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)

ý **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 incorporation or organization)	(I.R.S. Employer Identification No.)

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

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

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

Yes ý No ¨.

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 or Regulations S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes ý No ¨

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

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

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

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

12,156,766

1

PEAPACK-GLADSTONE FINANCIAL CORPORATION

PART 1 FINANCIAL INFORMATION

PART 2 OTHER INFORMATION

Index

Item 1. Financial Statements (Unaudited)

PEAPACK-GLADSTONE FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF CONDITION

(Dollars in thousands)

	(unaudited) June 30, 2014	(audited) December 31, 2013
ASSETS		
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
TOTAL ASSETS	$2,400,971	$ 1,966,948
LIABILITIES		
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

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

3

Index

. PEAPACK-GLADSTONE FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF INCOME

(Dollars in thousands, except share data)

(Unaudited)

	Three Months Ended June 30, 2014	2013	Six Months Ended June 30, 2014	2013
INTEREST INCOME				
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
INTEREST EXPENSE				
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
NET INTEREST INCOME BEFORE PROVISION FOR LOAN LOSSES	16,923	12,448	32,494	24,875
Provision for loan losses	1,150	500	2,475	1,350
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	15,773	11,948	30,019	23,525
OTHER INCOME				
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
OPERATING EXPENSES				
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
INCOME BEFORE INCOME TAX EXPENSE	6,316	3,105	11,218	7,993

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

4

Index

PEAPACK-GLADSTONE FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Dollars in thousands)

(unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
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

Index

PEAPACK-GLADSTONE FINANCIAL CORPORATION
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

Index

PEAPACK-GLADSTONE FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in thousands)

(Unaudited)

	Six Months Ended June 30, 2014	2013
OPERATING ACTIVITIES:		
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
NET CASH PROVIDED BY OPERATING ACTIVITIES	13,747	32,052
INVESTING ACTIVITIES:		
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	—
NET CASH USED IN INVESTING ACTIVITIES	(257,914)	(90,834)
FINANCING ACTIVITIES:		
Net increase in deposits	467,918	6,499
Net decrease in overnight borrowings	(54,900)	—

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

7

Index

PEAPACK-GLADSTONE FINANCIAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Certain information and footnote disclosures normally included in the audited consolidated financial statements prepared in accordance with U.S. generally accepted accounting principles have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission. These unaudited consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Annual Report on Form 10-K for the period ended December 31, 2013 for Peapack-Gladstone Financial Corporation (the "Corporation" or the "Company"). In the opinion of the Management of the Corporation, the accompanying unaudited Consolidated Interim Financial Statements contain all adjustments necessary to present fairly the financial position as of 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 of discount. Premiums and discounts on securities are amortized on the level-yield method without anticipating prepayments, except for mortgage-backed securities where prepayments are anticipated. Gains and losses on sales are recorded on the trade date and determined using the specific identification method.

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

Index

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

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

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

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

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

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

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

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

Index

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

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

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

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

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

Home Equity Lines of Credit. The Bank provides revolving lines of credit against one to four family residences within or near its primary geographic market. Primary risk characteristics associated with home equity lines of credit typically involve major living or lifestyle changes to the borrower, including unemployment or other loss of income; unexpected significant expenses, such as for major medical issues or catastrophic events; divorce or death. In addition, home equity lines of credit typically are made with variable or floating interest rates, such as the Prime Rate, which could expose the borrower to higher debt service requirements in a rising interest rate environment. Further, real estate value could drop significantly and cause the value of the property to fall below the loan amount, creating additional potential exposure for the Bank.

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

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

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

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

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

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

Index

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

Stock-Based Compensation: The Corporation's Stock Incentive Plans allow the granting of shares of the Corporation's common stock as incentive stock options, nonqualified stock options, restricted stock awards and stock appreciation rights 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.

Index

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 June 30,		Six Months Ended 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.

Index

(In thousands, except per share data	Three Months Ended June 30, 2014	2013	Six Months Ended 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:

	June 30, 2014			
		Gross	Gross	
	Amortized	Unrecognized	Unrecognized	Fair
(In thousands)	Cost	Gains	Losses	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

Index

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

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

	June 30, 2014					
	Duration of Unrecognized Loss					
	Less Than 12 Months		12 Months or Longer		Total	
(In thousands)	Approximate Fair Value	Unrecognized Losses	Approximate Fair Value	Unrecognized Losses	Approximate Fair Value	Unrecognized Losses
U.S. government sponsored entities	$—	$ —	$ 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)

	December 31, 2013					
	Duration of Unrecognized Loss					
	Less Than 12 Months		12 Months or Longer		Total	
(In thousands)	Approximate Fair Value	Unrecognized Losses	Approximate Fair Value	Unrecognized Losses	Approximate Fair Value	Unrecognized Losses
U.S. government sponsored entities	$14,770	$ (1,216)	$ —	$ —	$14,770	$ (1,216)
Mortgage-backed securities-residential	71,154	(1,142)	84	(3)	71,238	(1,145)
State and political subdivisions	5,589	(71)	—	—	5,589	(71)
Single-issuer trust						

Preferred security	—	—	2,370	(629)	2,370	(629)
CRA investment fund	2,884	(116)	—	—	2,884	(116)
Total	$94,397	$ (2,545)	$ 2,454	$ (632)	$96,851	$ (3,177)

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.

Index

3. LOANS

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.

