PEAPACK GLADSTONE FINANCIAL CORP
Form 10-Q
August 07, 2017

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

FORM 10-Q

(MARK ONE)

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the Quarter Ended June 30, 2017

OR

o **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 07921-0700
(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 x No o.

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 x No o.

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,” “smaller reporting company”, and “emerging growth company” in Rule 12b-2 of the Exchange Act (check one):

Large accelerated filer o	Accelerated filer x
Non-accelerated filer (do not check if a smaller reporting company) o	Smaller reporting company o
Emerging growth company o	

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13 (a) of the Exchange Act. o

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

Number of shares of Common Stock outstanding as of July 31, 2017:

17,846,324

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PEAPACK-GLADSTONE FINANCIAL CORPORATION

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Item 1. Financial Statements (Unaudited)

PEAPACK-GLADSTONE FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF CONDITION
(Dollars in thousands, except share and per share data)

	(unaudited) June 30, 2017	(audited) December 31, 2016
ASSETS		
Cash and due from banks	$4,119	$ 24,580
Federal funds sold	101	101
Interest-earning deposits	89,600	138,010
Total cash and cash equivalents	93,820	162,691
Securities available for sale	315,224	305,388
FHLB and FRB stock, at cost	18,487	13,813
Loans held for sale, at fair value	1,050	1,200
Loans held for sale, at lower of cost or fair value	1,650	388
Loans	3,664,020	3,312,144
Less: Allowance for loan losses	35,751	32,208
Net loans	3,628,269	3,279,936
Premises and equipment	29,806	30,371
Other real estate owned	373	534
Accrued interest receivable	6,776	8,153
Bank owned life insurance	44,172	43,806
Deferred tax assets, net	16,912	15,320
Goodwill	1,573	1,573
Other intangible assets	1,522	1,584
Other assets	6,045	13,876
TOTAL ASSETS	$4,165,679	$ 3,878,633
LIABILITIES		
Deposits:		
Noninterest-bearing demand deposits	$548,427	$ 489,485
Interest-bearing deposits:		
Interest-bearing deposits checking	1,085,805	1,023,081
Savings	121,480	120,056
Money market accounts	1,081,366	1,048,494
Certificates of deposit - Retail	475,395	457,000
Subtotal deposits	3,312,473	3,138,116
Interest-bearing demand – Brokered	180,000	180,000
Certificates of deposit - Brokered	88,780	93,721

Total deposits	3,581,253	3,411,837
Overnight borrowings with Federal Home Loan Bank	87,000	—
Federal Home Loan Bank advances	58,795	61,795
Capital lease obligation	9,407	9,693
Subordinated debt, net	48,829	48,764
Accrued expenses and other liabilities	23,548	22,334
TOTAL LIABILITIES	3,808,832	3,554,423
SHAREHOLDERS' EQUITY		
Preferred stock (no par value; authorized 500,000 shares; liquidation preference of $1,000 per share)	—	—
Common stock (no par value; stated value $0.83 per share; authorized 21,000,000 shares; issued shares, 18,254,582 at June 30, 2017 and 17,666,173 at December 31, 2016; outstanding shares, 17,846,404 at June 30, 2017 and 17,257,995 at December 31, 2016	15,213	14,717
Surplus	255,676	238,708
Treasury stock at cost, 408,178 shares at both June 30, 2017 and December 31, 2016	(8,988)	(8,988)
Retained earnings	95,484	81,304
Accumulated other comprehensive loss, net of income tax	(538)	(1,531)
TOTAL SHAREHOLDERS' EQUITY	356,847	324,210
TOTAL LIABILITIES & SHAREHOLDERS' EQUITY	$4,165,679	$ 3,878,633

See accompanying notes to consolidated financial statements

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PEAPACK-GLADSTONE FINANCIAL CORPORATION

CONSOLIDATED STATEMENTS OF INCOME

(Dollars in thousands, except share data)

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
INTEREST INCOME				
Interest and fees on loans	$31,637	$27,735	61,129	54,488
Interest on securities available for sale:				
Taxable	1,477	914	2,981	1,840
Tax-exempt	115	128	236	249
Interest on loans held for sale	7	182	11	193
Interest on interest-earning deposits	176	76	440	163
Total interest income	33,412	29,035	64,797	56,933
INTEREST EXPENSE				
Interest on savings and interest-bearing deposit accounts	2,320	1,226	4,132	2,386
Interest on certificates of deposit	1,650	1,545	3,220	3,034
Interest on borrowed funds	354	573	657	1,052
Interest on capital lease obligation	114	120	229	242
Interest on subordinated debt	783	139	1,566	139
Subtotal - interest expense	5,221	3,603	9,804	6,853
Interest on interest-bearing demand – brokered	726	760	1,446	1,501
Interest on certificates of deposits – brokered	493	496	984	993
Total Interest expense	6,440	4,859	12,234	9,347
NET INTEREST INCOME BEFORE PROVISION FOR LOAN LOSSES	26,972	24,176	52,563	47,586
Provision for loan losses	2,200	2,200	3,800	3,900
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	24,772	21,976	48,763	43,686
OTHER INCOME				
Wealth management fee income	5,086	4,899	9,904	9,194
Service charges and fees	815	818	1,586	1,625
Bank owned life insurance	350	345	672	687
Gains on loans held for sale at fair value (mortgage banking)	91	309	138	430
Gains on multifamily loans held for sale at lower of cost or fair value	—	500	—	624
Fee income related to loan level, back-to-back swaps	1,291	—	1,747	94
Gain on sale of SBA loans	142	212	297	259

Other income	396	347	846	679
Securities gains, net	—	18	—	119
Total other income	8,171	7,448	15,190	13,711
OPERATING EXPENSES				
Compensation and employee benefits	12,751	11,100	24,664	22,008
Premises and equipment	3,033	2,742	5,849	5,606
FDIC insurance expense	602	1,581	1,288	3,140
Other operating expense	3,709	3,352	7,598	7,227
Total operating expenses	20,095	18,775	39,399	37,981
INCOME BEFORE INCOME TAX EXPENSE	12,848	10,649	24,554	19,416
Income tax expense	4,908	4,085	8,632	7,363
NET INCOME	$7,940	$6,564	$15,922	$12,053
EARNINGS PER SHARE				
Basic	$0.45	$0.41	$0.92	$0.75
Diluted	$0.45	$0.40	$0.91	$0.74
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING				
Basic	17,505,638	16,172,223	17,314,695	16,015,251
Diluted	17,756,390	16,341,975	17,588,816	16,179,700

See accompanying notes to consolidated financial statements

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PEAPACK-GLADSTONE FINANCIAL CORPORATION

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Dollars in thousands)

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Net income	$ 7,940	$ 6,564	$ 15,922	$ 12,053
Comprehensive income:				
Unrealized gains/(loss) on available for sale securities:				
Unrealized holding gains arising during the period	199	325	835	1,431
Less: Reclassification adjustment for net gains included in net income	—	18	—	119
	199	307	835	1,312
Tax effect	(77)	(116)	(316)	(496)
Net of tax	122	191	519	816
Unrealized gains/(loss) on cash flow hedges:				
Unrealized holding gains/(loss)	(64)	(1,151)	801	(4,971)
	(64)	(1,151)	801	(4,971)
Tax effect	26	471	(327)	2,031
Net of tax	(38)	(680)	474	(2,940)
Total other comprehensive income/(loss)	84	(489)	993	(2,124)
Total comprehensive income	$ 8,024	$ 6,075	$ 16,915	$ 9,929

See accompanying notes to consolidated financial statements

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PEAPACK-GLADSTONE FINANCIAL CORPORATION

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(Dollars in thousands)

(Unaudited)

Six Months Ended June 30, 2017

(In thousands, except per share data)	Common Stock	Surplus	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Loss	Total
Balance at January 1, 2017 17,257,995 common shares outstanding	$ 14,717	$ 238,708	$ (8,988)	$ 81,304	$ (1,531)	$ 324,210
Net income	—	—	—	15,922	—	15,922
Comprehensive income	—	—	—	—	993	993
Restricted stock units issued 61,610 shares	51	(51)	—	—	—	—
Restricted stock awards forfeitures, (300) shares	(1)	1	—	—	—	—
Restricted stock units/awards repurchased on vesting to pay taxes, (46,884) shares	(39)	(1,376)	—	—	—	(1,415)
Amortization of restricted awards/units	—	1,671	—	—	—	1,671
Cash dividends declared on common stock ($0.10 per share)	—	—	—	(1,742)	—	(1,742)
Common stock option expense	—	6	—	—	—	6
Common stock options exercised, 32,527 net of 8,490 used to exercise, 24,037 shares	27	294	—	—	—	321
Sales of shares (Dividend Reinvestment Program), 537,113 shares	447	16,026	—	—	—	16,473
Issuance of shares for Employee Stock Purchase Plan, 12,833 shares	11	397	—	—	—	408
Balance at June 30, 2017 17,846,404 common shares outstanding	$ 15,213	$ 255,676	$ (8,988)	$ 95,484	$ (538)	$ 356,847

See accompanying notes to consolidated financial statements

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PEAPACK-GLADSTONE FINANCIAL CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in thousands)

(Unaudited)

	Six Months Ended June 30,	
	2017	2016
OPERATING ACTIVITIES:		
Net income	$ 15,922	$ 12,053
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	1,703	1,519
Amortization of premium and accretion of discount on securities, net	841	715
Amortization of restricted stock	1,671	1,429
Amortization of intangible	62	62
Amortization of subordinated debt costs	65	5
Provision of loan losses	3,800	3,900
Deferred tax benefit	(2,234)	(1,073)
Stock-based compensation and employee stock purchase plan expense	79	99
Gains on securities, available for sale, net	—	(119)
Loans originated for sale (1)	(13,910)	(28,284)
Proceeds from sales of loans held for sale (1)	13,233	26,139
Gain on loans held for sale (1)	(435)	(430)
Gain on loans held for sale at lower of cost or fair value	—	(624)
Gain on death benefit	(62)	—
Increase in cash surrender value of life insurance, net	(404)	(440)
Decrease/(increase) in accrued interest receivable	1,377	(913)
Decrease in other assets	8,843	65
Increase in accrued expenses, capital lease obligations and other liabilities	743	2,436
NET CASH PROVIDED BY OPERATING ACTIVITIES	31,294	16,539
INVESTING ACTIVITIES:		
Principal repayments, maturities and calls of securities available for sale	32,337	30,956
Redemptions for FHLB & FRB stock	13,282	56,097
Sales of securities available for sale	—	5,499
Purchase of securities available for sale	(42,179)	(46,325)
Purchase of FHLB & FRB stock	(17,956)	(56,736)
Proceeds from sales of loans held for sale at lower of cost or fair value	—	138,196
Net increase in loans, net of participations sold	(352,270)	(352,391)
Sales of other real estate owned	298	330
Purchase of premises and equipment	(1,138)	(472)
NET CASH USED IN INVESTING ACTIVITIES	(367,626)	(224,846)
FINANCING ACTIVITIES:		
Net increase in deposits	169,416	173,569

Net increase/(decrease) in overnight borrowings	87,000	(11,250)
Repayments of Federal Home Loan Bank advances	(3,000)	—
Dividends paid on common stock	(1,742)	(1,618)
Exercise of Stock Options, net of stock swaps	321	76
Restricted stock repurchased on vesting to pay taxes	(1,415)	(495)
Proceeds from issuance of subordinated debt	—	48,693
Sales of common shares (Dividend Reinvestment Program)	16,473	10,145
Issuance of shares for employee stock purchase plan	408	357
NET CASH PROVIDED BY IN FINANCING ACTIVITIES	267,461	219,477
Net (decrease)/increase in cash and cash equivalents	(68,871)	11,170
Cash and cash equivalents at beginning of period	162,691	70,160
Cash and cash equivalents at end of period	$ 93,820	$ 81,330
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the year for:		
Interest	$ 12,028	$ 7,927
Income tax, net	197	9,350
Transfer of loans to loans held for sale	—	115,663
Transfer of loans to other real estate owned	137	534

(1) Includes mortgage loans originated with the intent to sell which are carried at fair value. In addition, this includes the guaranteed portion of SBA loans which are carried at the lower of cost or fair value.

