

PEAPACK GLADSTONE FINANCIAL CORP  
Form 10-Q  
August 08, 2014

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

FORM 10-Q

(MARK ONE)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE  
ACT OF 1934  
For the Quarter Ended June 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 (I.R.S. Employer  
incorporation or organization) 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  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  No

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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

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

Number of shares of Common Stock outstanding as of August 1, 2014:

12,156,766

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**PEAPACK-GLADSTONE FINANCIAL CORPORATION**

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## Item 1. Financial Statements (Unaudited)

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

	(unaudited) June 30, 2014	(audited) December 31, 2013
<b>ASSETS</b>		
Cash and due from banks	\$5,757	\$ 6,534
Federal funds sold	101	101
Interest-earning deposits	209,768	28,512
Total cash and cash equivalents	215,626	35,147
Securities available for sale	225,270	268,447
FHLB and FRB stock, at cost	9,946	10,032
Loans held for sale, at fair value	2,650	2,001
Loans held for sale, at lower of cost or fair value	—	—
Loans	1,874,940	1,574,201
Less: Allowance for loan losses	17,204	15,373
Net loans	1,857,736	1,558,828
Premises and equipment	31,095	28,990
Other real estate owned	1,036	1,941
Accrued interest receivable	4,858	4,086
Bank owned life insurance	32,258	31,882
Deferred tax assets, net	9,433	9,762
Other assets	11,063	15,832
<b>TOTAL ASSETS</b>	<b>\$2,400,971</b>	<b>\$ 1,966,948</b>
<b>LIABILITIES</b>		
Deposits:		
Noninterest-bearing demand deposits	\$410,609	\$ 356,119
Interest-bearing deposits:		
Interest-bearing deposits checking	474,945	378,340
Savings	116,172	115,785
Money market accounts	673,375	630,173
Certificates of deposit \$100,000 and over	64,962	61,128
Certificates of deposit less than \$100,000	92,105	90,705
Subtotal deposits	1,832,168	1,632,250
Interest-bearing demand – Brokered	138,000	10,000
Certificates of deposit - Brokered	145,000	5,000
Total deposits	2,115,168	1,647,250
Overnight borrowings with Federal Home Loan Bank	—	54,900
Federal Home Loan Bank advances	83,692	74,692

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Capital lease obligation	9,836	8,754
Accrued expenses and other liabilities	9,942	10,695
TOTAL LIABILITIES	2,218,638	1,796,291
SHAREHOLDERS' EQUITY		
Common stock (no par value; stated value \$0.83 per share; authorized 21,000,000 shares; issued shares, 12,562,328 at June 30, 2014 and 12,196,695 at December 31, 2013; outstanding shares, 12,154,150 at June 30, 2014 and 11,788,517 at December 31, 2013)	10,453	10,148
Surplus	145,040	140,699
Treasury stock at cost, 408,178 shares at June 30, 2014 and December 31, 2013	(8,988 )	(8,988 )
Retained earnings	34,398	28,775
Accumulated other comprehensive income, net of income tax	1,430	23
TOTAL SHAREHOLDERS' EQUITY	182,333	170,657
TOTAL LIABILITIES & SHAREHOLDERS' EQUITY	\$2,400,971	\$ 1,966,948

*See accompanying notes to consolidated financial statements*

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CONSOLIDATED STATEMENTS OF INCOME****(Dollars in thousands, except share data)****(Unaudited)**

	Three Months Ended		Six Months Ended	
	June 30,	2013	June 30,	2013
	2014		2014	
<b>INTEREST INCOME</b>				
Interest and fee on loans	\$17,428	\$12,064	\$33,090	\$23,778
Interest on securities available for sale:				
Taxable	977	1,085	2,038	2,362
Tax-exempt	189	195	393	392
Interest on loans held for sale	15	50	25	246
Interest-earning deposits	21	66	33	114
Total interest income	18,630	13,460	35,579	26,892
<b>INTEREST EXPENSE</b>				
Interest on savings and interest-bearing deposit accounts	574	328	1,057	635
Interest on certificates of deposit over \$100,000	165	212	317	427
Interest on other time deposits	468	274	702	559
Interest on borrowed funds	382	92	772	184
Interest on capital lease obligation	118	106	237	212
Total interest expense	1,707	1,012	3,085	2,017
<b>NET INTEREST INCOME BEFORE PROVISION FOR LOAN LOSSES</b>	<b>16,923</b>	<b>12,448</b>	<b>32,494</b>	<b>24,875</b>
Provision for loan losses	1,150	500	2,475	1,350
<b>NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES</b>	<b>15,773</b>	<b>11,948</b>	<b>30,019</b>	<b>23,525</b>
<b>OTHER INCOME</b>				
Wealth management fee income	4,005	3,628	7,759	6,996
Service charges and fees	708	688	1,402	1,364
Bank owned life insurance	276	276	542	548
Gain on loans held for sale at fair value (Mortgage banking)	112	391	224	861
Gain on loans held for sale at lower of cost or fair value	176	—	176	522
Other income	117	15	188	22
Securities gains, net	79	238	177	527
Total other income	5,473	5,236	10,468	10,840
<b>OPERATING EXPENSES</b>				
Salaries and employee benefits	9,089	7,935	17,937	15,014
Premises and equipment	2,334	2,338	4,772	4,642
Other operating expense	3,507	3,806	6,560	6,716
Total operating expenses	14,930	14,079	29,269	26,372
<b>INCOME BEFORE INCOME TAX EXPENSE</b>	<b>6,316</b>	<b>3,105</b>	<b>11,218</b>	<b>7,993</b>