Index

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					
(In thousands)	Total Loans Individually Evaluated For Impairment	Ending ALLL Attributable To Loans Individually Evaluated for Impairment	Total Loans Collectively Evaluated For Impairment	Ending ALLL Attributable To Loans Collectively Evaluated for Impairment	Total Loans	Total Ending ALL
Primary residential mortgage	$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					
(In thousands)	Total Loans Individually Evaluated For Impairment	Ending ALLL Attributable To Loans Individually Evaluated for Impairment	Total Loans Collectively Evaluated For Impairment	Ending ALLL Attributable To Loans Collectively Evaluated for Impairment	Total Loans	Total Ending ALLL

Primary residential mortgage	$3,691	$ 126	$543,136	$ 2,235	$546,827	$2,361
Home equity lines of credit	111	—	47,794	181	47,905	181
Junior lien loan on residence	260	—	12,854	156	13,114	156
Multifamily property	—	—	541,503	4,003	541,503	4,003
Owner-occupied commercial real estate	3,250	464	76,485	2,099	79,735	2,563
Investment commercial real estate	9,949	741	257,457	4,342	267,406	5,083
Commercial and industrial	470	309	51,168	516	51,638	825
Secured by farmland	—	—	197	3	197	3
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

Index

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:

	June 30, 2014				
(In thousands)	Unpaid Principal Balance	Recorded Investment	Specific Reserves	Average Impaired Loans	Interest Income Recognized
With no related allowance recorded:					
Primary residential mortgage	$4,076	$ 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

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

With related allowance recorded:					
Primary residential mortgage	$707	$ 707	$ 126	$636	$ 29
Owned-occupied commercial real estate	2,190	2,057	464	2,100	16
Investment commercial real estate	4,949	4,949	741	4,949	618
Commercial and industrial	323	309	309	269	4
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.

18

Index

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

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

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

19

Index

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

Credit Quality Indicators:

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

The Corporation uses the following definitions for risk ratings:

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

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

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

Index

Loans not meeting the criteria above that are analyzed individually as part of the above described process are considered to be pass-rated loans. As of 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.

Index

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

(In thousands)	April 1, 2014 Beginning ALLL	Charge-offs	Recoveries	Provision (Credit)	June 30, 2014 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:

(In thousands)	January 1, 2014 Beginning ALLL	Charge-offs	Recoveries	Provision (Credit)	June 30, 2014 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

Index

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

(In thousands)	April 1, 2013 Beginning ALLL	Charge-offs	Recoveries	Provision (Credit)	June 30, 2013 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:

(In thousands)	January 1, 2013 Beginning ALLL	Charge-offs	Recoveries	Provision (Credit)	June 30, 2013 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.

Index

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.

Index

The following table presents loans by class modified as troubled debt restructurings for which there was a payment default, within twelve months of modification, during the 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.

Index

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

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

At 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.

	Three Months Ended June 30, 2014		
(In thousands)	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

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

Index

	Three Months Ended June 30, 2013		
(In thousands)	Banking	Wealth Management 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)	Banking	Wealth Management 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)	Banking	Wealth Management 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

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

27

Index

6. FAIR VALUE

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

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

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

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

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

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

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

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

Index

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

Assets Measured on a Recurring Basis

		Fair Value Measurements Using		
(In thousands)	June 30, 2014	Quoted Prices in Active Markets For Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Available for sale:				
U.S. government-sponsored entities	$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	$ —

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

CRA investment fund	2,884	2,884	—	—
Loans held for sale, at fair value	2,001	—	2,001	—
Total	$ 270,448	$ 2,884	$ 267,564	$ —

29

Index

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

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

Primary residential mortgage	$ 85	$—	$ —	$ 85
Owner occupied commercial real estate	1,593	—	—	1,593
OREO	980	—	—	980

Impaired loans that are measured for impairment using the fair value of the collateral for collateral dependent loans, had a recorded investment of $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.

30

Index

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

		Fair Value Measurements at June 30, 2014 Using			
(In thousands)	Carrying Amount	Level 1	Level 2	Level 3	Total
Financial assets					
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
Financial liabilities					
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:

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

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

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

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

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

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

Index

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:

	Three Months Ended June 30,		Six Months Ended June 30,	
(In thousands)	2014	2013	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, 2014	2013	Affected Line Item in Statements of Income
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	

33

Index

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 Accumulated Other Comprehensive Income	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 Accumulated Other Comprehensive Income	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, 2014	2013	Affected Line Item in Statements of Income
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	

Index

Item 2

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

AND RESULTS OF OPERATIONS

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

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

Index

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

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

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

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

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

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

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

Index

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

	Three Months Ended June 30,				Change	
(In thousands, except per share data)	2014		2013		2014 v 2013	
Results of Operations:						
Interest income	$ 18,630		$ 13,460		$ 5,170	
Interest expense	1,707		1,012		695	
Net interest income	16,923		12,448		4,475	
Provision for loan losses	1,150		500		650	
Net interest income after provision for loan losses	15,773		11,948		3,825	
Other income	5,473		5,236		237	
Other operating expense	14,930		14,079		851	
Income before income tax expense	6,316		3,105		3,211	
Income tax expense	2,533		1,096		1,437	
Net income	$ 3,783		$ 2,009		$ 1,774	
Per Share Data:						
Basic earnings per common share	$ 0.32		$ 0.23		$ 0.09	
Diluted earnings per common share	0.32		0.22		0.10	
Average common shares outstanding	11,721,256		8,909,170		2,812,086	
Diluted average common shares outstanding	11,846,075		8,955,384		2,890,691	
Average equity to average assets	7.97	%	7.56	%	5.42	%
Return on average assets annualized	0.67		0.48		39.58	
Return on average equity annualized	8.44		6.41		31.67	

37

Index

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

(In thousands, except per share data)	Six Months Ended June 30, 2014	2013	Change 2014 v 2013
Results of Operations:			
Interest income	$35,579	$26,892	$8,687
Interest expense	3,085	2,017	1,068
Net interest income	32,494	24,875	7,619
Provision for loan losses	2,475	1,350	1,125
Net interest income after provision for loan losses	30,019	23,525	6,494
Other income	10,468	10,840	(372)
Other operating expense	29,269	26,372	2,897
Income before income tax expense	11,218	7,993	3,225
Income tax expense	4,404	3,091	1,313
Net income	$6,814	$4,902	$1,912
Per Share Data:			
Basic earnings per common share	$0.58	$0.55	$0.03
Diluted earnings per common share	0.58	0.55	0.03
Average common shares outstanding	11,664,410	8,889,971	2,774,439
Diluted average common shares outstanding	11,814,806	8,942,267	2,872,539
Average equity to average assets	8.17%	7.55%	8.21%
Return on average assets annualized	0.63	0.60	5.00
Return on average equity annualized	7.74	7.89	(1.90)

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

The three months ended June 30, 2014 included a $176 thousand net gain on sale of residential first mortgage loans sold held at the lower of cost or fair value, as a component of balance sheet management.