See accompanying notes to consolidated financial statements

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PEAPACK-GLADSTONE FINANCIAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Certain information and footnote disclosures normally included in the audited consolidated financial statements prepared in accordance with U.S. generally accepted accounting principles have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission. These unaudited consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Annual Report on Form 10-K for the period ended December 31, 2016 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 (consisting of normal recurring accruals) necessary to present fairly the financial position as of June 30, 2017, the results of operations and comprehensive income for the three and six months ended June 30, 2017 and 2016, and shareholders' equity and cash flow statements for the six months ended June 30, 2017 and 2016.

Principles of Consolidation and Organization: The consolidated financial statements of the Company are prepared on the accrual basis and include the accounts of the Company and its wholly-owned subsidiary, Peapack-Gladstone Bank (the "Bank"). The consolidated statements also include the Bank's wholly-owned subsidiaries, PGB Trust & Investments of Delaware, Peapack Capital Corporation (formed in the second quarter of 2017) and Peapack-Gladstone Mortgage Group, Inc. and Peapack-Gladstone Mortgage Group's wholly-owned subsidiary, PG Investment Company of Delaware, Inc. and its wholly-owned subsidiary, Peapack-Gladstone Realty, Inc., a New Jersey Real Estate Investment Company. While the following footnotes include the collective results of the Company and the Bank, these footnotes primarily reflect the Bank's and its subsidiaries' activities. All significant intercompany balances and transactions have been eliminated from the accompanying consolidated financial statements.

Basis of Financial Statement Presentation: The consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles. In preparing the financial statements, Management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the statement of condition and revenues and expenses for that period. Actual results could differ from those estimates.

Segment Information: The Company's business is conducted through its banking subsidiary and involves the delivery of loan and deposit products and wealth management services to customers. Management uses certain methodologies to allocate income and expense to the business segments.

The Banking segment includes commercial, commercial real estate, multifamily, residential and consumer lending activities; deposit generation; operation of ATMs; telephone and internet banking services; merchant credit card services and customer support services.

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. This segment also includes the activity from the Delaware subsidiary, PGB Trust and Investments of Delaware. Income is recognized as earned.

Cash and Cash Equivalents: For purposes of the statements of cash flows, cash and cash equivalents include cash and due from banks, interest-earning deposits and federal funds sold. Generally, federal funds are sold for one-day periods. Cash equivalents are of original maturities of 90 days or less. Net cash flows are reported for customer loan and deposit transactions and overnight borrowings.

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Interest-Earning Deposits in Other Financial Institutions: Interest-earning deposits in other financial institutions mature within one year and are carried at cost.

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 premiums and discounts. 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.

Federal Home Loan Bank (FHLB) and Federal Reserve Bank (FRB) Stock: The Bank is a member of the FHLB system. Members are required to own a certain amount of FHLB stock, based on the level of borrowings and other factors. FHLB stock is carried at cost, classified as a restricted security and periodically evaluated for impairment based on ultimate recovery of par value. Both cash and stock dividends are reported as income.

The Bank is also a member of the Federal Reserve Bank and required to own a certain amount of FRB stock. FRB stock is carried at cost and classified as a restricted security. Both cash and stock dividends are reported as income.

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.

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, shown as gain on sale of loans at fair value on the Statements of Income, are based on the difference between the selling price and the carrying value of the related loan sold.

SBA loans originated with the intent to sell in the secondary market are carried at the lower of cost or fair value. SBA loans are generally sold with the servicing rights retained. Gains and losses on the sale of SBA loans are based on the difference between the selling price and the carrying value of the related loan sold. Total SBA loans serviced totaled $8.6 million and $5.8 million as of June 30, 2017 and December 31, 2016, respectively. SBA loans held for sale totaled $1.7 million and $388 thousand as of June 30, 2017 and December 31, 2016, respectively.

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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 Company 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 and deferred fees/cost, however, for the Company's loan disclosures, accrued interest and deferred fees/cost 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 are 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 Company's loans are secured by real estate in the States of New Jersey and New York.

Allowance for Loan Losses: The allowance for loan losses is a valuation allowance for credit losses that are management's estimate of incurred losses in the loan portfolio. The process to determine reserves utilizes analytic tools and management judgement and is reviewed on a quarterly basis. When Management is reasonably certain that a loan balance is not fully collectable, an impairment analysis is completed whereby a specific reserve may be established or a full or partial charge off is recorded against the allowance. 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, estimated collateral values, economic conditions and other factors. Allocations of the allowance may be made for specific loans via a specific reserve, 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 Company will be unable to collect all amounts due according to the contractual terms of the loan agreement. Factors considered by Management in determining impairment include payment status, collateral value and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed.

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Loans are individually evaluated for impairment when they are classified as substandard by Management. If a loan is considered impaired, a portion of the allowance may be allocated so that the loan is reported, net, at the present value of estimated future cash flows using the loan’s existing rate or if repayment is expected solely from the underlying collateral, the loan principal balance is compared to the fair value of collateral less estimated disposition costs to determine the need, if any, for a charge off.

A troubled debt restructuring (“TDR”) is a modified loan with concessions made by the lender to a borrower who is experiencing financial difficulty. TDRs are impaired and are generally measured at the present value of estimated future cash flows using the loan’s effective rate at inception. If a TDR 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 TDRs that subsequently default, the Company 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 experience by the Company on a weighted average basis 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 qualitative 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. For loans that are graded as non-impaired, the Company allocates a higher general reserve percentage than pass-rated loans using a multiple that is calculated annually through a migration analysis. At June 30, 2017 and at December 31, 2016 the multiple was 4.0 times for non-impaired substandard loans and 2.0 times for non-impaired special mention loans.

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 in the Tri-State area (New York, New Jersey and Connecticut), Pennsylvania and Florida. 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; and 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 in the Tri-State area. 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; and divorce or death. In addition, home equity lines of credit

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

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Junior Lien Loan on Residence. The Bank provides junior lien loans ("JLL") against one to four family properties in the Tri-State area. JLLs 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 JLLs 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; and 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 and Commercial Real Estate Loans. The Bank provides mortgage loans for multifamily properties (i.e. buildings which have five or more residential units) and other commercial real estate that is either owner occupied or managed as an investment property (non-owner occupied) in the Tri-State area and Pennsylvania. Commercial real estate properties primarily include retail buildings/shopping centers, hotels, office/medical buildings and industrial/warehouse space. Some properties are considered "mixed use" as they are a combination of building types, such as a building with retail space on the ground floor and either residential apartments or office suites on the upper floors. 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 expenses, property management and 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 its ability to repay the loan. 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 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, business vehicles and equipment. In addition, these loans often include commercial real estate as collateral to strengthen the Bank's position and further mitigate risk. 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. To mitigate the risk characteristics of commercial and industrial loans, the Bank will often require more frequent reporting requirements from the borrower in order to better monitor its business performance.

Leasing and Equipment Finance. Peapack Capital Corporation ("PCC"), a subsidiary of the Bank, offers a range of finance solutions nationally. PCC provides term loans and leases secured by assets financed for U.S. based mid-size and large companies. Facilities tend to be fully drawn under fixed rate terms. PCC serves a broad range of industries including transportation, manufacturing, heavy construction and utilities.

Agricultural Production. These are loans to finance agricultural production and other loans to farmers. The Bank does not currently engage in this type of lending.

Commercial Construction. The Bank has discontinued its commercial construction activity. Dollar amounts within this segment are immaterial.

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

Derivatives: At the inception of a derivative contract, the Company designates the derivative as one of three types based on the Company's intentions and belief as to likely effectiveness as a hedge. These three types are (1) a hedge of the fair value of a recognized asset or liability or of an unrecognized firm commitment ("fair value hedge"), (2) a hedge of a forecasted transaction or the variability of cash flows to be received or paid related to a recognized asset or liability ("cash flow hedge"), or (3) an instrument with no hedging designation. For a fair value hedge, the gain or loss on the derivative, as well as the offsetting loss or gain on the hedged item, are recognized in current earnings as fair values change. For a cash flow hedge, the gain or loss on the derivative is reported in other comprehensive income and is reclassified into earnings in the same periods during which the hedged transaction affects earnings. For both types of hedges, changes in the fair value of derivatives that are not highly effective in hedging the changes in fair value or expected cash flows of the hedged item are recognized immediately in current earnings. Changes in the fair value of derivatives that do not qualify for hedge accounting are reported currently in earnings, as non-interest income.

Net cash settlements on derivatives that qualify for hedge accounting are recorded in interest income or interest expense, based on the item being hedged. Net cash settlements on derivatives that do not qualify for hedge accounting are reported in non-interest income. Cash flows on hedges are classified in the cash flow statement the same as the cash flows of the items being hedged.

The Company formally documents the relationship between derivatives and hedged items, as well as the risk-management objective and the strategy for undertaking hedge transactions at the inception of the hedging relationship. This documentation includes linking fair value or cash flow hedges to specific assets and liabilities on the balance sheet or to specific firm commitments or forecasted transactions. The Company discontinues hedge accounting when it determines that the derivative is no longer effective in offsetting changes in the fair value or cash flows of the hedged item, the derivative is settled or terminated, a hedged forecasted transaction is no longer probable, a hedged firm commitment is no longer firm, or treatment of the derivative as a hedge is no longer appropriate or intended.

When hedge accounting is discontinued, subsequent changes in fair value of the derivative are recorded as non-interest income. When a cash flow hedge is discontinued but the hedged cash flows or forecasted transactions are still expected to occur, gains or losses that were accumulated in other comprehensive income are amortized into earnings over the same periods which the hedged transactions will affect earnings.

Stock-Based Compensation: The Company's 2006 Long-Term Stock Incentive Plan and 2012 Long-Term Stock Incentive Plan allow the granting of shares of the Company's common stock as incentive stock options, nonqualified stock options, restricted stock awards, restricted stock units and stock appreciation rights to directors, officers and employees of the Company and its subsidiaries. The options granted under these plans are, in general, exercisable not earlier than one year after the date of grant, 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. Some options granted to officers at or above the senior vice president level were immediately exercisable at the date of grant. The Company has a policy of using new shares to satisfy option exercises.

