitability related to the new personnel will generally lag expenses by several quarters.

The Private Wealth Management Division currently generates adequate revenue to support the salaries, benefits and other expenses of the Division; however, Management believes that the Bank generates adequate liquidity to support the expenses of the Division should it be necessary.

Index

NONPERFORMING ASSETS: Other real estate owned (OREO), loans past due in excess of 90 days and still accruing, and nonaccrual loans are considered nonperforming assets. These assets totaled $9.7 million and $8.6 million at September 30, 2014 and December 31, 2013, respectively.

The following table sets forth asset quality data on the dates indicated (in thousands):

	As of Sept. 30, 2014	June 30, 2014	March 31, 2014	Dec 31, 2013	Sept 30, 2013
Loans past due over 90 days and still accruing	$—	$—	$ —	$—	$—
Nonaccrual loans (A)	8,790	6,536	7,473	6,630	6,891
Other real estate owned	949	1,036	2,062	1,941	2,759
Total nonperforming assets (A)	$9,739	$7,572	$ 9,535	$8,571	$9,650
Accruing TDR's	$13,045	$12,730	$ 12,340	$11,114	$6,133
Loans past due 30 through 89 days and still accruing	$2,278	$1,536	$ 5,027	$2,953	$2,039
Classified loans (A)	$34,752	$34,929	$ 35,075	$33,827	$32,430
Impaired loans (A)	$21,834	$19,813	$ 19,814	$17,744	$16,794
Nonperforming loans as a % of total loans (A)	0.43 %	0.35 %	0.42 %	0.42 %	0.49 %
Nonperforming assets as a % of total assets (A)	0.39 %	0.32 %	0.42 %	0.44 %	0.54 %
Nonperforming assets as a % of total loans plus other real estate owned (A)	0.48 %	0.40 %	0.54 %	0.54 %	0.69 %

(A) September 30, 2014 amount includes a $1.5 million commercial nonaccrual loan that was paid in full on October 8, 2014.

We do not hold and have not made or invested in subprime loans or “Alt-A” type mortgages.

PROVISION FOR LOAN LOSSES: The provision for loan losses was $1.2 million for the third quarter of 2014 and $750 thousand for the same quarter of 2013. For the nine months ended September 30, 2014 and 2013 the provision for loan losses was $3.6 million and $2.1 million, respectively. The amount of the loan loss provision and the level of the allowance for loan losses are based upon a number of factors including Management’s evaluation of probable losses inherent in the portfolio, after consideration of appraised collateral values, financial condition and past credit

history of the borrowers as well as prevailing economic conditions. Commercial credits carry a higher risk profile, which is reflected in Management's determination of the proper level of the allowance for loan losses.

The provision for loan losses of $1.2 million in the third quarter of 2014 was primarily related to loan growth experienced by the Corporation.

The overall allowance for loan losses was $18.3 million as of September 30, 2014 compared to $15.4 million at December 31, 2013. As a percentage of loans, the allowance for loan losses was 0.90 percent as of September 30, 2014 and 0.98 percent as of December 31, 2013. The specific reserves on impaired loans have decreased to $1.1 million at September 30, 2014 compared to $1.7 million as of December 31, 2013. Total impaired loans were $21.8 million and $17.7 million as of September 30, 2014 and December 31, 2013, respectively. The general component of the allowance increased from $13.7 million at December 31, 2013 to $17.2 million at September 30, 2014. As a percentage of non-impaired loans, the general reserve declined three basis points to 0.85 percent at September 30, 2014 from 0.88 percent at December 31, 2013. Although the Corporation has experienced loan growth, there has been a shift in the loan portfolio to less risky loans, such as commercial mortgage loans secured by multifamily properties, from the riskier loans that carry higher general reserves.