The three months ended June 30, 2013 included a $930 thousand provision for loss on an REO property.

	At June 30,	Percent Change

	2014	2013	2014 v 2013
Selected Balance Sheet Ratios:			
Total capital(Tier I + II) to risk-weighted assets	14.30 %	13.09 %	9.24 %
Tier I Leverage ratio	8.01	7.39	8.39
Average loans to average deposits	95.64	78.45	21.91
Allowance for loan losses to total loans	0.92	1.07	(14.02)
Allowance for loan losses to nonperforming loans	263.22	166.41	58.18
Nonperforming loans to total loans	0.35	0.64	(45.31)
Noninterest bearing deposits to total deposits	19.41	21.47	(9.59)
Time deposits to total deposits	14.28	11.07	29.00

38

Index

The Corporation recorded net income of $3.8 million for the second quarter of 2014 compared to $2.0 million for the same period of 2013. Diluted earnings per common share were $0.32 and $0.22 for the three months ended June 30, 2014 and 2013, respectively. Annualized return on average assets was 0.67 percent and annualized return on average common equity was 8.44 percent for the second quarter of 2014.

For the first six months of 2014, the Corporation recorded net income of $6.8 million compared to $4.9 million for the same period of 2013**.** Diluted earnings per common share were $0.58 and $0.55 for the first six months of 2014 and 2013, respectively. Annualized return on average assets was 0.63 percent and annualized return on average common equity was 7.74 percent for the first six months of 2014.

Increased earnings for the three and six months ended June 30, 2014 over the same periods in 2013 were due to increased net interest income, due principally to the Corporation’s loan growth, and increased wealth management fee income offset by increased provision for loan losses, lower gains on mortgage loans sold and increased expenses largely due to costs associated with the continued implementation of the Strategic Plan.

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

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

EARNINGS ANALYSIS

NET INTEREST INCOME/AVERAGE BALANCE SHEET:

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

Index

The following table summarizes the Company’s net interest income and related spread and margin for the periods indicated:

	Three Months Ended June 30,			
(In thousands)	2014		2013	
Net interest income	$ 16,923		$ 12,448	
Interest rate spread	3.06	%	3.15	%
Net interest margin	3.14		3.22	

	Six Months Ended June 30,			
(In thousands)	2014		2013	
Net interest income	$ 32,494		$ 24,875	
Interest rate spread	3.08	%	3.18	%
Net interest margin	3.16		3.25	

Net interest income for the current 2014 quarter and six months benefitted from loan growth during the first half of 2014 as well as the last half of 2013, principally from multifamily and commercial mortgages.

Net interest margin for the June 2014 quarter and six months declined slightly when compared to the June 2013 periods due to the continued effect of low market yields, as well as competitive pressures in attracting new loans and deposits.

The following table summarizes the company’s loans closed for the periods indicated:

	For the Quarters Ended		
	June 30, 2014		June 30, 2013
Residential mortgage loans retained	$17,245		$37,352
Residential mortgage loans sold	7,344		26,651
Total residential mortgage loans	24,589		64,003
Commercial real estate loans	20,175		17,080
Multifamily properties	149,937		70,645
Commercial loans	62,668	(A)	8,788
Total commercial loans	232,780		96,513
Installment loans	5,184		1,198
Home equity lines of credit	6,709	(A)	2,619
Total loans closed	$269,262		$164,333

Index

	For the Six Months Ended		
	June 30, 2014		June 30, 2013
Residential mortgage loans retained	$ 28,898		$ 68,782
Residential mortgage loans sold	14,355		52,053
Total residential mortgage loans	43,253		120,835
Commercial real estate loans	36,016		26,570
Multifamily properties	375,080		98,525
Commercial loans	78,625	(A)	24,746
Total commercial loans	489,721		149,841
Installment loans	7,061		2,426
Home equity lines of credit	11,377	(A)	7,071
Total loans closed	$ 551,412		$ 280,173

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

Index

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

Average Balance Sheet

Unaudited

Three Months Ended

	June 30, 2014			June 30, 2013		
	Average Balance	Income/ Expense	Yield	Average Balance	Income/ Expense	Yield
ASSETS:						
Interest-earning assets:						
Investments:						
Taxable (1)	$189,254	$977	2.06 %	$220,954	$1,085	1.96 %
Tax-exempt (1) (2)	57,847	312	2.16	50,479	322	2.55
Loans held for sale	1,026	15	5.89	2,512	50	8.12
Loans (2) (3):						
Mortgages	496,232	4,203	3.39	535,533	4,714	3.52
Commercial mortgages	1,155,360	11,108	3.85	485,299	5,473	4.51
Commercial	143,988	1,443	4.01	101,790	1,181	4.64
Commercial construction	6,065	65	4.29	9,179	107	4.66
Installment	22,154	233	4.21	20,097	224	4.46
Home equity	47,489	382	3.22	46,745	373	3.19
Other	558	13	9.32	592	15	10.14
Total loans	1,871,846	17,447	3.73	1,199,235	12,087	4.03
Federal funds sold	101	—	0.10	101	—	0.10
Interest-earning deposits	51,177	21	0.17	92,319	66	0.29
Total interest-earning assets	2,171,251	18,772	3.46 %	1,565,600	13,610	3.48 %
Noninterest-earning assets:						
Cash and due from banks	6,990			5,865		
Allowance for loan losses	(17,310)			(13,523)		
Premises and equipment	31,161			29,248		
Other assets	58,926			71,862		
Total noninterest-earning assets	79,767			93,452		
Total assets	$2,251,018			$1,659,052		
LIABILITIES:						
Interest-bearing deposits:						
Checking	$431,656	$115	0.11 %	$356,060	$74	0.08 %
Money markets	657,216	374	0.23	551,150	239	0.17
Savings	116,946	15	0.05	114,028	15	0.05
Certificates of deposit - retail	154,245	369	0.96	166,931	471	1.13
Subtotal interest-bearing deposits	1,360,063	873	0.26	1,188,169	799	0.27
Interest-bearing demand - brokered	138,000	70	0.20	—	—	—
Certificates of deposit - brokered	100,934	264	1.05	5,000	15	1.20
Total interest-bearing deposits	1,598,997	1,207	0.30	1,193,169	814	0.27