For the three months ended June 30, 2017 and 2016, the Company recorded total compensation cost for stock options of $1 thousand and $14 thousand, respectively. There was no recognized tax benefit for the quarter ended June 30, 2017. There was a recognized tax benefit of $1 thousand for the quarter ended June 30, 2016. The Company recorded total compensation cost for stock options for the six months ended June 30, 2017 and 2016, of $6 thousand and $34 thousand, respectively. There was no recognized tax benefit for the six months ended June 30, 2017. There was a recognized tax benefit of $3 thousand for the six months ended June 30, 2016. There was less than $1 thousand of unrecognized compensation cost related to non-vested share-based compensation arrangements granted under the Company’s stock incentive plans at June 30, 2017. That cost is expected to be recognized over a weighted average period of 0.31 years.

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Upon adoption of Accounting Standards Update (“ASU”) 2016-09, “Compensation - Stock Compensation (Topic 718), Improvements to Employee Share-Based Payment Accounting” the Company has elected to account for forfeitures as they occur, rather than estimate expected forfeitures.

For the Company’s stock option plans, changes in options outstanding during the six months ended June 30, 2017 were as follows:

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value (In thousands)
Balance, January 1, 2017	179,159	$ 16.27		
Granted during 2017	—	—		
Exercised during 2017	(32,527)	17.99		
Expired during 2017	(7,722)	26.90		
Forfeited during 2017	(141)	13.38		
Balance, June 30, 2017	138,769	$ 15.28	3.57 years	$ 2,222
Vested and expected to vest	138,764	$ 15.28	3.57 years	$ 2,222
Exercisable at June 30, 2017	138,669	$ 15.28	3.57 years	$ 2,220

The aggregate intrinsic value represents the total pre-tax intrinsic value (the difference between the Company’s closing stock price on the last trading day of the second quarter of 2017 and the exercise price, multiplied by the number of in-the-money options). The Company’s closing stock price on June 30, 2017 was $31.29.

There were no stock options granted in the six months ended June 30, 2017.

The Company has previously granted performance based and service based restricted stock awards/units. Service based awards/units vest ratably over a one, three or five year period. There were 3,180 restricted stock units granted in the second quarter of 2017.

The performance based awards that were granted in previous periods, are dependent upon the Company meeting certain performance criteria and cliff vest at the end of the performance period. Total unrecognized compensation expense for performance based awards was $1.7 million as of June 30, 2017.

Changes in nonvested shares dependent on performance criteria for the six months ended June 30, 2017 were as follows:

	Number of Shares	Weighted Average Grant Date Fair Value
Balance, January 1, 2017	92,767	$ 18.12

Granted during 2017	—	—
Vested during 2017	—	—
Forfeited during 2017	—	—
Balance, June 30, 2017	92,767	$ 18.12

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Changes in service based restricted stock awards/units for the six months ended June 30, 2017 were as follows:

	Number of Shares	Weighted Average Grant Date Fair Value
Balance, January 1, 2017	368,130	$ 19.26
Granted during 2017	132,808	30.07
Vested during 2017	(148,619)	18.52
Forfeited during 2017	(2,297)	24.13
Balance, June 30, 2017	350,022	$ 23.64

As of June 30, 2017, there was $1.5 million of total unrecognized compensation cost related to service based awards. That cost is expected to be recognized over a weighted average period of 0.68 years. As of June 30, 2017, there was $5.0 million of total unrecognized compensation cost related to service based units. That cost is expected to be recognized over a weighted average period of 1.39 years. Stock compensation expense recorded for the second quarters of 2017 and 2016 totaled $837 thousand and $830 thousand, respectively. For the six months ended June 30, 2017 and 2016, the Company recorded total compensation cost of $1.7 million and $1.4 million, respectively.

Employee Stock Purchase Plan: On April 22, 2014, the shareholders of the Company approved the 2014 Employee Stock Purchase Plan (“ESPP”). The ESPP provides for the granting of purchase rights of up to 150,000 shares of Peapack-Gladstone Financial Corporation common stock. Subject to certain eligibility requirements and restrictions, the ESPP allows employees to purchase shares during four three-month offering periods (“Offering Periods”). Each participant in the Offering Period is granted an option to purchase a number of shares and may contribute between 1% and 15% of their compensation. At the end of each Offering Period on the purchase date, the number of shares to be purchased by the employee is determined by dividing the employee’s contributions accumulated during the Offering Period by the applicable purchase price. The purchase price is an amount equal to 85% of the closing market price of a share of Company common stock on the purchase date. Participation in the ESPP is entirely voluntary and employees can cancel their purchases at any time during the Offering period without penalty. The fair value of each share purchase right is determined using the Black-Scholes option pricing model.

The Company recorded $43 thousand and $29 thousand of expense in salaries and employee benefits expense for the three months ended June 30, 2017 and 2016, respectively, related to the ESPP. Total shares issued under the ESPP during the second quarter of 2017 and 2016 were 7,499 and 10,214, respectively.

The Company recorded $73 thousand and $64 thousand of expense in salaries and employee benefits expense for the six months ended June 30, 2017 and 2016, respectively, related to the ESPP. Total shares issued under the ESPP for the six months ended June 30, 2017 and 2016 were 12,833 and 19,758, respectively.

Earnings per share – Basic and Diluted: The following is a reconciliation of the calculation of basic and diluted earnings per share. Basic net income per share is calculated by dividing net income available to shareholders by the weighted average shares outstanding during the reporting period. Diluted net income per share is computed similarly

to that of basic net income per share, except that the denominator is increased to include the number of additional shares that would have been outstanding if all shares underlying potentially dilutive stock options were issued and all restricted stock, stock warrants or restricted stock units were to vest during the reporting period utilizing the Treasury stock method.

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(Dollars in thousands, except per share data)	Three Months Ended June 30, 2017	2016	Six Months Ended June 30, 2017	2016
Net income to shareholders	$7,940	$6,564	$15,922	$12,053
Basic weighted-average shares outstanding	17,505,638	16,172,223	17,314,695	16,015,251
Plus: common stock equivalents	250,752	169,752	274,121	164,449
Diluted weighted-average shares outstanding	17,756,390	16,341,975	17,588,816	16,179,700
Net income per share				
Basic	$0.45	$0.41	$0.92	$0.75
Diluted	0.45	0.40	0.91	0.74

For the three and six months ended June 30, 2017 all stock options and warrants were included in the computation of diluted earnings per share because they were all dilutive. Stock options and warrants totaling 83,799 shares were not included in the computation of diluted earnings per share in the second quarter of 2016 because they were considered antidilutive. Stock options and warrants totaling 85,156 shares were not included in the computation of diluted earnings per share in the six months ended June 30, 2016 because they were considered antidilutive.

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

The Company 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 Company 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 Company is no longer subject to examination by the U.S. Federal tax authorities for years prior to 2013 or by New Jersey tax authorities for years prior to 2012.

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

The Company's effective rate was positively affected by the adoption of ASU 2016-09 which simplified certain aspects of accounting for share-based compensation.

Loss Contingencies: Loss contingencies, including claims and legal actions arising in the ordinary course of business, are recorded as liabilities when the likelihood of loss is probable and an amount or range of loss can be reasonable estimated. Management does not believe there are any such matters that will have a material effect on the financial statements.

Restrictions on Cash: Cash on hand or on deposit with the Federal Reserve Bank was required to meet regulatory reserve and clearing requirements.

Comprehensive Income: Comprehensive income consists of net income and the change during the period in the Company's net unrealized gains or losses on securities available for sale and unrealized gains and losses on cash flow hedge, net of tax, less adjustments for realized gains and losses.

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Transfers of Financial Assets: Transfers of financial assets are accounted for as sales, when control over the assets has been relinquished. Control over transferred assets is deemed to be surrendered when the assets have been isolated from the Company, the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Goodwill and Other Intangible Assets: Goodwill is generally determined as the excess of the fair value of the consideration transferred, plus the fair value of any noncontrolling interests in the acquired company (if any), over the fair value of the net assets acquired and liabilities assumed as of the acquisition date. Goodwill and intangible assets acquired in a purchase business combination and determined to have an indefinite useful life are not amortized, but tested for impairment at least annually or more frequently if events and circumstances exist that indicate that a goodwill impairment test should be performed. The Company has selected December 31 as the date to perform the annual impairment test. Intangible assets with definite useful lives are amortized over their estimated useful lives to their estimated residual values. Goodwill and assembly workforce are the intangible assets with an indefinite life on our balance sheet.

Other intangible assets primarily consist of customer relationship intangible assets arising from acquisition are amortized on an accelerated method over their estimated useful lives, which range up to 15 years.

2. INVESTMENT SECURITIES AVAILABLE FOR SALE

A summary of amortized cost and approximate fair value of investment securities available for sale included in the consolidated statements of condition as of June 30, 2017 and December 31, 2016 follows:

	June 30, 2017			
(In thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. government-sponsored agencies	$26,993	$ —	$ (434)	$26,559
Mortgage-backed securities – residential	242,789	901	(1,187)	242,503
SBA pool securities	6,448	—	(79)	6,369
State and political subdivisions	28,918	172	(91)	28,999
Corporate bond	3,000	94	—	3,094
Single-issuer trust preferred security	2,999	—	(164)	2,835
CRA investment fund	5,000	—	(135)	4,865
Total	$316,147	$ 1,167	$ (2,090)	$315,224

	December 31, 2016			
(In thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. government-sponsored agencies	$21,991	$ —	$ (474)	$21,517
Mortgage-backed securities – residential	238,271	860	(1,514)	237,617
SBA pool securities	6,778	—	(65)	6,713

State and political subdivisions	29,107	160	(274)	28,993
Corporate bond	3,000	113	—	3,113
Single-issuer trust preferred security	2,999	—	(389)	2,610
CRA investment fund	5,000	—	(175)	4,825
Total	$307,146	$ 1,133	$ (2,891)	$305,388

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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, 2017 and December 31, 2016.

	June 30, 2017					
	Duration of Unrealized Loss					
	Less Than 12 Months		12 Months or Longer		Total	
	Approximate		Approximate		Approximate	
	Fair	Unrealized	Fair	Unrealized	Fair	Unrealized
(In thousands)	Value	Losses	Value	Losses	Value	Losses
U.S. government-sponsored agencies	$26,559	$ (434)	$ —	$ —	$26,559	$ (434)
Mortgage-backed securities-residential	135,503	(1,139)	7,488	(48)	142,991	(1,187)
SBA pool securities	—	—	6,369	(79)	6,369	(79)
State and political subdivisions	8,633	(73)	878	(18)	9,511	(91)
Single-issuer trust preferred security	—	—	2,835	(164)	2,835	(164)
CRA investment fund	1,946	(54)	2,919	(81)	4,865	(135)
Total	$172,641	$ (1,700)	$ 20,489	$ (390)	$193,130	$ (2,090)

	December 31, 2016					
	Duration of Unrealized Loss					
	Less Than 12 Months		12 Months or Longer		Total	
	Approximate		Approximate		Approximate	
	Fair	Unrealized	Fair	Unrealized	Fair	Unrealized
(In thousands)	Value	Losses	Value	Losses	Value	Losses
U.S. government-sponsored agencies	$21,517	$ (474)	$ —	$ —	$21,517	$ (474)
Mortgage-backed securities-residential	151,114	(1,472)	5,147	(42)	156,261	(1,514)
SBA pool securities	—	—	6,713	(65)	6,713	(65)
State and political subdivisions	9,412	(274)	—	—	9,412	(274)
Single-issuer trust preferred security	—	—	2,610	(389)	2,610	(389)
CRA investment fund	1,930	(70)	2,894	(105)	4,824	(175)
Total	$183,973	$ (2,290)	$ 17,364	$ (601)	$201,337	$ (2,891)

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, 2017, the Company 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 an unrealized loss position were determined to be other-than-temporarily impaired.