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Income tax expense	2,533	1,096	4,404	3,091
NET INCOME	\$3,783	\$2,009	\$6,814	\$4,902
EARNINGS PER COMMON SHARE				
Basic	\$0.32	\$0.23	\$0.58	\$0.55
Diluted	\$0.32	\$0.22	\$0.58	\$0.55
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING				
Basic	11,721,256	8,909,170	11,664,410	8,889,971
Diluted	11,846,075	8,955,384	11,814,806	8,942,267

*See accompanying notes to consolidated financial statements*

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CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME****(Dollars in thousands)****(unaudited)**

	Three Months Ended June 30, 2014		Six Months Ended June 30, 2014	
	2013	2014	2013	2014
Net income				
Other comprehensive income/(loss):	\$3,783	\$2,009	\$6,814	\$4,902
Unrealized gains/(losses) on available for sale securities:				
Unrealized holding gains/(losses) arising during the period	1,367	(4,414)	2,449	(5,132)
Less: Reclassification adjustment for net gains included in net income	79	238	177	527
	1,288	(4,652)	2,272	(5,659)
Tax effect	(464 )	1,900	(865 )	2,312
Total other comprehensive income/(loss)	824	(2,752)	1,407	(3,347)
Total comprehensive income/(loss)	\$4,607	\$(743 )	\$8,221	\$1,555

*See accompanying notes to consolidated financial statements*



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CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY****(Dollars in thousands)****(Unaudited)****Six Months Ended June 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				6,814		6,814
Net change in accumulated other comprehensive income/(loss)					1,407	1,407
Issuance of restricted stock 149,079 shares	124	(124 )				—
Amortization of restricted stock		721				721
Cash dividends declared on common stock (\$0.10 per share)				(1,191 )		(1,191 )
Common stock option expense		106				106
Common stock options exercised and related tax benefits, 8,042 shares	8	84				92
Sales of shares (Dividend Reinvestment Program), 204,731 shares	170	3,487				3,657
Issuance of shares for Profit Sharing Plan 3,781 shares	3	67				70
Balance at June 30, 2014 12,154,150 common shares outstanding	\$ 10,453	\$ 145,040	\$ (8,988 )	\$ 34,398	\$ 1,430	\$ 182,333

*See accompanying notes to consolidated financial statements*

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CONSOLIDATED STATEMENTS OF CASH FLOWS****(Dollars in thousands)****(Unaudited)**

	Six Months Ended June 30,	
	2014	2013
<b>OPERATING ACTIVITIES:</b>		
Net income	\$ 6,814	\$ 4,902
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	1,448	1,459
Amortization of premium and accretion of discount on securities, net	720	999
Amortization of restricted stock	721	197
Provision of loan losses	2,475	1,350
Provision for OREO losses	400	930
Provision for deferred taxes	(536)	3,182
Stock-based compensation	106	169
Gains on securities, available for sale	(177)	(527)
Loans originated for sale at fair value	(17,004)	(56,737)
Proceeds from sales of loans at fair value	16,579	73,646
Gains on loans held for sale at fair value	(224)	(861)
Net gains on loans held for sale at lower of cost or fair value	(176)	(522)
Gains on sale of other real estate owned	(108)	(24)
(Gains)/loss on disposal of fixed assets	(9)	49
Increase in cash surrender value of life insurance, net	(376)	(402)
Increase in accrued interest receivable	(772)	(108)
Decrease in other assets	4,769	3,678
(Decrease)/Increase in accrued expenses, capital lease obligations and other liabilities	(903)	672
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>13,747</b>	<b>32,052</b>
<b>INVESTING ACTIVITIES:</b>		
Maturities of securities available for sale	52,411	39,332
Call of securities available for sale	—	18,115
Sales of securities available for sale	25,167	26,348
Purchase of securities available for sale, including FHLB and FRB stock	(32,586)	(53,126)
Proceeds from sales of loans held for sale at lower of cost or fair value	68,031	14,271
Net increase in loans	(369,607)	(136,967)
Sales of other real estate owned	982	1,692
Purchase of premises and equipment	(2,326)	(499)
Disposal of premises and equipment	14	—
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>(257,914)</b>	<b>(90,834)</b>
<b>FINANCING ACTIVITIES:</b>		
Net increase in deposits	467,918	6,499
Net decrease in overnight borrowings	(54,900)	—