Borrowings	93,152	382	1.64	12,025	92	3.06
Capital lease obligation	9,867	118	4.78	8,884	106	4.77
Total interest-bearing liabilities	1,702,016	1,707	0.40	1,214,078	1,012	0.33
Noninterest-bearing liabilities:						
Demand deposits	360,096			311,227		
Accrued expenses and other liabilities	9,606			8,298		
Total noninterest-bearing liabilities	369,702			319,525		
Shareholders' equity	179,300			125,449		
Total liabilities and shareholders' equity	$2,251,018			$1,659,052		
Net interest income (tax-equivalent basis)		17,065			12,598	
Net interest spread			3.06 %			3.15 %
Net interest margin (4)			3.14 %			3.22 %
Tax equivalent adjustment		(142)			(150)	
Net interest income		$16,923			$12,448	

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

Index

Average Balance Sheet

Unaudited

Six Months Ended

	June 30, 2014			June 30, 2013		
	Average Balance	Income/ Expense	Yield	Average Balance	Income/ Expense	Yield
ASSETS:						
Interest-earning assets:						
Investments:						
Taxable (1)	$198,401	$2,038	2.05 %	$234,721	$2,362	2.01 %
Tax-exempt (1) (2)	59,025	649	2.20	50,116	646	2.58
Loans held for sale	1,174	25	4.29	9,661	246	5.10
Loans (2) (3):						
Mortgages	514,702	8,756	3.40	528,602	9,454	3.58
Commercial mortgages	1,046,179	20,153	3.85	458,378	10,436	4.55
Commercial	138,300	2,845	4.11	106,614	2,488	4.67
Commercial construction	5,969	132	4.42	9,198	211	4.59
Installment	21,860	461	4.22	20,511	454	4.43
Home equity	47,162	755	3.20	47,388	752	3.17
Other	561	26	9.27	609	30	9.85
Total loans	1,774,733	33,128	3.73	1,171,300	23,825	4.07
Federal funds sold	101	—	0.10	101	—	0.10
Interest-earning deposits	41,468	33	0.16	85,006	114	0.27
Total interest-earning assets	2,074,902	35,873	3.46 %	1,550,905	27,193	3.51 %
Noninterest-earning assets:						
Cash and due from banks	6,694			5,849		
Allowance for loan losses	(16,653)			(13,300)		
Premises and equipment	30,956			29,526		
Other assets	59,961			73,475		
Total noninterest-earning assets	80,958			95,550		
Total assets	$2,155,860			$1,646,455		
LIABILITIES:						
Interest-bearing deposits:						
Checking	$416,568	$207	0.10 %	$353,286	$153	0.09 %
Money markets	655,430	707	0.22	552,003	454	0.16
Savings	116,733	30	0.05	112,354	28	0.05
Certificates of deposit - retail	151,864	724	0.95	169,228	956	1.13
Subtotal interest-bearing deposits	1,340,595	1,668	0.25	1,186,871	1,691	0.27
Interest-bearing demand - brokered	106,851	113	0.21	—	—	—
Certificates of deposit - brokered	57,564	295	1.02	5,000	30	1.24
Total interest-bearing deposits	1,505,010	2,076	0.28	1,191,871	1,621	0.27
Borrowings	104,306	772	1.48	12,082	184	3.05
Capital lease obligation	9,907	237	4.78	8,910	212	4.76
Total interest-bearing liabilities	1,619,223	3,085	0.38	1,212,863	2,017	0.33

Noninterest-bearing liabilities:						
Demand deposits	350,698			301,087		
Accrued expenses and other liabilities	9,800			8,199		
Total noninterest-bearing liabilities	360,498			309,286		
Shareholders' equity	176,139			124,306		
Total liabilities and shareholders' equity	$2,155,860			$1,646,455		
Net interest income (tax-equivalent basis)		32,788			25,176	
Net interest spread			3.08 %			3.18 %
Net interest margin (4)			3.16 %			3.25 %
Tax equivalent adjustment		(294)			(301)	
Net interest income		$32,494			$24,875	

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

Index

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

(In Thousands):	Three Months Ended June 30, 2014 Difference due to Change In: Volume	Rate	Compared With June 30, 2013 Change In Income/ Expense
ASSETS:			
Investments	$ (85)	$ (33)	$ (118)
Loans	6,634	(1,274)	5,360
Loans held for sale	(21)	(14)	(35)
Federal funds sold	—	—	—
Interest-earning deposits	(23)	(22)	(45)
Total interest income	$ 6,505	$ (1,343)	$ 5,162
LIABILITIES:			
Checking	$ 111	$ —	$ 111
Money market	59	76	135
Savings	—	—	—
Certificates of deposit	218	(71)	147
Borrowed funds	343	(53)	290
Capital lease obligation	11	1	12
Total interest expense	$ 742	$ (47)	$ 695
Net interest income	$ 5,763	$ (1,296)	$ 4,467