Index

A summary of the allowance for loan losses for the quarterly periods indicated follows:

(In thousands)	September 30, 2014	June 30, 2014	March 31, 2014	December 31, 2013	September 30, 2013
Allowance for loan losses:					
Beginning of period	$ 17,204	$ 16,587	$ 15,373	$ 14,056	$ 13,438
Provision for loan losses	1,150	1,150	1,325	1,325	750
Charge-offs, net	(55)	(533)	(111)	(8)	(132)
End of period	$ 18,299	$ 17,204	$ 16,587	$ 15,373	$ 14,056
Allowance for loan losses as a % of total loans	0.90 %	0.92 %	0.94 %	0.98 %	1.01 %
Allowance for loan losses as a % of nonperforming loans	208.18 %	263.22 %	221.96 %	231.87 %	203.98 %

INCOME TAXES: For the third quarters of 2014 and 2013, income tax expense as a percentage of pre-tax income was 38 percent and 39 percent, respectively. For the nine months ended September 30, 2014 and 2013, income tax expense as a percentage of pre-tax income was 39 percent for both periods.

CAPITAL RESOURCES: The Corporation's total shareholders' equity at September 30, 2014 was $188.1 million as compared to $170.7 million at December 31, 2013. Capital in the September 2014 nine month period was benefitted by net income of $10.7 million and by nearly $5.9 million of discretionary share purchases by participants in the Dividend Reinvestment Plan.

Throughout 2014 the Company continually employed the capital raised in December 2013 by maintaining a program of significant loan growth.

On October 23, 2014, the Corporation announced that it filed a prospectus supplement with the Securities and Exchange Commission (the "SEC") and entered into a Sales Agency Agreement with Sandler O' Neill & Partners, L.P., as sales agent, under which the Company may sell up to $50,000,000 of its no par value common stock from time to time pursuant to an "at-the-market" equity offering. Sales of the Company's common shares under the at-the-market offering would be made by means of ordinary brokers' transactions on the Nasdaq Global Select Market at market prices or as otherwise agreed with the sales agent. The Company intends to use the net proceeds from any sales of the common shares for general corporate purposes, which may include, among other things, funding the Company's growth and expansion plans, working capital and pursuing strategic opportunities which may be presented from time to time.

A solid capital base provides the Corporation with the ability to support future growth and financial strength, and is essential to executing the Corporation's Strategic Plan – "Expanding Our Reach." As the Company continues to grow, it may raise additional capital in the future. The Corporation's capital strategy is intended to provide stability to expand its businesses, even in stressed environments. The Corporation strives to maintain capital levels in excess of those considered to be well capitalized under regulatory guidelines applicable to banks. Maintaining an adequate capital position supports the Corporation's goal of providing shareholders with an attractive and stable long-term return on investment.

In addition, the Corporation, through the Bank, is subject to various regulatory capital requirements administered by the Federal banking regulatory 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 Corporation and the Bank's consolidated financial statements.

Index

To enhance the standards of its capital management program, the Corporation has engaged the services of a consultant of recognized national standing to develop regular capital stress tests and advise on capital strategy.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios of Total and Tier 1 capital to risk-weighted assets and of Tier 1 Capital to average assets. For the third quarter of 2014, the Bank's capital ratios met or exceeded the minimum to be categorized as well capitalized under the regulatory framework for prompt corrective action. Tier 1 Capital consists of common stock, retained earnings, minority interests in the equity accounts of consolidated subsidiaries, non-cumulative preferred stock, and cumulative preferred stock issued to the U.S. Treasury in the Capital Purchase Program, less goodwill and certain other intangibles. The remainder of capital may consist of other preferred stock, certain other instruments and a portion of the allowance for loan loss. At September 30, 2014, the Bank's Tier 1 Capital and Total Capital ratios to risk-weighted assets were 11.59 percent and 12.79 percent, respectively, both in excess of the well-capitalized standards of 6.0 percent and 10.0 percent, respectively. The Federal Reserve Board ("FRB") has also established minimum leverage ratio guidelines. At September 30, 2014, the Bank's leverage ratio was 7.22 percent, in excess of the well-capitalized standard of 5.0 percent.