At June 30, 2017, the unrealized loss on the single-issuer trust preferred security of $164 thousand was related to a debt security issued by a large bank holding company. 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, 2017.

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3. LOANS

Loans outstanding, excluding those held for sale, by general ledger classification, as of June 30, 2017 and December 31, 2016, consisted of the following:

(In thousands)	June 30, 2017	% of Totals Loans	December 31, 2016	% of Total Loans
Residential mortgage	$610,266	16.66 %	$ 527,370	15.92 %
Multifamily mortgage	1,504,581	41.07	1,459,594	44.07
Commercial mortgage	609,444	16.63	551,233	16.65
Commercial loans	799,277	21.81	636,714	19.23
Construction loans	—	—	1,405	0.04
Home equity lines of credit	67,051	1.83	65,682	1.98
Consumer loans, including fixed rate home equity loans	72,943	1.99	69,654	2.10
Other loans	458	0.01	492	0.01
Total loans	$3,664,020	100.00%	$ 3,312,144	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, 2017 and December 31, 2016:

(In thousands)	June 30, 2017	% of Totals Loans	December 31, 2016	% of Total Loans
Primary residential mortgage	$639,328	17.46 %	$ 557,970	16.86 %
Home equity lines of credit	67,051	1.83	65,683	1.98
Junior lien loan on residence	8,201	0.22	9,206	0.28
Multifamily property	1,504,581	41.08	1,459,594	44.09
Owner-occupied commercial real estate	239,903	6.55	176,123	5.32
Investment commercial real estate	859,401	23.46	752,258	22.73
Commercial and industrial	236,979	6.47	213,983	6.47
Lease Financing	23,520	0.64	—	—
Farmland/agricultural production	164	0.01	169	0.01
Commercial construction loans	95	0.01	1,497	0.04
Consumer and other loans	83,211	2.27	73,621	2.22
Total loans	$3,662,434	100.00%	$ 3,310,104	100.00%
Net deferred costs	1,586		2,040	
Total loans including net deferred costs	$3,664,020		$ 3,312,144	

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The following tables present the loan balances by portfolio class, based on impairment method, and the corresponding balances in the allowance for loan losses (ALLL) as of June 30, 2017 and December 31, 2016:

	June 30, 2017					
(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	$12,469	$ 453	$626,859	$ 3,770	$639,328	$4,223
Home equity lines of credit	28	—	67,023	211	67,051	211
Junior lien loan on residence	106	—	8,095	14	8,201	14
Multifamily property	—	—	1,504,581	11,606	1,504,581	11,606
Owner-occupied commercial real estate	1,445	—	238,458	2,147	239,903	2,147
Investment commercial real estate	11,192	208	848,209	11,519	859,401	11,727
Commercial and industrial	54	54	236,925	5,279	236,979	5,333
Lease financing	—	—	23,520	178	23,520	178
Secured by farmland and agricultural production	—	—	164	2	164	2
Commercial construction	—	—	95	1	95	1
Consumer and other	—	—	83,211	309	83,211	309
Total ALLL	$25,294	$ 715	$3,637,140	$ 35,036	$3,662,434	$35,751

	December 31, 2016					
(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	$15,814	$ 456	$542,156	$ 3,210	$557,970	$3,666
Home equity lines of credit	53	—	65,630	233	65,683	233
Junior lien loan on residence	229	—	8,977	16	9,206	16
Multifamily Property	—	—	1,459,594	11,192	1,459,594	11,192
Owner-occupied Commercial real estate	1,486	—	174,637	1,774	176,123	1,774
Investment commercial real estate	11,335	214	740,923	10,695	752,258	10,909
Commercial and Industrial	154	154	213,829	4,010	213,983	4,164
Secured by farmland and agricultural production production	—	—	169	2	169	2
Commercial construction	—	—	1,497	9	1,497	9
Consumer and Other	—	—	73,621	243	73,621	243
Total ALLL	$29,071	$ 824	$3,281,033	$ 31,384	$3,310,104	$32,208

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Impaired loans include nonaccrual loans of $15.5 million at June 30, 2017 and $11.3 million at December 31, 2016. Impaired loans also include performing TDR loans of $9.7 million at June 30, 2017 and $17.8 million at December 31, 2016. At June 30, 2017, the allowance allocated to TDR loans totaled $431 thousand, of which $203 thousand was allocated to nonaccrual loans. At December 31, 2016, the allowance allocated to TDR loans totaled $550 thousand of which $314 thousand was allocated to nonaccrual loans. All accruing TDR loans were paying in accordance with restructured terms as of June 30, 2017. The Company has not committed to lend additional amounts as of June 30, 2017 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, 2017 and December 31, 2016 (The average impaired loans on the following tables represent year to date impaired loans.):

	June 30, 2017			
(In thousands)	Unpaid Principal Balance	Recorded Investment	Specific Reserves	Average Impaired Loans
With no related allowance recorded:				
Primary residential mortgage	$12,801	$ 11,072	$ —	$11,474
Owner-occupied commercial real estate	1,579	1,445	—	1,463
Investment commercial real estate	9,653	9,590	—	9,667
Home equity lines of credit	30	28	—	49
Junior lien loan on residence	161	106	—	94
Total loans with no related allowance	$24,224	$ 22,241	$ —	$22,747
With related allowance recorded:				
Primary residential mortgage	$1,419	$ 1,397	$ 453	$1,408
Investment commercial real estate	1,618	1,602	208	1,612
Commercial and industrial	110	54	54	83
Total loans with related allowance	$3,147	$ 3,053	$ 715	$3,103
Total loans individually evaluated for Impairment	$27,371	$ 25,294	$ 715	$25,850

	December 31, 2016			
(In thousands)	Unpaid Principal Balance	Recorded Investment	Specific Reserves	Average Impaired Loans
With no related allowance recorded:				
Primary residential mortgage	$16,015	$ 14,090	$ —	$10,038
Owner-occupied commercial real estate	1,597	1,486	—	1,450
Investment commercial real estate	9,711	9,711	—	9,974
Home equity lines of credit	56	53	—	143
Junior lien loan on residence	280	229	—	339
Total loans with no related allowance	$27,659	$ 25,569	$ —	$21,944
With related allowance recorded:				
Primary residential mortgage	$1,787	$ 1,724	$ 456	$1,678
Investment commercial real estate	1,640	1,624	214	1,642
Commercial and industrial	204	154	154	145
Total loans with related allowance	$3,631	$ 3,502	$ 824	$3,465

Total loans individually evaluated for impairment	$31,290	$ 29,071	$ 824	$25,409

Interest income recognized on impaired loans for the quarters ended June 30, 2017 and 2016 was not material. The Company did not recognize any income on nonaccruing impaired loans for the three and six months ended June 30, 2017 and 2016.

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The following tables present the recorded investment in nonaccrual and loans past due over 90 days still on accrual by class of loans as of June 30, 2017 and December 31, 2016:

	June 30, 2017	
(In thousands)	Nonaccrual	Loans Past Due Over 90 Days And Still Accruing Interest
Primary residential mortgage	$ 8,694	$ —
Home equity lines of credit	6	—
Junior lien loan on residence	107	—
Owner-occupied commercial real estate	1,445	—
Investment commercial real estate	5,337	—
Commercial and industrial	54	—
Total	$ 15,643	$ —

	December 31, 2016	
(In thousands)	Nonaccrual	Loans Past Due Over 90 Days And Still Accruing Interest
Primary residential mortgage	$ 9,071	$ —
Home equity lines of credit	30	—
Junior lien loan on residence	115	—
Owner-occupied commercial real estate	1,486	—
Investment commercial real estate	408	—
Commercial and industrial	154	—
Total	$ 11,264	$ —

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The following tables present the aging of the recorded investment in past due loans as of June 30, 2017 and December 31, 2016 by class of loans, excluding nonaccrual loans:

	June 30, 2017			
(In thousands)	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days Past Due	Total Past Due
Primary residential mortgage	$779	$ 181	$ —	$ 960
Owner-occupied commercial real estate	74	198	—	272
Total	$853	$ 379	$ —	$ 1,232

	December 31, 2016			
(In thousands)	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days Past Due	Total Past Due
Primary residential mortgage	$620	$ 480	$ —	$ 1,100
Junior lien loan on residence	—	25	—	25
Owner-occupied commercial real estate	209	—	—	209
Commercial and industrial	22	—	—	22
Total	$851	$ 505	$ —	$ 1,356

Credit Quality Indicators:

The Company places all commercial loans into various credit risk rating categories based on an assessment of the expected ability of the borrowers to properly service their debt. The assessment considers numerous factors including, but not limited to, debt service capacity, current financial information on the borrower, historical payment experience, strength of any guarantor, nature of and value of any collateral, acceptability of the loan structure and documentation, relevant public information and current economic trends. This credit risk rating analysis is performed when the loan is initially underwritten and then annually based on set criteria in the loan policy.

In addition, the Bank has engaged an independent loan review firm to validate risk ratings and to ensure compliance with our policies and procedures. This review is performed quarterly. The sample methodology is shown below:

- All new relationships or new lending to existing relationships greater than $1,000,000;
- All criticized and classified rated borrowers with relationship exposure of more than $500,000;
- A large sample of borrowers with total relationship commitments in excess of $1,000,000;
- A random sample of borrowers with relationships less than $1,000,000;
- Any other credits requested by Bank senior management or a member of the Board of Directors and any borrower for which the reviewer determines a review is warranted based upon knowledge of the portfolio, local events, industry stresses etc.

The Company uses the following regulatory definitions for criticized and classified risk ratings:

Special Mention: These loans have a potential weakness that deserves Management's close attention. If left uncorrected, the 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: These loans 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.

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

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

Loans that are considered to be impaired are individually evaluated for potential loss and allowance adequacy. Loans not deemed impaired are collectively evaluated for potential loss and allowance adequacy. As of June 30, 2017, 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	$625,652	$979	$ 12,697	$ —
Home equity lines of credit	67,023	—	28	—
Junior lien loan on residence	8,094	—	107	—
Multifamily property	1,495,039	9,155	387	—
Owner-occupied commercial real estate	234,679	198	5,026	—
Investment commercial real estate	829,061	7,768	22,572	—
Commercial and industrial	228,271	7,858	850	—
Lease financing	23,520	—	—	—
Farmland	164	—	—	—
Commercial construction	—	95	—	—
Consumer and other loans	81,270	—	1,941	—
Total	$3,592,773	$26,053	$ 43,608	$ —

As of December 31, 2016, 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	$541,359	$660	$ 15,951	$ —
Home equity lines of credit	65,630	—	53	—
Junior lien loan on residence	8,977	—	229	—
Multifamily property	1,456,328	2,867	399	—
Owner-occupied commercial real estate	170,851	—	5,272	—
Investment commercial real estate	724,203	5,116	22,939	—
Commercial and industrial	208,617	4,411	955	—
Secured by farmland and agricultural	169	—	—	—
Commercial construction	1,400	97	—	—
Consumer and other loans	73,621	—	—	—
Total	$3,251,155	$13,151	$ 45,798	$ —

At June 30, 2017, $24.1 million of substandard loans were also considered impaired compared to December 31, 2016, when $27.9 million of substandard loans were also impaired.