(In Thousands):	Six Months Ended June 30, 2014 Difference due to Change In: Volume	Rate	Compared With June 30, 2013 Change In Income/ Expense
ASSETS:			
Investments	$ (195)	$ (126)	$ (321)
Loans	11,933	(2,630)	9,303
Loans held for sale	(182)	(39)	(221)
Federal funds sold	—	—	—
Interest-earning deposits	(45)	(36)	(81)
Total interest income	$ 11,511	$ (2,831)	$ 8,680
LIABILITIES:			
Checking	$ 163	$ 4	$ 167
Money market	110	143	253
Savings	2	—	2
Certificates of deposit	178	(145)	33
Borrowed funds	695	(107)	588
Capital lease obligation	22	3	25
Total interest expense	$ 1,170	$ (102)	$ 1,068
Net interest income	$ 10,341	$ (2,729)	$ 7,612

Index

On a fully tax-equivalent basis, interest income on earning assets totaled $18.8 million and $13.6 million for the second quarters of 2014 and 2013, respectively, reflecting an increase of $5.2 million or 37.9 percent from the second quarter in 2013. Average earning assets totaled $2.17 billion for the second quarter of 2014, an increase of $605.7 million or 38.7 percent from the same period of 2013. The commercial mortgage portfolio increased $670.1 million from the second quarter of 2013, averaging $1.16 billion for the second quarter of 2014. The increase was attributable to the addition of seasoned banking professionals over the course of 2013; a more concerted focus on the client service aspect of the lending process; more of a focus on New Jersey markets; and a focus on New York City multifamily markets beginning in mid-2013. The increase was also due to demand from borrowers looking to refinance multifamily and other commercial mortgages held by other institutions.

The average rates earned on earning assets was 3.46 percent for the quarter ended June 30, 2014, compared to 3.48 percent for the same period in 2013, a decrease of two basis points. The decline in the average rates on earning assets was due to the continued effect of low market yields, as well as competitive pressures in attracting new loans and deposits, partially offset by a shift in mix from lower yielding securities and interest earning deposits into higher yielding loans.

Total deposits for the second quarter of 2014 averaged $1.96 billion, increasing $454.7 million or 30.2 percent from the average balance for the same period of 2013. Growth in customer deposits (non-brokered deposits) has come from the addition of seasoned banking professionals over the course of 2013, including relationship bankers and private bankers; an intense focus on providing high-touch client service; and a new full array of treasury management products that support core deposit growth. Brokered certificates of deposit have been used in the Company's interim funding and interest rate risk management practices, while brokered interest-bearing demand deposits have also been utilized as interim funding vehicles in place of wholesale overnight borrowings as a more cost-effective alternative. The Company does ensure ample available collateralized liquidity as a backup to these short-term brokered deposits. Average rates paid on interest-bearing deposits were 30 basis points and 27 basis points for the second quarters of 2014 and 2013, respectively.

For the second quarter of 2014, overnight borrowings from the Federal Home Loan Bank of New York averaged $9.5 million compared to zero for the same quarter of 2013. For the second quarters of 2014 and 2013, average other borrowings totaled $83.7 million and $12.0 million, respectively, increasing $71.7 million when compared to the same period of 2013. The Company has utilized medium/longer term Federal Home Loan Bank advances in its interest rate risk management.

The Corporation recorded net interest income, on a fully tax-equivalent basis, of $32.5 million for the first six months of 2014 compared to $24.9 million for the same period of 2013, an increase of $7.6 million or 30.6 percent. The net interest margin was 3.16 percent for the six months ended June 30, 2014, compared to 3.25 percent for the same period last year.

For the first six months of 2014 and 2013, interest income on earning assets, on a fully tax-equivalent basis, totaled $35.9 million and $27.2 million, respectively, reflecting an increase of $8.7 million or 31.9 percent from the first half of 2013. Average earning assets for the first half of 2014 totaled $2.07 billion, an increase of $524.0 million or 33.8 percent over the $1.55 billion over the same period of 2013. The commercial mortgage portfolio more than doubled, from the year ago period, to an average $1.05 billion for the first two quarters of 2014. The increase was attributable to the addition of seasoned banking professionals over the course of 2013; a more concerted focus on the client service aspect of the lending process; more of a focus on New Jersey markets; and a focus on New York City multifamily markets beginning in mid-2013. The increase was also due to demand from high quality borrowers looking to refinance multifamily and other commercial mortgages held by other institutions.

Index

The average rates earned on earning assets was 3.46 percent and 3.51 percent for the first six months of 2014 and 2013, respectively, a decline of five basis points. The decline in the average rates on earning assets was due to the continued effect of low market yields, as well as competitive pressures in attracting new loans and deposits, partially offset by a shift in mix from lower yielding securities and interest earning deposits into higher yielding loans.

For the first six months of 2014, total deposits averaged $1.86 billion, increasing $362.8 million or 24.3 percent from the average balance for the same period of 2013. Growth in customer deposits (non-brokered deposits) has come from the addition of seasoned banking professionals over the course of 2013, including relationship bankers and private bankers; an intense focus on providing high touch client service; and a new full array of treasury management products that support core deposit growth. For the first six months of 2014 and 2013, average rates paid on interest-bearing deposits were 28 basis points and 27 basis points, respectively.

Overnight borrowings from the Federal Home Loan Bank of New York averaged $21.9 million for the first half of 2014 compared to zero for the same period of 2013. For the first half of 2014 and 2013, average other borrowings totaled $82.4 million and $12.1 million, respectively, increasing $70.3 million when compared to the same period of 2013. The Company has utilized medium/longer term Federal Home Loan Bank advances in its interest rate risk management.

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

	Three Months Ended June 30,		Change
(In thousands)	2014	2013	2014 v 2013
Service charges and fees	$ 708	$ 688	$ 20
Gain on sale of loans (mortgage banking)	112	391	(279)
Gain on sale of loans	176	—	176
Bank owned life insurance	276	276	—
Securities gains	79	238	(159)
Other income	117	15	102
Total other income	$ 1,468	$ 1,608	$ (140)

	Six Months Ended June 30,		Change
(In thousands)	2014	2013	2014 v 2013
Service charges and fees	$1,402	$1,364	$38
Gain on sale of loans (mortgage banking)	224	861	(637)
Gain on sale of loans	176	522	(346)

Bank owned life insurance	542	548	(6)
Securities gains	176	527	(351)
Other income	189	22	167
Total other income	$2,709	$3,844	$(1,135)

During the second quarter and first half of 2014, the Company experienced the continued low levels of mortgage banking income, as expected and planned for, and caused by an increase in mortgage rates beginning in the middle of 2013. This rate environment resulted in a decrease in residential mortgage loan originations.