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Proceeds from Federal Home Loan Bank advances	9,000	—	
Repayments of Federal Home Loan Bank advances	—	(218	)
Cash dividends paid on common stock	(1,191	)	(897
Exercise of Stock Options	92		3
Sales of shares (DRIP Program)	3,657		1,029
Purchase of shares for Profit Sharing Plan	70		—
NET CASH PROVIDED BY FINANCING ACTIVITIES	424,646		6,416
Net increase/(decrease) in cash and cash equivalents	180,479		(52,366
Cash and cash equivalents at beginning of period	35,147		119,228
Cash and cash equivalents at end of period	\$ 215,626		\$ 66,862

*See accompanying notes to consolidated financial statements*

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**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 June 30, 2014 and the results of operations for the three and six months ended June 30, 2014 and 2013, comprehensive income for the three and six months ended, equity statement for the six months ended and cash flows for the six months ended June 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 or 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.

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**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.

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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.

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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.

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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 to directors, officers, employees and independent contractors 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 June 30, 2014 and 2013, the Corporation recorded total compensation cost for stock options of \$54 thousand and \$84 thousand respectively, with a recognized tax benefit of \$5 thousand and \$15 thousand for the quarters ended June 30, 2014 and 2013, respectively. The Corporation recorded total compensation cost for stock options for the six months ended June 30, 2014 and 2013, of \$106 thousand and \$169 thousand, respectively, with a recognized tax benefit of \$10 thousand for the six months ended June 30, 2014 and \$30 thousand for the six months ended June 30, 2013. There was approximately \$479 thousand of unrecognized compensation cost related to non-vested share-based compensation arrangements granted under the Corporation's stock incentive plans at June 30, 2014. That cost is expected to be recognized over a weighted average period of 1.14 years.

For the Corporation's stock option plans, changes in options outstanding during the six months ended June 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	8,700	18.83		
Exercised during 2014	(9,283 )	12.70		
Expired during 2014	(266,989 )	27.48		
Forfeited during 2014	(10,276 )	13.16		
Balance, June 30, 2014	374,331	\$ 17.26	5.86	years \$ 511
Vested and expected to vest (1)	342,650	\$ 17.62	5.86	years \$ 635
Exercisable at June 30, 2014	256,995	\$ 18.88	4.92	years \$ 70

(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 second quarter of 2014 and the exercise price, multiplied by the number of in-the-money options). The Corporation's closing stock price on June 30, 2014 was \$21.21.

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For the second quarter of 2014, the per share weighted-average fair value of stock options granted was \$7.50 compared to \$5.50 for the same quarter of 2013 using the Black-Scholes option-pricing model with the following weighted average assumptions:

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2014	2013	2014	2013
Dividend Yield	1.05	% 1.16	% 1.02	% 1.31
Expected volatility	40	% 39	% 40	% 39
Expected life	7 years	7 years	7 years	7 years
Risk-free interest rate	2.26	% 1.19	% 2.18	% 1.11

The Corporation also awards restricted stock to certain executives and certain key employees. In the second quarter of 2014, the Corporation issued 11,467 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 CEO, CFO and COO, 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 June 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 June 30, 2014 and 2013, the Corporation recorded total compensation cost for restricted shares of \$440 thousand and \$114 thousand, respectively. For the six months ended June 30, 2014 and 2013, the corporation recorded total compensation cost for restricted stock awards of \$721 thousand and \$197 thousand respectively. As of June 30, 2014, there was approximately \$5.2 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	149,079	19.45
Vested during 2014	(36,755 )	18.94
Balance, June 30, 2014	365,864	\$ 17.07

**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.

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(In thousands, except per share data)	Three Months Ended		Six Months Ended	
	June 30, 2014	2013	June 30, 2014	2013
Net income to common shareholders	\$3,783	\$2,009	\$6,814	\$4,902
Basic weighted-average common shares outstanding	11,721,256	8,909,170	11,664,410	8,889,971
Plus: common stock equivalents	124,819	46,214	150,396	52,296
Diluted weighted-average common shares outstanding	11,846,075	8,955,384	11,814,806	8,942,267
Net income per common share				
Basic	\$0.32	\$0.23	\$0.58	\$0.55
Diluted	0.32	0.22	0.58	0.55

Stock options totaling 132,140 and 490,942 shares were not included in the computation of diluted earnings per share in the second quarters of 2014 and 2013, respectively, because they were considered antidilutive. Stock options 151,674 and 595,018 shares were not included in the computation of diluted earnings per share in the six months ended June 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.