As previously announced, on October 16, 2014, the Board of Directors declared a regular cash dividend of $0.05 per share payable on November 14, 2014 to shareholders of record on October 30, 2014. In addition, the Dividend Reinvestment Plan of Peapack-Gladstone Financial Corporation (or the Plan) allows shareholders of the Corporation to purchase additional shares of common stock using cash dividends without payment of any brokerage commissions or other charges. Shareholders may also make discretionary cash payments of up to $50,000 per quarter to purchase additional shares of common stock. The Plan is a continuing source of future capital.

On July 2, 2013, the Federal Reserve Board approved the final rules implementing the Basel Committee on Banking Supervision's capital guidelines for U.S. banks. The rules included a new common equity Tier 1 capital to risk-weighted assets ratio of 4.50 percent and a common equity Tier 1 capital conservation buffer of 2.50 percent of risk weighted assets. The final rules also raise the minimum ratio of Tier 1 capital to risk-weighted assets from 4.00 percent to 6.00 percent and require a minimum leverage ratio of 4.00 percent. The final rules also implement strict eligibility criteria for regulatory capital instruments. The phase-in period for the final rules will begin for the Corporation on January 1, 2015, with full compliance with all of the final rule's requirements phased in over a multi-year schedule. Management expects that the Bank's capital levels will meet or exceed the levels required to be considered well–capitalized under the new capital requirements.

Management believes the Corporation's capital position and capital ratios are adequate as of September 30, 2014.

Index

LIQUIDITY: Liquidity refers to an institution's ability to meet short-term requirements including loan funding's, deposit withdrawals and maturing obligations, as well as long-term obligations, including potential capital expenditures. The Corporation's liquidity risk management is intended to ensure the Corporation has adequate funding and liquidity to support its assets across a range of market environments and conditions, including stressed conditions. Principal sources of liquidity include cash, temporary investments, brokered deposits, securities available for sale, deposit inflows, loan repayments and secured borrowings. Other liquidity sources include loan sales and loan participations.

Management actively monitors and manages the Corporation's liquidity position and feels it is sufficient to meet future needs. Cash and cash equivalents, including federal funds sold and interest-earning deposits, totaled $120.8 million at September 30, 2014. In addition, the Corporation has $269.6 million in securities designated as available for sale at September 30, 2014, of which $221.8 million is unencumbered. These securities can be sold or pledged for funding in response to liquidity concerns. In addition, the Corporation generates significant liquidity from scheduled and unscheduled principal repayments of loans and mortgage-backed securities.

Another source of liquidity is borrowing capacity. As of September 30, 2014, unused borrowing capacity totaled $670.6 million from the FHLB and $28.6 million from correspondent banks.

Asset growth for the nine months ended September 30, 2014 was funded by a diversified source of funding alternatives, including customer deposits, brokered CDs, investment securities cash flows and FHLB advances. Short-term brokered interest-bearing demand deposit balances have been utilized in the Company's liquidity management. These deposits are more cost effective than other short term alternatives and do not require any pledging of collateral. These deposits have generally funded the Company's larger average interest earning deposit/cash balances, as the Company has decided to maintain greater liquidity on its balance sheet, in light of its growth. The Company does have ample available collateralized liquidity as a backup to these short term brokered deposits.

The Corporation has a Board-approved Contingency Funding Plan in place. This document provides a framework for managing adverse liquidity stress and contingent sources of liquidity. The Corporation conducts liquidity stress testing on a regular basis to ensure sufficient liquidity in a stressed environment.

Management believes the Corporation's liquidity position and sources are adequate.