During the second quarter of 2014, $67 million of longer duration, lower coupon residential first mortgage loans were sold, as part of the Company’s strategy to de-emphasize residential first mortgage lending, while benefitting its liquidity and interest rate risk positions. The sales also benefitted current earnings as a net $176 thousand gain was recorded. A gain of $522 thousand was recognized in the first half of 2013 on the sale of classified loans which were held for sale as of December 31, 2012.

Index

Securities gains were $79 thousand and $238 thousand for the three months ended June 30, 2014 and 2013, respectively. The Company recorded securities gains of $176 thousand for the first half of 2014 as compared to $527 thousand for the same 2013 period. Sales of securities have been generally employed to benefit interest rate risk, prepayment risk, and/or liquidity risk. Given the short duration of the securities portfolio, sales have been employed less often in recent periods.

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

	Three Months Ended June 30,		Change
(In thousands)	2014	2013	2014 v 2013
Salaries and employee benefits	$9,089	$7,935	$1,154
Premises and equipment	2,334	2,338	(4)
Other Operating Expenses:			
FDIC assessment	303	280	23
Wealth management division other expense	453	408	45
Professional and legal fees	519	430	89
Loan expense	124	165	(41)
Telephone	236	185	51
Advertising	138	157	(19)
Postage	93	99	(6)
Provision for ORE losses	300	930	(630)
Other operating expenses	1,341	1,152	189
Total operating expenses	$14,930	$14,079	$851

	Six Months Ended June 30,		Change
(In thousands)	2014	2013	2014 v 2013
Salaries and employee benefits	$17,937	$15,014	$2,923
Premises and equipment	4,772	4,642	130
Other Operating Expenses:			
FDIC assessment	579	560	19
Wealth management division other expense	999	901	98
Professional and legal fees	970	930	40
Loan expense	224	363	(139)
Telephone	463	358	105
Advertising	206	263	(57)
Postage	195	203	(8)
Provision for ORE losses	400	930	(530)

Other operating expenses	2,524	2,208	316
Total operating expenses	$29,269	$26,372	$2,897

The Corporation recorded operating expenses of $14.9 million and $14.1 million, for the second quarters of 2014 and 2013, respectively, an increase of $851 thousand or 6.0 percent. For the second quarter of 2014, salary and benefit expense was $9.1 million as compared to $7.9 million in the same quarter of 2013, an increase of $1.2 million or 14.5 percent. The increase is largely due to strategic hiring in line with the Company's Strategic Plan, including private bankers, relationship bankers, commercial lenders, wealth advisors, risk management professionals and various support staff. Additionally, normal salary increases and increased bonus/incentive accruals associated with the Company's growth, contributed to the increase. Loan expense for the second quarters of 2014 and 2013 was $124 thousand and $165 thousand, respectively, a decrease of $41 thousand, and is attributed to a decline in problem loan expense. Professional and legal fee expense was $519 thousand for the second quarter of 2014, an increase of $89 thousand, when compared to $430 thousand recorded for the second quarter of 2013 and was due to additional expenses for the proxy, stock plans and the annual meeting. The provision for ORE losses was $300 thousand for the second quarter of 2014 compared to $930 thousand in the same quarter of 2013, a decrease of $630 thousand. In 2013, the Company recorded a large write down of one of its ORE properties and an additional smaller write down on the same property in the second quarter of 2014.

Index

For the first six months of 2014 and 2013, the Corporation recorded operating expenses of $29.3 million and $26.4 million, respectively, an increase of $2.9 million or 11.0 percent over the year ago period. Salary and benefit expense was $17.9 million for the first six months of 2014, compared to $15.0 million in the same quarter of 2013, an increase of $2.9 million or 19.5 percent. As noted above, the increase is largely due to strategic hiring, normal salary increases and increased bonus and incentive accruals. For the first half of 2014, premises and equipment expense increased $130 thousand to $4.8 million when compared to the same quarter in 2013 due to increased occupancy costs associated with the new Princeton and Teaneck Private Banking offices. Loan expense declined $139 thousand or 38.3 percent from the first six months of 2013 to $224 thousand for the six months ended June 30, 2014 and is attributed to a decline in problem loan expense. As noted above, the Company recorded a $930 thousand write down in the first half of 2013 on one of its ORE properties and an additional $400 thousand during the first half of 2014.

The Corporation strives to operate in an efficient manner and control costs. However, the Company expected higher operating expenses as it executed its' Strategic Plan and expects that the trend of higher operating expenses will continue in 2014 as it further invests in high caliber revenue producers, and continues to invest in infrastructure in line with its' Strategic Plan. Further the Company generally expects revenue and profitability related to new personnel to lag those expenses by several quarters. It is important to note, however, that the Company has seen an improvement in quarterly revenue since launching its' Plan, particularly in the recent quarters, as the Plan began to gain momentum. Operating expenses generally remain in line with the Company's Strategic Plan.

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

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

	Three Months Ended June 30,		Change
(In thousands)	2014	2013	2014 v 2013
Total fee income	$4,005	$3,628	$ 377
Salaries and benefits (included in Operating Expenses section above)	1,288	1,236	52
Other operating expense (included in Operating Expenses section above)	1,292	1,205	87

Index

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

	Six Months Ended June 30,		Change
(In thousands)	2014	2013	2014 v 2013
Total fee income	$7,759	$6,996	$763
Salaries and benefits (included in Operating Expenses section above)	3,121	2,525	596
Other operating expense (included in Operating Expenses section above)	2,661	2,590	71
Assets under administration (market value)	$2,843,310	$2,520,424	$322,886

The market value of assets under administration for the Private Wealth Management Division was approximately $2.84 billion at June 30, 2014 compared to $2.52 billion at June 30, 2013, reflecting an increase of 12.8 percent.