## 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 June 30, 2014 and December 31, 2013 follows:



(In thousands)	June 30, 2014			
	Amortized Cost	Gross Unrecognized Gains	Gross Unrecognized Losses	Fair Value
U.S. government-sponsored entities	\$ 15,989	\$ —	\$ (434)	) \$ 15,555
Mortgage-backed securities – residential	151,072	2,966	(395)	) 153,643
State and political subdivisions	49,899	685	(1)	) 50,583
Single-issuer trust preferred security	2,999	—	(449)	) 2,550
CRA investment	3,000	—	(61)	) 2,939
Total	\$ 222,959	\$ 3,651	\$ (1,340)	) \$ 225,270

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(In thousands)	December 31, 2013			
	Amortized Cost	Gross Unrecognized		Fair Value
		Gains	Losses	
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 June 30, 2014 and December 31, 2013.

(In thousands)	June 30, 2014					
	Duration of Unrecognized Loss					
	Less Than 12 Months		12 Months or Longer		Total	
Approximate Fair Value	Unrecognized Losses	Approximate Fair Value	Unrecognized Losses	Approximate Fair Value	Unrecognized Losses	
U.S. government sponsored entities	\$—	\$ —	\$ 15,555	\$ (434)	) \$15,555	\$ (434)
Mortgage-backed securities-residential	8,678	(18)	) 26,856	(377)	) 35,534	(395)
State and political subdivisions	513	(1)	) —	—	513	(1)
Single-issuer trust Preferred security	—	—	2,550	(449)	) 2,550	(449)
CRA investment fund	—	—	2,939	(61)	) 2,939	(61)
Total	\$9,191	\$ (19)	) \$ 47,900	\$ (1,321)	) \$57,091	\$ (1,340)

(In thousands)	December 31, 2013					
	Duration of Unrecognized Loss					
	Less Than 12 Months		12 Months or Longer		Total	
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						

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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	)

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 June 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 June 30, 2014, the unrealized loss on the single-issuer trust preferred security of \$449 thousand is 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 June 30, 2014.

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

(In thousands)	June 30, 2014	% of Totals Loans	December 31, 2013	% of Total Loans
Residential mortgage	\$469,648	25.05 %	\$ 532,911	33.85 %
Commercial mortgage	1,166,747	62.23	831,997	52.85
Commercial loans	158,103	8.43	131,795	8.37
Construction loans	6,033	0.32	5,893	0.38
Home equity lines of credit	48,740	2.60	47,905	3.04
Consumer loans, including fixed rate home equity loans	23,414	1.25	21,852	1.39
Other loans	2,255	0.12	1,848	0.12
Total loans	\$1,874,940	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 June 30, 2014 and December 31, 2013:

(In thousands)	June 30, 2014	% of Totals Loans	December 31, 2013	% of Total Loans
Primary residential mortgage	\$483,117	25.81 %	\$ 546,827	34.82 %
Home equity lines of credit	48,666	2.60	47,905	3.05
Junior lien loan on residence	13,579	0.73	13,114	0.84
Multifamily property	845,310	45.17	541,503	34.48
Owned-occupied commercial real estate	81,390	4.35	79,735	5.08
Investment commercial real estate	297,190	15.88	267,406	17.03
Commercial and industrial	77,459	4.14	51,638	3.29
Secured by farmland	193	0.01	197	.01
Agricultural production loans	175	0.01	—	N/A
Commercial construction loans	4,734	0.25	5,893	0.37
Consumer and other loans	19,615	1.05	16,212	1.03
Total loans	\$1,871,428	100.00 %	\$ 1,570,430	100.00 %
Net deferred fees	3,512		3,771	
Total loans including net deferred costs	\$1,874,940		\$ 1,574,201	

Included in the totals above for June 30, 2014 are \$113 thousand of unamortized discount as compared to \$396 thousand of unamortized discount for December 31, 2013.

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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 June 30, 2014 and December 31, 2013:

	June 30, 2014					
	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 ALLL
(In thousands)						
Primary residential mortgage	\$4,980	\$ 263	\$478,137	\$ 2,739	\$483,117	\$3,002
Home equity lines of credit	110	—	48,556	176	48,666	176
Junior lien loan on residence	212	—	13,367	148	13,579	148
Multifamily property	—	—	845,310	6,288	845,310	6,288
Owner-occupied commercial real estate	1,286	—	80,104	1,839	81,390	1,839
Investment commercial real estate	12,823	474	284,367	4,123	297,190	4,597
Commercial and industrial	387	287	77,072	754	77,459	1,041
Secured by farmland	—	—	193	2	193	2
Agricultural production	—	—	175	2	175	2
Commercial construction	—	—	4,734	33	4,734	33
Consumer and other	15	15	19,600	61	19,615	76
Total ALLL	\$19,813	\$ 1,039	\$1,851,615	\$ 16,165	\$1,871,428	\$17,204