Index

ASSET/LIABILITY MANAGEMENT: The Corporation's Asset/Liability Committee (ALCO) is responsible for developing, implementing and monitoring asset/liability management strategies and reports and advising the Board of Directors on such, as well as the related level of interest rate risk. In this regard, interest rate risk simulation models are prepared on a quarterly basis at a minimum. These models have the ability to demonstrate balance sheet gaps, and predict changes to net interest income and economic/market value of portfolio equity under various interest rate scenarios. In addition, these models, as well as ALCO processes and reporting, are subject to annual independent third-party review.

ALCO is generally authorized to manage interest rate risk through management of capital and management of cash flows and duration of assets and liabilities, including sales and purchases of assets, as well as additions of wholesale borrowings, brokered deposits, and other sources of medium/longer term funding. ALCO has also recently been authorized to engage in interest rate swaps as a means of extending the duration of shorter term liabilities.

The following strategies are among those used to manage interest rate risk:

- Actively market commercial and industrial loan originations, which tend to have adjustable rate features, and which generate customer relationships that can result in higher core deposit accounts;
- Actively market commercial mortgage loan originations, which tend to have shorter terms and higher interest rates than residential mortgage loans, and which generate customer relationships that can result in higher core deposit accounts;
- Manage growth in the residential mortgage portfolio to adjustable-rate and/or shorter-term and/or "relationship" loans that result in core deposit relationships;
- Actively market core deposit relationships, which are generally longer duration liabilities;
- Utilize medium to longer term wholesale borrowings and/or brokered deposits to extend liability duration;
- Closely monitor and actively manage the investment portfolio, including management of duration, prepayment and interest rate risk;
- Maintain adequate levels of capital; and
- Utilize loan sales and/or loan participations.

At this time, the Corporation has not engaged in hedging through the use of interest rate swaps, nor does it use interest rate caps and floors. However, as noted above, ALCO has been authorized to engage in interest rate swaps as a means of extending the duration of shorter term liabilities and may employ such tools as costs and circumstances make them efficient alternatives.

During the September quarter, the Company provided sufficient funding for loan growth from cash on hand and deposit generation.

As noted above, ALCO uses simulation modeling to analyze the Corporation's net interest income sensitivity, as well as the Corporation's economic value of portfolio equity under various interest rate scenarios. The model is based on the actual maturity and repricing characteristics of rate sensitive assets and liabilities. The model incorporates certain prepayment and interest rate assumptions, which Management believes to be reasonable as of September 30, 2014. The model assumes changes in interest rates without any proactive change in the balance sheet by Management. In the

model, the forecasted shape of the yield curve remains static as of September 30, 2014.

In an immediate and sustained 200 basis point increase in market rates at September 30, 2014, net interest income would decline approximately nine percent in year one and two percent for year two, compared to a flat interest rate scenario.

Index

In an immediate and sustained 100 basis point decrease in market rates at September 30, 2014, net interest income would decline approximately three percent in year one and five percent for year two, compared to a flat interest rate scenario.

The table below shows the estimated changes in the Corporation's economic value of portfolio equity ("EVPE") that would result from an immediate parallel change in the market interest rates at September 30, 2014.

(Dollars in thousands)	Estimated Increase/ Decrease in EVPE			EVPE as a Percentage of Present Value of Assets (2)	
Change in Interest Rates (Basis Points)	Estimated EVPE (1)	Amount	Percent	EVPE Ratio (3)	Increase/(Decrease) (basis points)
+200	$215,854	$(49,885)	(18.77)%	9.28 %	(141.4)
+100	244,893	(20,846)	(7.84)	10.18	(51.7)
Flat interest rates	265,739	—	—	10.70	—
-100	278,900	13,161	4.95	10.94	24.1

(1) EVPE is the discounted present value of expected cash flows from assets and liabilities.
(2) Present value of assets represents the discounted present value of incoming cash flows on interest-earning assets.
(3) EVPE ratio represents EVPE divided by the present value of assets.