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The activity in the allowance for loan losses for the three months ended June 30, 2017 is summarized below:

(In thousands)	April 1, 2017 Beginning ALLL	Charge-offs	Recoveries	Provision (Credit)	June 30, 2017 Ending ALLL
Primary residential mortgage	$ 3,928	$ (192)	$ 55	$ 432	$ 4,223
Home equity lines of credit	231	(23)	67	(64)	211
Junior lien loan on residence	15	—	7	(8)	14
Multifamily property	11,767	—	—	(161)	11,606
Owner-occupied commercial real estate	2,235	—	—	(88)	2,147
Investment commercial real estate	10,883	—	19	825	11,727
Commercial and industrial	4,312	(1)	43	979	5,333
Lease financing	—	—	—	178	178
Secured by farmland and agricultural	2	—	—	—	2
Commercial construction	1	—	—	—	1
Consumer and other loans	236	(35)	1	107	309
Total ALLL	$ 33,610	$ (251)	$ 192	$ 2,200	$ 35,751

The activity in the allowance for loan losses for the six months ended June 30, 2017 is summarized below:

(In thousands)	January 1, 2017 Beginning ALLL	Charge-offs	Recoveries	Provision (Credit)	June 30, 2017 Ending ALLL
Primary residential mortgage	$ 3,666	$ (330)	$ 69	$ 818	$ 4,223
Home equity lines of credit	233	(23)	59	(58)	211
Junior lien loan on residence	16	(57)	13	42	14
Multifamily property	11,192	—	—	414	11,606
Owner-occupied commercial real estate	1,774	—	—	373	2,147
Investment commercial real estate	10,909	—	22	796	11,727
Commercial and industrial	4,164	(25)	52	1,142	5,333
Lease financing	—	—	—	178	178
Secured by farmland and agricultural	2	—	—	—	2
Commercial construction	9	—	—	(8)	1
Consumer and other loans	243	(38)	1	103	309
Total ALLL	$ 32,208	$ (473)	$ 216	$ 3,800	$ 35,751

The activity in the allowance for loan losses for the three months ended June 30, 2016 is summarized below:

(In thousands)	April 1, 2016 Beginning ALLL	Charge-offs	Recoveries	Provision (Credit)	June 30, 2016 Ending ALLL
Primary residential mortgage	$ 2,503	$ (285)	$ 7	$ 558	$ 2,783
Home equity lines of credit	133	(91)	6	175	223
Junior lien loan on residence	13	—	53	(47)	19

Multifamily property	11,631	—	—	8	11,639
Owner-occupied commercial real estate	1,683	—	—	50	1,733
Investment commercial real estate	8,527	—	4	1,090	9,621
Commercial and industrial	2,691	—	8	252	2,951
Secured by farmland and agricultural production	2	—	—	—	2
Commercial construction	2	—	—	(1)	1
Consumer and other loans	136	(4)	—	115	247
Total ALLL	$ 27,321	$ (380)	$ 78	$ 2,200	$ 29,219

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The activity in the allowance for loan losses for the six months ended June 30, 2016 is summarized below:

(In thousands)	January 1, 2016 Beginning ALLL	Charge-offs	Recoveries	Provision (Credit)	June 30, 2016 Ending ALLL
Primary residential mortgage	$ 2,297	$ (298)	$ 21	$ 763	$ 2,783
Home equity lines of credit	86	(91)	8	220	223
Junior lien loan on residence	66	—	70	(117)	19
Multifamily property	11,813	—	—	(174)	11,639
Owner-occupied commercial real estate	1,679	—	—	54	1,733
Investment commercial real estate	7,590	(258)	6	2,283	9,621
Commercial and industrial	2,209	(3)	12	733	2,951
Secured by farmland and agricultural production	2	—	—	—	2
Commercial construction	2	—	—	(1)	1
Consumer and other loans	112	(5)	1	139	247
Total ALLL	$ 25,856	$ (655)	$ 118	$ 3,900	$ 29,219

Troubled Debt Restructurings:

The Company has allocated $431 thousand and $550 thousand of specific reserves on TDRs to customers whose loan terms have been modified in TDRs as of June 30, 2017 and December 31, 2016, respectively. There were no unfunded commitments to lend additional amounts to customers with outstanding loans that are classified as TDRs.

During the three month period ended June 30, 2017, the terms of certain loans were modified as TDRs. The modification of the terms of such loans included one or a combination of the following: a reduction of the stated interest rate of the loan; a deferral of scheduled payments with an extension of the maturity date; or some other modification or extension which would not be readily available in the market.

No loans were modified as TDRs during the three month period ended June 30, 2017.

The following table presents loans by class modified as TDRs during the six month period ended June 30, 2017:

(Dollars in thousands)	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Primary residential mortgage	3	$ 608	$ 608
Total	3	$ 608	$ 608

The identification of the TDRs did not have a significant impact on the allowance for loan losses.

The following table presents loans by class modified as TDRs during the three month period ended June 30, 2016:

(Dollars in thousands)	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Primary residential mortgage	4	$ 3,424	$ 3,424
Investment commercial real estate	1	79	79
Commercial and industrial	1	91	91
Total	6	$ 3,594	$ 3,594

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The following table presents loans by class modified as TDRs during the six month period ended June 30, 2016:

(Dollars in thousands)	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Primary residential mortgage	6	$ 4,556	$ 4,556
Investment commercial real estate	1	79	79
Commercial and industrial	1	91	91
Total	8	$ 4,726	$ 4,726

There were no loans that were modified as TDRs for which there was a payment default, within twelve months of modification, during the three and six months ended June 30, 2017 and 2016.

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 Company's internal underwriting policy. The modification of the terms of such loans may include one or more of the following: (1) a reduction of the stated interest rate of the loan to a rate that is lower than the current market rate for new debt with similar risk; (2) an extension of an interest only period for a predetermined period of time; (3) an extension of the maturity date; or (4) an extension of the amortization period over which future payments will be computed. 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, and an updated independent appraisal of the 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 TDR. At a minimum, six months of contractual payments would need to be made on a restructured loan before returning it 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. DEPOSITS

Certificates of deposit, excluding brokered certificates of deposit over $250,000 totaled $129.1 million and $118.7 million at June 30, 2017 and December 31, 2016, respectively.

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The following table sets forth the details of total deposits as of June 30, 2017 and December 31, 2016:

	June 30, 2017		December 31, 2016	
(In thousands)	$	%	$	%
Noninterest-bearing demand deposits	$548,427	15.31 %	$489,485	14.35 %
Interest-bearing checking (1)	1,085,805	30.32	1,023,081	29.99
Savings	121,480	3.39	120,056	3.52
Money market	1,081,366	30.20	1,048,494	30.73
Certificates of deposit	475,395	13.27	457,000	13.39
Subtotal deposits	3,312,473	92.49	3,138,116	91.98
Interest-bearing demand - Brokered	180,000	5.03	180,000	5.27
Certificates of deposit - Brokered	88,780	2.48	93,721	2.75
Total deposits	$3,581,253	100.00%	$3,411,837	100.00%

(1) Interest-bearing checking includes $359.3 million at June 30, 2017 and $393.0 million at December 31, 2016 of reciprocal balances in the Reich & Tang or Promontory Demand Deposit Marketplace program.

The scheduled maturities of certificates of deposit, including brokered certificates of deposit, as of June 30,2017 are as follows:

(In thousands)	
2017	$90,630
2018	251,901
2019	89,429
2020	35,993
2021	14,363
Over 5 Years	81,859
Total	$564,175

5. FEDERAL HOME LOAN BANK ADVANCES AND OTHER BORROWINGS

Advances from the Federal Home Loan Bank of New York (“FHLB”) totaled $58.8 million with a weighted average interest rate of 2.07 percent and $61.8 million with a weighted average interest rate of 2.02 percent at June 30, 2017 and December 31, 2016, respectively.

At June 30, 2017, advances totaling $46.8 million with a weighted average interest rate of 1.82 percent had fixed maturity dates. The fixed maturity date advances at December 31, 2016 totaled $49.8 million with a weighted average interest rate of 1.78 percent. The fixed rate advances are secured by blanket pledges of certain 1-4 family residential mortgages totaling $550.9 million and multifamily mortgages totaling $1.2 billion at June 30, 2017, while at December 31, 2016 the fixed rate advances are secured by blanket pledges of certain 1-4 family residential mortgages totaling $468.3 million and multifamily mortgages totaling $1.2 billion.

At both June 30, 2017 and at December 31, 2016, the Company 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, 2017.

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The final maturity dates of the FHLB advances are scheduled as follows:

(In thousands)	
2017	$20,897
2018	34,898
2019	3,000
2020	—
2021	—
Over 5 years	—
Total	$58,795

There were overnight borrowings of $87.0 million as of June 30, 2017 with a weighted average rate of 1.24 percent at the FHLB. There were no overnight borrowings as of December 31, 2016. At June 30, 2017, unused short-term overnight borrowing commitments totaled $1.1 billion from FHLB, $22.0 million from correspondent banks and $695.6 million at the Federal Reserve Bank.

6. 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 commercial, commercial real estate, multifamily, residential and consumer lending activities; deposit generation; operation of ATMs; telephone and internet banking services; merchant credit card services and customer support and sales.

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; and other financial planning and advisory services.

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The following tables present the statements of income and total assets for the Corporation's reportable segments for the three and six months ended June 30, 2017 and 2016.