	December 31, 2013					
	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 ALLL
(In thousands)						

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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
Agricultural production	—	—	—	—	—	—
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

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Impaired loans include nonaccrual loans of \$6.5 million at June 30, 2014 and \$6.6 million at December 31, 2013. Impaired loans also include performing troubled debt restructured loans of \$12.7 million at June 30, 2014 and \$11.1 million at December 31, 2013. At June 30, 2014, the allowance allocated to troubled debt restructured loans totaled \$889 thousand of which \$259 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 June 30, 2014. The Corporation has not committed to lend additional amounts as of June 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 June 30, 2014 and December 31, 2013:

(In thousands)	June 30, 2014				
	Unpaid Principal Balance	Recorded Investment	Specific Reserves	Average Impaired Loans	Interest Income Recognized
With no related allowance recorded:					
Primary residential mortgage	\$4,076	\$ 3,340	\$ —	\$ 3,141	\$ 47
Owned-occupied commercial real estate	1,389	1,286	—	3,455	63
Investment commercial real estate	6,578	6,578	—	5,008	63
Commercial and industrial	99	99	—	129	7
Home equity lines of credit	111	110	—	111	3
Junior lien loan on residence	331	212	—	246	5
Total loans with no related allowance	\$12,584	\$ 11,625	\$ —	\$ 12,090	\$ 188
With related allowance recorded:					
Primary residential mortgage	\$1,728	\$ 1,640	\$ 263	\$ 1,016	\$ 14
Owned-occupied commercial real estate	—	—	—	—	—
Investment commercial real estate	6,245	6,245	474	5,612	68
Commercial and industrial	310	288	287	303	5
Consumer and other	16	15	15	15	2
Total loans with related allowance	\$8,299	\$ 8,188	\$ 1,039	\$ 6,946	\$ 89
Total loans individually evaluated for impairment	\$20,883	\$ 19,813	\$ 1,039	\$ 19,036	\$ 277

(In thousands)	December 31, 2013				
	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
Junior lien loan on residence	—	—	—	—	—
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

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

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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 June 30, 2014 and December 31, 2013:

	June 30, 2014		
		Loans Past Due Over 90 Days And Still Accruing	
(In thousands)	Nonaccrual	Interest	
Primary residential mortgage	\$ 2,987	\$	—
Home equity lines of credit	110		—
Junior lien loan on residence	211		—
Owned-occupied commercial real estate	1,286		—
Investment commercial real estate	1,580		—
Commercial and industrial	347		—
Consumer and other	15		—
Total	\$ 6,536	\$	—

  

	December 31, 2013		
		Loans Past Due Over 90 Days And Still Accruing	
(In thousands)	Nonaccrual	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 June 30, 2014 and December 31, 2013 by class of loans, excluding nonaccrual loans:

	June 30, 2014			
	30-59 Days	60-89 Days	Greater Than 90 Days	Total
(In thousands)	Past Due	Past Due	Past Due	Past Due
Primary residential mortgage	\$ 806	\$ 730	\$	— \$ 1,536
Total	\$ 806	\$ 730	\$	— \$ 1,536

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(In thousands)	December 31, 2013			
	30-59	60-89	Greater Than	Total
	Days	Days	90 Days	
	Past Due	Past Due	Past Due	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.

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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 June 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	\$475,381	\$1,493	\$ 6,243	\$ —
Home equity lines of credit	48,556	—	110	—
Junior lien loan on residence	13,367	—	212	—
Multifamily property	842,568	1,903	839	—
Owned-occupied commercial real estate	74,745	547	6,098	—
Investment commercial real estate	260,036	16,371	20,783	—
Commercial and industrial	77,050	22	387	—
Farmland	193	—	—	—
Agricultural production loans	175	—	—	—
Commercial construction	4,584	150	—	—
Consumer and other loans	19,358	—	257	—
Total	\$1,816,013	\$20,486	\$ 34,929	\$ —

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 June 30, 2014, \$19.8 million of substandard and special mention loans were also considered impaired as compared to December 31, 2013, when \$17.7 million were also impaired.

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

	April 1, 2014			Provision (Credit)	June 30, 2014
(In thousands)	Beginning ALLL	Charge-offs	Recoveries		Ending ALLL
Primary residential mortgage	\$ 2,462	\$ (25 )	\$ —	\$ 565	\$3,002
Home equity lines of credit	153	(24 )	—	47	176
Junior lien loan on residence	139	—	21	(12 )	148
Multifamily property	5,630	—	—	658	6,288
Owned-occupied commercial real estate	2,468	(572 )	80	(137 )	1,839
Investment commercial real estate	4,679	—	6	(88 )	4,597
Agricultural production loans	2	—	—	—	2
Commercial and industrial	938	(38 )	18	123	1,041
Secured by farmland	3	—	—	(1 )	2
Commercial construction	44	—	—	(11 )	33
Consumer and other loans	69	(1 )	2	6	76
Total ALLL	\$ 16,587	\$ (660 )	\$ 127	\$ 1,150	\$ 17,204