The Private Wealth Management Division generated fee income of $4.0 million for the second quarter of 2014 compared to $3.6 million for the same quarter of 2013, an increase of $377 thousand or 10.4 percent. For the first six months of 2014, the Private Wealth Management Division generated fee income of $7.8 million, an increase of $763 thousand, or 10.9 percent, when compared to $7.0 million for the same 2013 period. The increase reflects increased relationships, a greater mix of higher margin business and an improvement in the market value of assets under management.

While the "Operating Expenses" section above offers an overall discussion of the Corporation's expenses including the Private Wealth Management Division, operating expenses relative to the Private Wealth Management Division totaled $2.6 million and $2.4 million for the second quarters of 2014 and 2013, respectively, an increase of $139 thousand or 5.7 percent. Increased expenses are in line with the Company's Strategic Plan. For the six months ended June 30, 2014, other expenses for the Private Wealth Management Division totaled $5.8 million compared to $5.1 million for the same period in 2013, an increase of $667 thousand, or 13.0 percent.

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

NONPERFORMING ASSETS: Other real estate owned (OREO), loans past due in excess of 90 days and still accruing, and nonaccrual loans are considered nonperforming assets. These assets totaled $7.6 million and $8.6 million at June 30, 2014 and December 31, 2013, respectively.

Index

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

	As of June 30, 2014	March 31, 2014	Dec 31, 2013	Sept 30, 2013	June 30, 2013
Loans past due over 90 days and still accruing	$—	$—	$—	$—	$—
Nonaccrual loans	6,536	7,473	6,630	6,891	8,075
Other real estate owned	1,036	2,062	1,941	2,759	3,347
Total nonperforming assets	$7,572	$9,535	$8,571	$9,650	$11,422
Accruing TDR's	$12,730	$12,340	$11,114	$6,133	$6,131
Loans past due 30 through 89 days and still accruing	$1,536	$5,027	$2,953	$2,039	$1,544
Classified loans (A)	$34,929	$35,075	$33,827	$32,430	$32,123
Impaired loans (A)	$19,813	$19,814	$17,744	$16,794	$17,977
Nonperforming loans as a % of total loans	0.35%	0.42%	0.42%	0.49%	0.64%
Nonperforming assets as a % of total assets	0.32%	0.42%	0.44%	0.54%	0.68%
Nonperforming assets as a % of total loans plus other real estate owned	0.40%	0.54%	0.54%	0.69%	0.91%

(A) Classified loans include impaired loans.

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

PROVISION FOR LOAN LOSSES: The provision for loan losses was $1.2 million for the second quarter of 2014 and $500 thousand for the same quarter of 2013. For the six months ended June 30, 2014 and 2013 the provision for loan losses was $2.5 million and $1.4 million, respectively. The amount of the loan loss provision and the level of the allowance for loan losses are based upon a number of factors including Management's evaluation of probable losses inherent in the portfolio, after consideration of appraised collateral values, financial condition and past credit history of the borrowers as well as prevailing economic conditions. Commercial credits carry a higher risk profile, which is reflected in Management's determination of the proper level of the allowance for loan losses.

The provision for loan losses of $1.2 million in the second quarter of 2014 was primarily related to the changes in the specific reserves on impaired loans and for loan growth experienced by the Corporation.

The overall allowance for loan losses was $17.2 million as of June 30, 2014 compared to $15.4 million at December 31, 2013. As a percentage of loans, the allowance for loan losses was 0.92 percent as of June 30, 2014 and 0.98 percent as of December 31, 2013. The specific reserves on impaired loans have decreased to $1.0 million at June 30, 2014 compared to $1.7 million as of December 31, 2013. Total impaired loans were $19.8 million and $17.7 million as of June 30, 2014 and December 31, 2013, respectively. The general component of the allowance increased from $13.7 million at December 31, 2013 to $16.2 million at June 30, 2014. As a percentage of non-impaired loans, the general reserve remained relatively stable and was 0.88 percent at both June 30, 2014 and December 31, 2013. Although the Corporation has experienced loan growth, there has been a shift in the loan portfolio to less risky loans, such as commercial mortgage loans secured by multifamily properties, from the riskier loans that carry higher general reserves.

Index

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

(In thousands)	June 30, 2014	March 31, 2014	December 31, 2013	September 30, 2013	June 30, 2013
Allowance for loan losses:					
Beginning of period	$16,587	$15,373	$14,056	$13,438	$13,279
Provision for loan losses	1,150	1,325	1,325	750	500
Charge-offs, net	(533)	(111)	(8)	(132)	(341)
End of period	$17,204	$16,587	$15,373	$14,056	$13,438
Allowance for loan losses as a % of total loans	0.92%	0.94%	0.98%	1.01%	1.07%
Allowance for loan losses as a % of nonperforming loans	263.22%	221.96%	231.87%	203.98%	166.41%

INCOME TAXES: For the second quarters of 2014 and 2013, income tax expense as a percentage of pre-tax income was 40 percent and 35 percent, respectively. For the six months ended June 30, 2014 and 2013, income tax expense as a percentage of pre-tax income was 39 percent for both periods.

CAPITAL RESOURCES: The Corporation's total shareholders' equity at June 30, 2014 was $182.3 million as compared to $170.7 million at December 31, 2013. Capital in the June 2014 six month period was benefitted by net income and by nearly $3.7 million of discretionary share purchases by participants in the Dividend Reinvestment Plan.

During the June 2014 quarter, the Company continued to employ the capital raised in December 2013 by continuing to grow loans.