	Three Months Ended June 30, 2017		
(In thousands)	Banking	Wealth Management Division	Total
Net interest income	$ 25,654	$ 1,318	$ 26,972
Noninterest income	2,953	5,218	8,171
Total income	28,607	6,536	35,143
Provision for loan losses	2,200	—	2,200
Compensation and benefits	10,486	2,265	12,751
Premises and equipment expense	2,735	298	3,033
Other noninterest expense	2,690	1,621	4,311
Total noninterest expense	18,111	4,184	22,295
Income before income tax expense	10,496	2,352	12,848
Income tax expense	4,023	885	4,908
Net income	$ 6,473	$ 1,467	$ 7,940

	Three Months Ended June 30, 2016		
(In thousands)	Banking	Wealth Management Division	Total
Net interest income	$22,778	$ 1,398	$24,176
Noninterest income	2,432	5,016	7,448
Total income	25,210	6,414	31,624
Provision for loan losses	2,200	—	2,200
Compensation and benefits	8,790	2,310	11,100
Premises and equipment expense	2,482	260	2,742
Other noninterest expense	3,485	1,448	4,933
Total noninterest expense	16,957	4,018	20,975
Income before income tax expense	8,253	2,396	10,649
Income tax expense	3,166	919	4,085
Net income	$5,087	$ 1,477	$6,564

	Six Months Ended June 30, 2017		
(In thousands)	Banking	Wealth Management Division	Total
Net interest income	$49,685	$ 2,878	$52,563
Noninterest income	5,047	10,143	15,190

Total income	54,732	13,021	67,753
Provision for loan losses	3,800	—	3,800
Compensation and benefits	19,800	4,864	24,664
Premises and equipment expense	5,272	577	5,849
Other noninterest expense	5,392	3,494	8,886
Total noninterest expense	34,264	8,935	43,199
Income before income tax expense	20,468	4,086	24,554
Income tax expense	7,196	1,436	8,632
Net income	$13,272	$ 2,650	$15,922
Total assets for period end	$4,138,639	$ 27,040	$4,165,679

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	Six Months Ended June 30, 2016		
(In thousands)	Banking	Wealth Management Division	Total
Net interest income	$44,768	$ 2,818	$47,586
Noninterest income	4,312	9,399	13,711
Total income	49,080	12,217	61,297
Provision for loan losses	3,900	—	3,900
Compensation and benefits	17,606	4,402	22,008
Premises and equipment expense	5,099	507	5,606
Other noninterest expense	7,359	3,008	10,367
Total noninterest expense	33,964	7,917	41,881
Income before income tax expense	15,116	4,300	19,416
Income tax expense	5,732	1,631	7,363
Net income	$9,384	$ 2,669	$12,053
Total assets for period end	$3,555,910	$ 48,793	$3,604,703

7. 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 Company 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 (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).

Derivatives: The fair values of derivatives are based on valuation models using observable market data as of the measurement date (Level 2). Our derivatives are traded in an over-the-counter market where quoted market prices are not always available. Therefore, the fair values of derivatives are determined using quantitative models that utilize multiple market inputs. The inputs will vary based on the type of derivative, but could include interest rates, prices and indices to generate continuous yield or pricing curves, prepayment rates, and volatility factors to value the position. The majority of market inputs are actively quoted and can be validated through external sources, including brokers, market transactions and third-party pricing services.

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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 appraisals and other factors. For each collateral-dependent impaired loan, 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 a 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. All collateral-dependent impaired loans and other real estate owned valuations were supported by an appraisal less than 12 months old or in the process of obtaining an appraisal as of June 30, 2017.

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

Assets Measured on a Recurring Basis

		Fair Value Measurements Using		
(In thousands)	June 30, 2017	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 agencies	$26,559	$—	$ 26,559	$ —
Mortgage-backed securities-residential	242,503	—	242,503	—
SBA pool securities	6,369	—	6,369	—
State and political subdivisions	28,999	—	28,999	—
Corporate bond	3,094	—	3,094	—
Single-issuer trust preferred security	2,835	—	2,835	—
CRA investment fund	4,865	4,865	—	—
Loans held for sale, at fair value	1,050	—	1,050	—
Derivatives:				
Cash flow hedges	277	—	277	—
Loan level swaps	2,302	—	2,302	—
Total	$318,853	$4,865	$ 313,988	$ —
Liabilities:				
Derivatives:				
Cash flow hedges	$(220)	$—	$ (220)	$ —
Loan level swaps	(2,302)	—	(2,302)	—
Total	$(2,522)	$—	$ (2,522)	$ —

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Assets Measured on a Recurring Basis

		Fair Value Measurements Using		
(In thousands)	December 31, 2016	Quoted Prices in Active Markets For Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Securities available for sale:				
U.S. government-sponsored agencies	$ 21,517	$ —	$ 21,517	$ —
Mortgage-backed securities-residential	237,617	—	237,617	—
SBA pool securities	6,713	—	6,713	—
State and political subdivisions	28,993	—	28,993	—
Corporate bond	3,113	—	3,113	—
Single-issuer trust preferred security	2,610	—	2,610	—
CRA investment fund	4,825	4,825	—	—
Loans held for sale, at fair value	1,200	—	1,200	—
Derivatives:				
Cash flow hedges	123	—	123	—
Loan level swaps	1,543	—	1,543	—
Total	$ 308,254	$ 4,825	$ 303,429	$ —
Liabilities:				
Derivatives:				
Cash flow hedges	$ (867)	—	(867)	—
Loan level swaps	(1,543)	—	(1,543)	—
Total	$ (2,410)	$ —	$ (2,410)	$ —

The Company has elected the fair value option for certain loans held for sale. These loans are intended for sale and the Company 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 Company’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, 2017 and December 31, 2016.

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

(In thousands)	June 30, 2017	December 31, 2016

Residential loans contractual balance	$	1,034	$	1,181
Fair value adjustment		16		19
Total fair value of residential loans held for sale	$	1,050	$	1,200

There were no transfers between Level 1 and Level 2 during the three or six months ended June 30, 2017.

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The following table summarizes, for the periods indicated, assets measured at fair value on a non-recurring basis (Quantitative disclosures for non-recurring Level 3 assets have been omitted due to immateriality):

Assets Measured on a Non-Recurring Basis

		Fair Value Measurements Using		
(In thousands)	June 30, 2017	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:				
Investment commercial real estate	$ 239	$ —	$ —	$ 239
(In thousands)	December 31, 2016			
Assets:				
Impaired loans:				
Investment commercial real estate	$ 245	$ —	$ —	$ 245

Impaired loans that are measured for impairment using the fair value of the collateral for collateral dependent loans had a recorded investment of $402 thousand, with a valuation allowance of $163 thousand at June 30, 2017 and $408 thousand, with a valuation allowance of $163 thousand, at December 31, 2016.

The carrying amounts and estimated fair values of financial instruments at June 30, 2017 are as follows:

		Fair Value Measurements at June 30, 2017 using			
(In thousands)	Carrying Amount	Level 1	Level 2	Level 3	Total
Financial assets					
Cash and cash equivalents	$93,820	$93,820	$—	$—	$93,820
Securities available for sale	315,224	4,865	310,359	—	315,224

FHLB and FRB stock	18,487	—	—	—	N/A
Loans held for sale, at fair value	1,050	—	1,050	—	1,050
Loans held for sale, at lower of cost or fair value	1,650	—	1,822	—	1,822
Loans, net of allowance for loan losses	3,628,269	—	—	3,610,010	3,610,010
Accrued interest receivable	6,776	—	920	5,856	6,776
Cash flow hedges	277	—	277	—	277
Loan level swaps	2,302	—	2,302	—	2,302
Financial liabilities					
Deposits	$3,581,253	$3,017,078	$561,249	$—	$3,578,327
Overnight borrowings	87,000	—	87,000	—	87,000
Federal home loan bank advances	58,795	—	59,036	—	59,036
Subordinated debt	48,829	—	—	48,834	48,834
Accrued interest payable	1,104	204	900	—	1,104
Cash flow hedge	220	—	220	—	220
Loan level swap	2,302	—	2,302	—	2,302

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The carrying amounts and estimated fair values of financial instruments at December 31, 2016 are as follows:

		Fair Value Measurements at December 31, 2016 using			
(In thousands)	Carrying Amount	Level 1	Level 2	Level 3	Total
Financial assets					
Cash and cash equivalents	$ 162,691	$ 162,691	$ —	$ —	$ 162,691
Securities available for sale	305,388	4,825	300,563	—	305,388
FHLB and FRB stock	13,813	—	—	—	N/A
Loans held for sale, at fair value	1,200	—	1,200	—	1,200
Loans held for sale, at lower of cost or fair value	388	—	428	—	428
Loans, net of allowance for loan losses	3,279,936	—	—	3,256,837	3,256,837
Accrued interest receivable	8,153	—	899	7,254	8,153
Cash flow Hedges	123	—	123	—	123
Loan level swaps	1,543	—	1,543	—	1,543
Financial liabilities					
Deposits	$ 3,411,837	$ 2,861,116	$ 549,332	$ —	$ 3,410,448
Federal home loan bank advances	61,795	—	62,286	—	62,286
Subordinated debt	48,764	—	—	48,768	48,768
Accrued interest payable	1,127	161	966	—	1,127
Cash flow hedges	867	—	867	—	867
Loan level swaps	1,543	—	1,543	—	1,543

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. Cash and due from banks is classified as Level 1. Certificates of deposit are classified as Level 2.

FHLB and FRB stock: The fair value of FHLB or FRB stock is their cost basis due to restrictions placed on its transferability.

Loans held for sale, at lower of cost or 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. Loans held for sale are classified as Level 2.

Loans: For variable rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying values resulting in a Level 3 classification. Fair values for other loans are estimated using discounted cash flow analyses, using interest rates currently being offered for loans with similar terms to borrowers of

similar credit quality resulting in a Level 3 classification. Impaired loans are valued at the lower of cost or fair value as described previously. The methods utilized to estimate the fair value of loans do not necessarily represent an exit price.

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

Overnight borrowings: The carrying amounts of overnight borrowings approximate fair values and are classified as Level 2.

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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.

Subordinated debentures: The fair values of the Corporation's subordinated debentures are estimated using discounted cash flow analyses based on the current borrowing rates for similar types of borrowing arrangements resulting in a Level 3 classification.

Accrued interest receivable/payable: The carrying amounts of accrued interest approximate fair value resulting in a Level 2 or Level 3 classification. Accrued interest on deposits and securities are included in Level 2. Accrued interest on loans is included in Level 3.

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.

8. 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)	2017	2016	2017	2016
Wealth management division other expense	$ 630	$ 481	$ 1,332	$ 1,103
Professional and legal fees	785	756	1,647	1,742
Other operating expenses	2,294	2,115	4,619	4,382
Total other operating expenses	$ 3,709	$ 3,352	$ 7,598	$ 7,227

9. ACCUMULATED OTHER COMPREHENSIVE (LOSS)/INCOME

The following is a summary of the accumulated other comprehensive (loss)/income balances, net of tax, for the three months ended June 30, 2017 and 2016:

	Other Comprehensive	Amount Reclassified From Accumulated	Other Comprehensive Income Three Months

(In thousands)	Balance at April 1, 2017	Income Before Reclassifications	Other Comprehensive Income	Ended June 30, 2017	Balance at June 30, 2017
Net unrealized holding (loss) on securities available for sale, net of tax	$ (694)	$ 122	$ —	$ 122	$ (572)
Gains on cash flow hedges	72	(38)	—	(38)	34
Accumulated other comprehensive loss, net of tax	$ (622)	$ 84	$ —	$ 84	$ (538)

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(In thousands)	Balance at April 1, 2016	Other Comprehensive Income/(Loss) Before Reclassifications	Amount Reclassified From Accumulated Other Comprehensive Loss	Other Comprehensive Income/(Loss) Three Months Ended June 30, 2016	Balance at June 30, 2016
Net unrealized holding gain on securities available for sale, net of tax	$ 1,033	$ 203	$ (12)	$ 191	$ 1,224
Losses on cash flow hedges	(3,047)	(680)	—	(680)	(3,727)
Accumulated other comprehensive loss, net of tax	$ (2,014)	$ (477)	$ (12)	$ (489)	$ (2,503)

The following represents the reclassifications out of accumulated other comprehensive income for the three months ended June 30, 2017 and 2016:

(In thousands)	Three Months Ended June 30, 2017	2016	Affected Line Item in Income
Unrealized gains on securities available for sale:			
Realized net gain on securities sales	$ —	$ 18	Securities gains, net
Income tax expense	—	(6)	Income tax expense
Total reclassifications, net of tax	$ —	$ 12	

The following is a summary of the accumulated other comprehensive (loss)/income balances, net of tax, for the six months ended June 30, 2017 and 2016:

(In thousands)	Balance at January 1, 2017	Other Comprehensive Income Before Reclassifications	Amount Reclassified From Accumulated Other Comprehensive Income	Other Comprehensive Income Six Months Ended June 30, 2017	Balance at June 30, 2017
Net unrealized holding (loss) on securities available for sale,					

net of tax	$ (1,091)	$ 519	$ —	$ 519	$ (572)
Gains on cash flow hedges	(440)	474	—	474	34
Accumulated other comprehensive loss, net of tax	$ (1,531)	$ 993	$ —	$ 993	$ (538)

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(In thousands)	Balance at January 1, 2016	Other Comprehensive Income/(Loss) Before Reclassifications	Amount Reclassified From Accumulated Other Comprehensive Loss	Other Comprehensive Income/(Loss) Six Months Ended June 30, 2016	Balance at June 30, 2016
Net unrealized holding gain on securities available for sale, net of tax	$ 408	$ 890	$ (74)	$ 816	$ 1,224
Losses on cash flow hedges	(787)	(2,940)	—	(2,940)	(3,727)
Accumulated other comprehensive loss, net of tax	$ (379)	$ (2,050)	$ (74)	$ (2,124)	$ (2,503)

The following represents the reclassifications out of accumulated other comprehensive income for the six months ended June 30, 2017 and 2016:

(In thousands)	Six Months Ended June 30, 2017	2016	Affected Line Item in Income
Unrealized gains on securities available for sale:			
Realized net gain on securities sales	$—	$119	Securities gains, net
Income tax expense	—	(45)	Income tax expense
Total reclassifications, net of tax	$—	$74	

10. DERIVATIVES

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

Interest Rate Swaps Designated as Cash Flow Hedges: Interest rate swaps with a notional amount of $180.0 million as of June 30, 2017 and December 31, 2016, were designated as cash flow hedges of certain interest-bearing demand brokered deposits and were determined to be fully effective during the three and six months ended June 30, 2017. As such, no amount of ineffectiveness has been included in net income during the three and six months ended June 30, 2017. Therefore, the aggregate fair value of the swaps is recorded in other assets/liabilities with changes in fair value recorded in other comprehensive income. The amount included in accumulated other comprehensive income would be

reclassified to current earnings should the hedges no longer be considered effective. The Company expects the hedges to remain fully effective during the remaining terms of the swaps.

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The following information about the interest rate swaps designated as cash flow hedges as of June 30, 2017 and December 31, 2016 is presented in the following table:

(Dollars in thousands)	June 30, 2017		December 31, 2016	
Notional amount	$ 180,000		$ 180,000	
Weighted average pay rate	1.64	%	1.64	%
Weighted average receive rate	1.08	%	0.58	%
Weighted average maturity	2.75	years	3.25	years
Unrealized gain/(loss), net	$ 57		$ (744	)
Number of contracts	9		9	

Net interest expense recorded on these swap transactions totaled $251 thousand and $613 thousand for the three and six months ended June 30, 2017, respectively, and is reported as a component of interest expense. Net interest expense recorded on these swap transactions totaled $503 thousand and $1.0 million for the three and six months ended June 30, 2016, respectively, and is reported as a component of interest expense.

Cash Flow Hedges

The following table presents the net losses recorded in accumulated other comprehensive (loss)/income and the consolidated financial statements relating to the cash flow derivative instruments for the three months ended June 30, 2017 (after tax):

(In thousands)	Amount of Gain/(Loss) Recognized In OCI (Effective Portion)	Amount of Gain/(Loss) Reclassified From OCI to Interest Expense	Amount of Gain/(Loss) Recognized in Other Non-Interest Expense (Ineffective Portion)
Interest rate contracts	$ (38)	$ —	$ —

The following table presents the net losses recorded in accumulated other comprehensive (loss)/income and the consolidated financial statements relating to the cash flow derivative instruments for the three months ended June 30, 2016 (after tax):

(In thousands)	Amount of Gain/(Loss) Recognized In OCI (Effective Portion)	Amount of Gain/(Loss) Reclassified From OCI to Interest Expense	Amount of Gain/(Loss) Recognized in Other Non-Interest Expense (Ineffective Portion)

Interest rate contracts	$ (680)	$ —	$ —

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The following table presents the net gains recorded in accumulated other comprehensive (loss)/income and the consolidated financial statements relating to the cash flow derivative instruments for the six months ended June 30, 2017 (after tax):

(In thousands)	Amount of Gain/(Loss) Recognized In OCI (Effective Portion)	Amount of Gain/(Loss) Reclassified From OCI to Interest Expense	Amount of Gain/(Loss) Recognized in Other Non-Interest Expense (Ineffective Portion)
Interest rate contracts	$ 474	$ —	$ —

The following table presents the net losses recorded in accumulated other comprehensive (loss)/income and the consolidated financial statements relating to the cash flow derivative instruments for the six months ended June 30, 2016 (after tax):

(In thousands)	Amount of Gain/(Loss) Recognized In OCI (Effective Portion)	Amount of Gain/(Loss) Reclassified From OCI to Interest Expense	Amount of Gain/(Loss) Recognized in Other Non-Interest Expense (Ineffective Portion)
Interest rate contracts	$ (2,940)	$ —	$ —

The following tables reflect the cash flow hedges included in the financial statements as of June 30, 2017 and December 31, 2016:

	June 30, 2017	
(In thousands)	Notional Amount	Fair Value
Interest rate swaps related to interest-bearing demand brokered deposits	$180,000	$57
Total included in other assets	$85,000	$277
Total included in other liabilities	$95,000	$(220)

	December 31, 2016	
(In thousands)	Notional Amount	Fair Value
Interest rate swaps related to interest-bearing demand brokered deposits	$ 180,000	$ (744)
Total included in other assets	$ 30,000	$ 123
Total included in other liabilities	$ 150,000	$ (867)

Derivatives Not Designated as Accounting Hedges: The Company offers facility specific/loan level swaps to its customers and offsets its exposure from such contracts by entering into mirror image swaps with a financial institution / swap counterparty (loan level / back to back swap program). The customer accommodations and any offsetting swaps are treated as non-hedging derivative instruments which do not qualify for hedge accounting ("standalone derivatives"). The notional amount of the swaps does not represent amounts exchanged by the parties. The amount exchanged is determined by reference to the notional amount and the other terms of the individual contracts. The fair value of the swaps is recorded as both an asset and a liability, in other assets and other liabilities, respectively, in equal amounts for these transactions.

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Information about these swaps is as follows:

(Dollars in thousands)	June 30, 2017		December 31, 2016	
Notional amount	$254,548		$126,810	
Fair value	$2,302		$1,543	
Weighted average pay rates	4.10	%	3.75	%
Weighted average receive rates	3.16	%	2.65	%
Weighted average maturity	8.2	years	9.4	years
Number of contracts	32		14	

11. SUBORDINATED DEBT

During June 2016, the Company issued $50.0 million in aggregate principal amount of fixed-to-floating subordinated notes (the "Notes") to certain institutional investors. The Notes are non-callable for five years, have a stated maturity of June 30, 2026, and bear interest at a fixed rate of 6.0% per year until June 30, 2021. From June 30, 2021 to the maturity date or early redemption date, the interest rate will reset quarterly to a level equal to the then current three-month LIBOR rate plus 485 basis points, payable quarterly in arrears. Debt issuance costs incurred totaled $1.3 million and are being amortized to maturity. Subordinated debt is presented net of issuance cost on the Consolidated Statements of Condition.

The subordinated debt issuance benefited the Company's regulatory total capital amount and ratio. Approximately $40.0 million of the net proceeds from the sale of the Notes were used by the Company to contribute capital to the Bank in the second quarter of 2016. The remaining funds (approximately $9 million) were retained by the Company and are intended to cover future subordinated debt interest payments.

In connection with the issuance of the Notes, the Company obtained ratings from Kroll Bond Rating Agency ("KBRA"). KBRA assigned investment grade rating of BBB- for the Company's subordinated debt. KBRA reaffirmed such rating in June 2017.

12. RECENT ACCOUNTING PRONOUNCEMENTS

Accounting Standards Update ("ASU") 2014-09, "Revenue from Contracts with Customers (Topic 606)" implements a common revenue standard that clarifies the principles for recognizing revenue. The core principle of ASU 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve that core principle, an entity should apply the following steps: (i) identify the contract(s) with a customer, (ii) identify the performance obligations in the contract, (iii) determine the transaction price, (iv) allocate the transaction price to the performance obligations in the contract and (v) recognize revenue when (or as) the entity satisfies a performance obligation. In July 2015, FASB deferred the effective date of the ASU by one year which means ASU 2014-09 will be effective for the Company on January 1, 2018. In March 2016, FASB issued ASU 2016-08 which

amended illustrative examples to clarify how to apply the implementation guidance on principal versus agent considerations. The Company completed its initial assessment of revenue streams and determined that, in accordance with the standard, interest income, income from bank owned life insurance, gains on sales of loans and securities and derivatives income are all out of scope of the ASU. We reviewed contracts potentially affected by the ASU including wealth management fee income, service charges and fees, and other income. Based on the initial assessment, the Company does not expect the guidance will have a material impact on its financial statements, however, we are continuing to review at a contract level in order to finalize the evaluation.

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In January 2016, the FASB issued ASU 2016-01, "Financial Instruments". This guidance amends existing guidance to improve accounting standards for financial instruments including clarification and simplification of accounting and disclosure requirements and the requirement for public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes. These amendments are effective for public business entities for annual periods and interim periods within those annual periods beginning after December 15, 2017. The Company does not expect the guidance will have a material impact on its consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, "Leases (Topic 842)". The standard requires a lessee to recognize assets and liabilities on the balance sheet for leases with lease terms greater than 12 months. For lessees, virtually all leases will be required to be recognized on the balance sheet by recording a right-of-use asset and lease liability. Subsequent accounting for leases varies depending on whether the lease is an operating lease or a finance lease. The ASU requires additional qualitative and quantitative disclosures with the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases. This ASU is effective for fiscal years, and interim periods within those years, beginning after December 15, 2018, and early adoption is permitted. The Company continues to evaluate the effect that ASU 2016-02 will have on its financial position, results of operations, and its financial statement disclosures. The adoption of ASU 2016-02 is expected to result in leased assets and related lease liabilities to be included on its balance sheet, along with the related leasehold amortization and interest expense included in its statement of income.