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

	January 1, 2014			Provision (Credit)	June 30, 2014
(In thousands)	Beginning ALLL	Charge-offs	Recoveries		Ending ALLL
Primary residential mortgage	\$ 2,361	\$ (45 )	\$ —	\$ 686	\$3,002
Home equity lines of credit	181	(24 )	—	19	176
Junior lien loan on residence	156	(1 )	44	(51 )	148
Multifamily property	4,003	—	—	2,285	6,288
Owned-occupied commercial real estate	2,563	(644 )	80	(160 )	1,839
Investment commercial real estate	5,083	—	8	(494 )	4,597
Agricultural production loans	—	—	—	2	2
Commercial and industrial	825	(96 )	32	280	1,041
Secured by farmland	3	—	—	(1 )	2
Commercial construction	120	—	—	(87 )	33
Consumer and other loans	78	(3 )	5	(4 )	76
Total ALLL	\$ 15,373	\$ (813 )	\$ 169	\$ 2,475	\$ 17,204

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

	April 1, 2013			Provision (Credit)	June 30, 2013
(In thousands)	Beginning ALLL	Charge-offs	Recoveries		Ending ALLL
Primary residential mortgage	\$ 3,340	\$ (393 )	\$ 1	\$ 114	\$3,062
Home equity lines of credit	260	—	—	(7 )	253
Junior lien loan on residence	63	—	—	8	71
Multifamily property	1,562	—	—	597	2,159
Owned-occupied commercial real estate	2,428	—	19	(33 )	2,414
Investment commercial real estate	4,272	—	6	(118 )	4,160
Agricultural production loans	—	—	—	—	—
Commercial and industrial	1,147	—	27	(44 )	1,130
Secured by farmland	3	—	—	—	3
Commercial construction	114	—	—	(2 )	112
Consumer and other loans	90	(2 )	1	(15 )	74
Total ALLL	\$ 13,279	\$ (395 )	\$ 54	\$ 500	\$ 13,438

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

	January 1, 2013			Provision (Credit)	June 30, 2013
(In thousands)	Beginning ALLL	Charge-offs	Recoveries		Ending ALLL
Primary residential mortgage	\$ 3,047	\$ (456 )	\$ 13	\$ 458	\$3,062
Home equity lines of credit	267	—	—	(14 )	253
Junior lien loan on residence	314	(295 )	7	45	71
Multifamily property	1,305	—	11	843	2,159
Owned-occupied commercial real estate	2,509	—	38	(133 )	2,414
Investment commercial real estate	4,155	—	12	(7 )	4,160
Agricultural production loans	—	—	—	—	—
Commercial and industrial	803	(15 )	37	305	1,130
Secured by farmland	3	—	—	—	3
Commercial construction	240	—	1	(129 )	112
Consumer and other loans	92	(4 )	4	(18 )	74
Total ALLL	\$ 12,735	\$ (770 )	\$ 123	\$ 1,350	\$ 13,438

**Troubled Debt Restructurings:**

The Corporation has allocated \$631 thousand and \$913 thousand of specific reserves, on accruing TDRs, to customers whose loan terms have been modified in troubled debt restructurings as of June 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 six month period ending June 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.

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

(Dollars in thousands)	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Primary residential mortgage	1	\$ 414	\$ 414
Investment commercial real estate	1	1,580	1,580
Total	2	\$ 1,994	\$ 1,994

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

(Dollars in thousands)	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Primary residential mortgage	2	\$ 607	\$ 607
Investment commercial real estate	2	2,884	2,884
Total	4	\$ 3,491	\$ 3,491

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 June 30, 2013:

	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Primary residential mortgage	1	\$ 160	\$ 160
Total	1	\$ 160	\$ 160

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

	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Primary residential mortgage	3	\$ 482	\$ 482
Total	3	\$ 482	\$ 482



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 June 30, 2014 and 2013.

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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 six month period ended June 30, 2014:

(Dollars in thousands)	Number of Contracts	Recorded Investment
Primary residential mortgage	1	\$ 55
Total	1	\$ 55

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 six month period ended June 30, 2013:

(Dollars in thousands)	Number of Contracts	Recorded Investment
Owner occupied commercial real estate	1	\$ 406
Commercial and industrial	1	270
Total	2	\$ 676

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 June 30, 2014 and December 31, 2013, respectively, with a weighted average interest rate of 1.78 percent and 1.80 percent, respectively.

At June 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 \$413.0 million at June 30, 2014.

Also at June 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 \$12.8 million at June 30, 2014.

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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 June 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 six months ended June 30, 2014 and 2013.