Certain shortcomings are inherent in the methodologies used in determining interest rate risk. Simulation modeling requires making certain assumptions that may or may not reflect the manner in which actual yields and costs respond to changes in market interest rates. In this regard, the modeling assumes that the composition of our interest-sensitive assets and liabilities existing at the beginning of a period remains constant over the period being measured and assumes that a particular change in interest rates is reflected uniformly across the yield curve regardless of the duration or repricing of specific assets and liabilities. Accordingly, although the information provides an indication of our interest rate risk 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 our net interest income and will differ from actual results.

Management believes the Corporation's interest rate risk position is reasonable.

Index

ITEM 3. Quantitative and Qualitative Disclosures about Market Risk

There have been no material changes to information regarding quantitative and qualitative disclosures about market risk from the end of the preceding fiscal year to the date of the most recent interim financial statements (September 30, 2014).

ITEM 4. Controls and Procedures

The Corporation's Management, with the participation of its Chief Executive Officer and Chief Financial Officer, have evaluated the effectiveness of the Corporation's disclosure controls and procedures (as defined in Rule 13a-15(e) or Rule 15d-15(e) under the Exchange Act) as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on such evaluation, the Corporation's Chief Executive Officer and Chief Financial Officer have concluded that the Corporation's disclosure controls and procedures are effective as of the end of the period covered by this Quarterly Report on Form 10-Q.

The Corporation's Chief Executive Officer and Chief Financial Officer have also concluded that there have not been any changes in the Corporation's internal control over financial reporting during the quarter ended September 30, 2014 that have materially affected, or are reasonable likely to materially affect, the Corporation's internal control over financial reporting.

The Corporation's Management, including the CEO and CFO, does not expect that our disclosure controls and procedures of our internal controls will prevent all errors and all fraud. A control system, no matter how well conceived and operated, provides reasonable, not absolute, assurance that the objectives of the control system are met. The design of a control system reflects resource constraints; the benefits of controls must be considered relative to their costs. Because there are inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Corporation have been or will be detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns occur because of simple error or mistake. Controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by Management override of the controls. The design of any system of controls is based in part upon certain assumptions about the likelihood of future events. There can be no assurance that any design will succeed in achieving its stated goals under all future conditions; over time, control may become inadequate because of changes in conditions or deterioration in the degree of compliance with the policies or procedures. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

Index

PART II. OTHER INFORMATION

ITEM 1A. Risk Factors

There were no material changes in the Corporation's risk factors during the nine months ended September 30, 2014 from the risk factors disclosed in Part I, Item 1A of the Corporation's Annual Report on Form 10-K for the year ended December 31, 2013.

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

There were no repurchases or unregistered sales of the Corporation's stock during the quarter.

ITEM 6. Exhibits

3	Articles of Incorporation and By-Laws: A. Certificate of Incorporation of the Registrant, as amended, incorporated herein by reference to the Registrant's Quarterly Report on Form 10-Q filed on November 9, 2009. B. By-Laws of the Registrant, incorporated herein by reference to the Registrant's Current Report on Form 8-K filed on April 23, 2007 (File No. 001-16197).
31.1	Certification of Douglas L. Kennedy, Chief Executive Officer of the Corporation, pursuant to Securities Exchange Act Rule 13a-14(a).
31.2	Certification of Jeffrey J. Carfora, Chief Financial Officer of the Corporation, pursuant to Securities Exchange Act Rule 13a-14(a).
32	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, signed by Douglas L. Kennedy, Chief Executive Officer of the Corporation, and Jeffrey J. Carfora, Chief Financial Officer of the Corporation.
101	Interactive Data File *

Index

SIGNATURES

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

PEAPACK-GLADSTONE FINANCIAL CORPORATION
(Registrant)

DATE: November 10, 2014 By: /s/ Douglas L. Kennedy
Douglas L. Kennedy
President and Chief Executive Officer

DATE: November 10, 2014 By: /s/ Jeffrey J. Carfora
Jeffrey J. Carfora
Senior Executive Vice President and Chief Financial Officer
and Chief Accounting Officer