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

In addition, the Corporation, through the Bank, is subject to various regulatory capital requirements administered by the Federal banking regulatory agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Corporation and the Bank's consolidated financial statements.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios of Total and Tier 1 capital to risk-weighted assets and of Tier 1 Capital to average assets. For the second quarter of 2014, the Bank's capital ratios met or exceeded the minimum to be categorized as well capitalized under the regulatory framework for prompt corrective action. Tier 1 Capital consists of common stock, retained earnings, minority interests in the equity accounts of consolidated subsidiaries, non-cumulative preferred stock, and cumulative preferred stock issued to the U.S. Treasury in the Capital Purchase Program, less goodwill and certain other intangibles. The remainder of capital may consist of other preferred stock, certain other instruments and a portion of the allowance for loan loss. At June 30, 2014, the Bank's Tier 1 Capital and Total Capital ratios to risk-weighted assets were 12.53 percent and 13.78 percent, respectively, both in excess of the well-capitalized standards of 6.0 percent and 10.0 percent, respectively. The Federal Reserve Board ("FRB") has also established minimum leverage ratio guidelines. At June 30, 2014, the Bank's leverage ratio was 7.69 percent, in excess of the well-capitalized standard of 5.0 percent.

Index

As previously announced, on July 17, 2014, the Board of Directors declared a regular cash dividend of $0.05 per share payable on August 14, 2014 to shareholders of record on July 31, 2014. In addition, the Dividend Reinvestment Plan of Peapack-Gladstone Financial Corporation, or the Plan, allows shareholders of the Corporation to purchase additional shares of common stock using cash dividends without payment of any brokerage commissions or other charges. Shareholders may also make discretionary cash payments of up to $50,000 per quarter to purchase additional shares of common stock. The Plan is a continuing source of future capital.

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

Management believes the Corporation's capital position and capital ratios are adequate.

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

Management actively monitors and manages the Corporation's liquidity position and feels it is sufficient to meet future needs. Cash and cash equivalents, including federal funds sold and interest-earning deposits, totaled $215.6 million at June 30, 2014. In addition, the Corporation has $225.3 million in securities designated as available for sale at June 30, 2014, of which $171.2 million is unencumbered. These securities can be sold in response to liquidity concerns. In addition, the Corporation generates significant liquidity from scheduled and unscheduled principal repayments of loans and mortgage-backed securities.

Another source of liquidity is borrowing capacity. As of June 30, 2014, unused borrowing capacity totaled $636.4 million from the FHLB and $28.8 million from correspondent banks.

Asset growth in the first half of 2014 was funded by a diversified source of funding alternatives, including customer deposits, brokered CDs, investment securities cash flows and FHLB advances. Short-term brokered interest-bearing demand deposit balances provided additional funding in 2014. Brokered interest-bearing demand deposits have been utilized in place of wholesale overnight borrowings as a more cost effective alternative. The Company does ensure ample available collateralized liquidity as a backup to these short term brokered deposits.

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

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

Index

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

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

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

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

At this time, the Corporation is not engaged in hedging through the use of interest rate swaps, nor does it use interest rate caps and floors. However, as noted above, ALCO has been authorized to engage in interest rate swaps as a means of extending the duration of shorter term liabilities.

During the June quarter, the following was accomplished as part of the Company's overall balance sheet management strategy:

- Approximately $67 million of unpaid principal balance (net of costs and fees) of longer duration, lower coupon residential first mortgage loans were sold, as part of the Company's strategy to de-emphasize residential first mortgage lending, while benefitting its liquidity and interest rate risk positions.
- A $61 million package of multifamily loan participations was executed. The $61 million represented a minority percentage of the principal balance of the package of loans. This benefitted the Company's liquidity and interest rate risk positions, and also benefitted the diversification of credit risk. In all cases the Company retained the majority ownership of the loan, the client relationship and the servicing of the entire

loan. Given the Company’s ability to generate high quality multifamily loans, this participation strategy will likely be utilized on an ongoing basis. Such a strategy provides for an avenue to improve risk-adjusted returns through ongoing fees, coupled with risk diversification and mitigation.”

- $80 million of longer term brokered certificates of deposit (“CDs”) were added principally to extend liabilities to benefit the Company’s interest rate risk position.

53

Index

Excess cash on hand held as of June 30, 2014 resulted from the balance sheet management strategies noted above. This cash will be utilized to fund future growth.

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

In an immediate and sustained 200 basis point increase in market rates at June 30, 2014, net interest income for year one would decline approximately six percent but improve approximately one-half of one percent for year two, compared to a flat interest rate scenario.

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

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

(Dollars in thousands)	Estimated Increase/ Decrease in EVPE			EVPE as a Percentage of Present Value of Assets (2)	
Change in Interest Rates (Basis Points)	Estimated EVPE (1)	Amount	Percent	EVPE Ratio (3)	Increase/(Decrease) (basis points)
+200	$215,515	$(42,567)	(16.49)%	9.70 %	(117.1)
+100	240,638	(17,444)	(6.76)	10.47	(40.2)
Flat interest rates	258,082	—	—	10.87	—
-100	264,206	6,124	2.37	10.86	(1.0)

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

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

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

Index

ITEM 3. Quantitative and Qualitative Disclosures about Market Risk

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

ITEM 4. Controls and Procedures

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

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

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

PART II. OTHER INFORMATION

ITEM 1A. Risk Factors

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

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

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

Index

ITEM 6. Exhibits

3 Articles of Incorporation and By-Laws:
A. Certificate of Incorporation of the Registrant, as amended, incorporated herein by reference to the Registrant's Quarterly Report on Form 10-Q filed on November 9, 2009.
B. By-Laws of the Registrant, incorporated herein by reference to the Registrant's Current Report on Form 8-K filed on April 23, 2007 (File No. 001-16197).

31.1 Certification of Douglas L. Kennedy, Chief Executive Officer of the Corporation, pursuant to Securities Exchange Act Rule 13a-14(a).

31.2 Certification of Jeffrey J. Carfora, Chief Financial Officer of the Corporation, pursuant to Securities Exchange Act Rule 13a-14(a).

32 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, signed by Douglas L. Kennedy, Chief Executive Officer of the Corporation, and Jeffrey J. Carfora, Chief Financial Officer of the Corporation.

101 Interactive Data File *