(In thousands)	Three Months Ended June 30, 2014		
	Banking	Wealth Management Division	Total
Net interest income	\$ 15,938	\$ 985	\$ 16,923
Noninterest income	1,408	4,065	5,473
Total income	17,346	5,050	22,396
Provision for loan losses	1,150	—	1,150

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Salaries and benefits	7,801	1,288	9,089
Premises and equipment expense	2,166	168	2,334
Other noninterest expense	2,383	1,124	3,507
Total noninterest expense	13,500	2,580	16,080
Income before income tax expense	3,846	2,470	6,316
Income tax expense	1,590	943	2,533
Net income	\$ 2,256	\$ 1,527	\$ 3,783

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## Three Months Ended June 30, 2013

(In thousands)	Wealth Management		
	Banking	Division	Total
Net interest income	\$ 11,673	\$ 775	\$ 12,448
Noninterest income	1,536	3,700	5,236
Total income	13,209	4,475	17,684
Provision for loan losses	500	—	500
Salaries and benefits	6,699	1,236	7,935
Premises and equipment expense	2,193	145	2,338
Other noninterest expense	2,746	1,060	3,806
Total noninterest expense	12,138	2,441	14,579
Income before income tax expense	1,071	2,034	3,105
Income tax expense	350	746	1,096
Net income	\$ 721	\$ 1,288	\$ 2,009

## Six Months Ended June 30, 2014

(In thousands)	Wealth Management		
	Banking	Division	Total
Net interest income	\$30,526	\$ 1,968	\$32,494
Noninterest income	2,598	7,870	10,468
Total income	33,124	9,838	42,962
Provision for loan losses	2,475	—	2,475
Salaries and benefits	14,816	3,121	17,937
Premises and equipment expense	4,435	337	4,772
Other noninterest expense	4,236	2,324	6,560
Total noninterest expense	25,962	5,782	31,744
Income before income tax expense	7,162	4,056	11,218
Income tax expense	2,856	1,548	4,404
Net income	\$4,306	\$ 2,508	\$6,814
Total assets for period end	\$2,387,925	\$ 13,046	\$2,400,971

## Six Months Ended June 30, 2013

(In thousands)	Wealth Management		
	Banking	Division	Total
Net interest income	\$23,065	\$ 1,810	\$24,875
Noninterest income	3,624	7,216	10,840
Total income	26,689	9,026	35,715
Provision for loan losses	1,350	—	1,350
Salaries and benefits	12,489	2,525	15,014

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Premises and equipment expense	4,350	292	4,642
Other noninterest expense	4,418	2,298	6,716
Total noninterest expense	22,607	5,115	27,722
Income before income tax expense	4,082	3,911	7,993
Income tax expense	1,579	1,512	3,091
Net income	\$2,503	\$ 2,399	\$4,902
Total assets for period end	\$1,678,270	\$ 1,320	\$1,679,590

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**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 June 30, 2014, all collateral dependent impaired loans and other real estate owned valuations were supported by an appraisal less than 12 months old.

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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**

(In thousands)	June 30, 2014	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	\$ 15,555	\$ —	\$ 15,555	\$ —
Mortgage-backed securities-residential	153,643	—	153,643	—
State and political subdivisions	50,583	—	50,583	—
Single-Issuer Trust Preferred	2,550	—	2,550	—
CRA investment fund	2,939	2,939	—	—
Loans held for sale, at fair value	2,650	—	2,650	—
Total	\$ 227,920	\$ 2,939	\$ 224,981	\$ —

(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	—

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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	\$ —

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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 June 30, 2014 and December 31, 2013.

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

	June 30, 2014	December 31, 2013
Residential loans contractual balance	\$ 2,604	\$ 1,975
Fair value adjustment	46	26
Total fair value of residential loans held for sale	\$ 2,650	\$ 2,001

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

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**

	June 30, 2014	Fair Value Measurements		
		Using Quoted Prices in Active Markets for Identifiable Assets (Level 1)	Using Significant Other Observable Inputs (Level 2)	Using Significant Unobservable Inputs (Level 3)
(In thousands)				
Assets:				
Impaired loans:				
Primary residential mortgage	\$ 711	\$—	—	\$ 711
OREO	580	—	—	580
	December 31, 2013			
(In thousands)				
Assets:				
Impaired loans:				

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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 \$861 thousand, with a valuation allowance of \$150 thousand at June 30, 2014 and \$2.1 million, with a valuation allowance of \$471 thousand at December 31, 2013.

At both June 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 six months ended June 30, 2014 and the Corporation recorded a valuation allowance of \$930 thousand during the six months ended June 30, 2013.

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

(In thousands)	Carrying Amount	Fair Value Measurements at June 30, 2014 Using			
		Level 1	Level 2	Level 3	Total
<b>Financial assets</b>					
Cash and cash equivalents	\$215,626	\$214,876	\$750	\$—	\$215,626
Securities available for sale	225,270	2,939	222,331	—	225,270
FHLB and FRB stock	9,946	—	—	—	N/A
Loans held for sale, at fair value	2,650	—	2,650	—	2,650
Loans, net of allowance for loan losses	1,857,736	—	—	1,837,523	1,837,523
Accrued interest receivable	4,858	—	745	4,113	4,858
<b>Financial liabilities</b>					
Deposits	\$2,115,168	\$1,813,101	\$301,320	\$—	\$2,114,421
Federal home loan bank advances	83,692	—	84,919	—	84,919
Accrued interest payable	413	91	322	—	413

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

(In thousands)	Carrying Amount	Fair Value Measurements at December 31, 2013 Using			
		Level 1	Level 2	Level 3	Total
<b>Financial assets</b>					
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
<b>Financial liabilities</b>					
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.

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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.

**7. OTHER OPERATING EXPENSES**

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

(In thousands)	Three Months Ended		Six Months Ended	
	June 30, 2014	2013	June 30, 2014	2013
FDIC assessment	\$ 303	\$ 280	\$ 579	\$ 560
Wealth management division				
other expense	453	408	999	901
Professional and legal fees	519	430	970	930
Loan expense	124	165	224	363
Provision for ORE losses	300	930	400	930
Other operating expenses	1,808	1,593	3,388	3,032
Total other operating expenses	\$ 3,507	\$ 3,806	\$ 6,560	\$ 6,716



Index**8. OTHER COMPREHENSIVE INCOME**

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

(In thousands)	Balance at March 31, 2014	Other Comprehensive Income Before Reclassifications	Amount Reclassified From Accumulated Other Comprehensive Income	Other Comprehensive Income Three Months Ended June 30, 2014	Balance at June 30, 2014
Net unrealized holding gain on securities available for sale, Net of tax	\$ 606	\$ 875	\$ (51 )	\$ 824	\$ 1,430
Accumulated other comprehensive income, net of tax	\$ 606	\$ 875	\$ (51 )	\$ 824	\$ 1,430

(In thousands)	Balance at March 31, 2013	Other Comprehensive Income/(Loss) Before Reclassifications	Amount Reclassified From Accumulated Other Comprehensive Income	Other Comprehensive Income/(Loss) Three Months Ended June 30, 2013	Balance at June 30, 2013
Net unrealized holding gain/(loss) on securities available for sale, Net of tax	\$ 3,704	\$ (2,597 )	\$ (155 )	\$ (2,752 )	\$ 952
Accumulated other comprehensive income/(loss), net of tax	\$ 3,704	\$ (2,597 )	\$ (155 )	\$ (2,752 )	\$ 952

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

(In thousands)	Three Months Ended June 30,		Affected Line Item in Statements of Income
	2014	2013	
Unrealized gains on securities available for sale:			
Realized net gain on securities sales	\$ 79	\$ 238	Securities gains, net
Income tax expense	(28 )	(83 )	Income tax expense
Total reclassifications, net of tax	\$ 51	\$ 155	

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

(In thousands)	Balance at December 31, 2013	Other Comprehensive Income Before Reclassifications	Amount Reclassified From Other Comprehensive Income Accumulated	Other Comprehensive Income Six Months Ended June 30, 2014	Balance at June 30, 2014
Net unrealized holding gain on securities available for sale, Net of tax	\$ 23	\$ 1,522	\$ (115 )	\$ 1,407	\$ 1,430
Accumulated other comprehensive income, net of tax	\$ 23	\$ 1,522	\$ (115 )	\$ 1,407	\$ 1,430

(In thousands)	Balance at December 31, 2012	Other Comprehensive Income/(Loss) Before Reclassifications	Amount Reclassified From Other Comprehensive Income Accumulated	Other Comprehensive Income/(Loss) Six Months Ended June 30, 2013	Balance at June 30, 2013
Net unrealized holding gain on securities available for sale, Net of tax	\$ 4,299	\$ (3,004 )	\$ (343 )	\$ (3,347 )	\$ 952
Accumulated other comprehensive income, net of tax	\$ 4,299	\$ (3,004 )	\$ (343 )	\$ (3,347 )	\$ 952

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

(In thousands)	Six Months Ended June 30,		Affected Line Item in Statements of Income
	2014	2013	
Unrealized gains on securities available for sale:			
Realized net gain on securities sales	\$ 177	\$ 527	Securities gains, net
Income tax expense	(62 )	(184 )	Income tax expense
Total reclassifications, net of tax	\$ 115	\$ 343	

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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.

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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.

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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 six months ended June 30, 2014 and 2013.

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

(In thousands, except per share data)	Three Months Ended June 30,		Change 2014 v 2013
	2014	2013	
Results of Operations:			
Interest income	\$ 18,630	\$ 13,460	\$