In March 2016, the FASB issued ASU 2016-09, "Compensation - Stock Compensation (Topic 718), Improvements to Employee Share-Based Payment Accounting". Under the ASU, an entity recognizes all excess tax benefits and tax deficiencies as income tax expense or benefit in the income statement. This change eliminates the notion of the additional paid in capital ("APIC") pool and reduces the complexity and cost of accounting for excess tax benefits and tax deficiencies. Excess tax benefits and tax deficiencies are considered discrete items in the reporting period they occur and are not included in the estimate of an entity's annual effective tax rate. Additionally, this update permits an entity-wide accounting policy election to either estimate the number of awards that are expected to vest or account for forfeitures as they occur. This accounting guidance is effective for annual periods beginning after December 15, 2016 and interim periods within those annual periods. Early adoption is permitted. The Company adopted the provisions of this standard during the quarter ended March 31, 2017. Upon adoption, excess tax benefits and tax deficiencies are recognized in the provision for income taxes on the consolidated statement of operations and are presented within operating activities on the consolidated statement of cash flows for the six months ended June 30, 2017. The adoption of ASU 2016-09 resulted in an income tax benefit of $785 thousand and a reduction in our effective tax rate for the six months ended June 30, 2017.

On June 16, 2016, the FASB issued Accounting Standards Update No. 2016-13, "Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments". This ASU replaces the incurred loss model with an expected loss model, referred to as "current expected credit loss" (CECL) model. It will significantly change estimates for credit losses related to financial assets measured at amortized cost, including loans receivable, held-to-maturity (HTM) debt securities and certain other contracts. The largest impact will be on lenders and the allowance for loan and lease losses (ALLL). This ASU will be effective for public business entities (PBEs) in fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. The Company has reviewed the potential impact to our securities portfolio, which primarily consists of U.S. government sponsored entities, mortgage-backed securities and municipal securities which have no history of credit loss and have strong

credit ratings. The Company does not expect the standard to have an impact on its financial statements as it relates to the Company's securities portfolio. The Company is also currently evaluating the impact the CECL model will have on our accounting and allowance for loans losses. The Company is in the process of evaluating third party firms to assist in the development of a CECL program, and has selected an in-house software model to assist in the calculation of the allowance for loan losses in preparation for the change to the expected loss model. The Company expects to recognize a one-time cumulative-effect adjustment to our allowance for loan losses as of the beginning of the first reporting period in which the new standard is effective, consistent with regulatory expectations set forth in interagency guidance issued at the end of 2016. The Company cannot yet determine the magnitude of any such one-time cumulative adjustment or of the overall impact of the new standard on our financial condition or results of operations.

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On August 26, 2016, the FASB issued ASU No. 2016-15, “Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments)”. This ASU addresses the following eight specific cash flow issues: debt prepayment or debt extinguishment costs; settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing; contingent consideration payments made after a business combination; proceeds from the settlement of insurance claims; proceeds from the settlement of corporate-owned life insurance policies (COLIs) (including bank-owned life insurance policies (BOLIs)); distributions received from equity method investees; beneficial interests in securitization transactions; and separately identifiable cash flows and application of the predominance principle. This amendment is effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. There is no material impact on our statement of cash flows as a result of this ASU.

In January 2017, the FASB issued ASU 2017-04: “Intangibles-Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment”. This accounting standard updated simplifies the subsequent measurement of goodwill, by eliminating Step 2 from the goodwill impairment test. In computing the implied fair value of goodwill under Step 2, an entity had to perform procedures to determine the fair value at the impairment testing date of its assets and liabilities (including unrecognized assets and liabilities) following the procedure that would be required in determining the fair value of assets acquired and liabilities assumed in a business combination. Instead, under the amendments in this update, an entity should perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An entity should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit’s fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. An entity should apply the amendments in this update on a prospective basis. A public business entity that is a SEC filer should adopt the amendments in this update for its annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2019. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The adoption of this ASU will not have a material impact to the consolidated financial statements at this time.

In March 2017, the FASB issued ASU 2017-08: “Receivables—Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities”. This Accounting Standards update amends guidance on the amortization period of premiums on certain purchased callable debt securities. Specifically, the amendments shorten the amortization period of premiums on certain purchased callable debt securities to the earliest call date. The amendments affect all entities that hold investments in callable debt securities that have an amortized cost basis in excess of the amount that is repayable by the issuer at the earliest call date. For public business entities, the amendments in this update are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. The Company does not currently hold any callable debt securities with a premium. As a result, the adoption of this ASU will not have a material impact to the consolidated financial statements.

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Also in March 2017, the FASB issued ASU 2017-07: “Compensation—Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost”. This ASU requires an entity to present net periodic pension cost and net periodic postretirement benefit cost as a net amount that may be capitalized as part of an asset where appropriate. Generally, the service cost component is analyzed differently from the other components of net periodic pension cost and net periodic postretirement benefit cost. To improve consistency, transparency, and usefulness of financial information, the amendments in this update require that an employer report the service cost component in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. The amendments in this update are effective for public business entities for annual periods beginning after December 15, 2017, including interim periods within those annual periods. The Company’s current accounting treatment and presentation of net periodic postretirement benefit cost is consistent with the provisions in ASU-2017. As a result, the adoption of this ASU will not have a material impact to the consolidated financial statements.

In May 2017, the FASB issued ASU 2017-09: “Compensation – Stock Compensation (Topic 718): Scope of Modification Accounting”. The amendments in this update provide guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting in Topic 718. An entity should account for the effects of a modification unless all the following are met: 1.) The fair value (or calculated value or intrinsic value, if such an alternative measurement method is used) of the modified award is the same as the fair value (or calculated value or intrinsic value, if such an alternative measurement method is used) of the original award immediately before the original award is modified. If the modification does not affect any of the inputs to the valuation technique that the entity uses to value the award, the entity is not required to estimate the value immediately before and after the modification. 2.) The vesting conditions of the modified award are the same as the vesting conditions of the original award immediately before the original award is modified. 3.) The classification of the modified award as an equity instrument or a liability instrument is the same as the classification of the original award immediately before the original award is modified. The current disclosure requirements in Topic 718 apply regardless of whether an entity is required to apply modification accounting under the amendments in this update. The amendments in this update are effective for public business entities for annual periods beginning after December 15, 2018, including interim periods within those annual periods. The Company does not anticipate a material impact to the consolidated financial statements at this time.

13. DEFINITIVE AGREEMENT

On May 26, 2017, the Company announced that it had entered into a definitive agreement to acquire Gladstone, NJ-based Murphy Capital Management, Inc. (“MCM”). The transaction closed on July 31, 2017. The purchase price includes cash and the issuance of $2.0 million of the Company’s common stock.

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Item 2

MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

AND RESULTS OF OPERATIONS

GENERAL: This Quarterly Report on Form 10-Q, both in the following discussion and analysis and elsewhere 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 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 Company’s Form 10-K for the year ended December 31, 2016, in addition to/which include 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;
- the impact of anticipated higher operating expenses in 2017 and beyond;
- inability to successfully integrate wealth acquisitions;
- inability to manage our growth;
- inability to successfully integrate our expanded employee base;
- an unexpected decline in the economy, in particular in our New Jersey and New York market areas;
- declines in our net interest margin caused by the low interest rate environment and highly competitive market;
- 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 nonperforming loans;
- unexpected changes in interest rates;
- an 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 cyberattacks against our IT infrastructure and 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.

The Company 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 Company cannot guarantee future results, levels of activity, performance, or achievements.

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CRITICAL ACCOUNTING POLICIES AND ESTIMATES: Management's Discussion and Analysis of Financial Condition and Results of Operations is based upon the Company'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 Company to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. Note 1 to the Company's Audited Consolidated Financial Statements for the year ended December 31, 2016, contains a summary of the Company's significant accounting policies.

Management believes that the Company'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 require 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 known and inherent risks 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 Company's allowance for loan losses. Such agencies may require the Company to make additional provisions for loan losses based upon information available to them at the time of their examination. Furthermore, the majority of the Company's loans are secured by real estate in the State of New Jersey and, to a lesser extent, New York City. Accordingly, the collectability of a substantial portion of the carrying value of the Company's loan portfolio is susceptible to changes in local market conditions and any adverse economic conditions. Future adjustments to the provision for loan losses and allowance for loan losses may be necessary due to economic, operating, regulatory and other conditions beyond the Company's control.

The Company accounts for its securities in accordance with "Accounting for Certain Investments in Debt and Equity Securities," which was codified into Accounting Standards Codification ("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.

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. No impairment charges were recognized in the three or six months ended June 30, 2017 and 2016. For equity securities, the entire amount of impairment is recognized through earnings.

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EXECUTIVE SUMMARY: The following table presents certain key aspects of our performance for the three months ended June 30, 2017 and 2016.

	Three Months Ended June 30,		Change
(Dollars in thousands, except per share data)	2017	2016	2017 vs 2016
Results of Operations:			
Net interest income	$ 26,972	$ 24,176	$ 2,796
Provision for loan losses	2,200	2,200	—
Net interest income after provision for loan losses	24,772	21,976	2,796
Wealth management fee income	5,086	4,899	187
Other income	3,085	2,549	536
Operating expense	20,095	18,775	1,320
Income before income tax expense	12,848	10,649	2,199
Income tax expense	4,908	4,085	823
Net income	$ 7,940	$ 6,564	$ 1,376
Total revenue (Net interest income plus other income)	$ 35,143	$ 31,624	$ 3,519
Diluted earnings per share	$ 0.45	$ 0.40	$ 0.05
Diluted average shares outstanding	17,756,390	16,341,975	1,414,415
Return on average assets annualized (ROAA)	0.79 %	0.73 %	0.06 %
Return on average equity annualized (ROAE)	9.06	9.06	—

The following table presents certain key aspects of our performance for the six months ended June 30, 2017 and 2016.

	Six Months Ended June 30,		Change
(Dollars in thousands, except per share data)	2017	2016	2017 vs 2016
Results of Operations:			
Net interest income	$ 52,563	$ 47,586	$ 4,977
Provision for loan losses	3,800	3,900	(100)
Net interest income after provision for loan losses	48,763	43,686	5,077
Wealth management fee income	9,904	9,194	710
Other income	5,286	4,517	769
Operating expense	39,399	37,981	1,418

Income before income tax expense	24,554	19,416	5,138
Income tax expense	8,632	7,363	1,269
Net income	$15,922	$12,053	$ 3,869
Total revenue (Net interest income plus other income)	$67,753	$61,297	$ 6,456
Diluted earnings per share	$0.91	$0.74	$ 0.17
Diluted average shares outstanding	17,588,816	16,179,700	1,409,116
Return on average assets annualized (ROAA)	0.80 %	0.68 %	0.12 %
Return on average equity annualized (ROAE)	9.33	8.45	0.88

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	June 30, 2017		December 31, 2016		Change 2017 vs 2016	
Selected Balance Sheet Ratios:						
Total capital (Tier I + II) to risk-weighted assets	13.24	%	13.25	%	(0.01	)%
Tier I leverage ratio	8.82		8.35		0.47	
Loans to deposits	102.31		97.08		5.23	
Allowance for loan losses to total loans	0.98		0.97		0.01	
Allowance for loan losses to nonperforming loans	228.54		285.94		(57.40	)
Nonperforming loans to total loans	0.43		0.34		0.09	

For the second quarter of 2017, the Company recorded net income of $7.9 million compared to $6.6 million for the same quarter of 2016. For the three months ended June 30, 2017 and 2016, diluted earnings per share were $0.45 and $0.40, respectively. Annualized return on average assets was 0.79 percent and annualized return on average equity was 9.06 percent for the second quarter of 2017, compared to 0.73 percent and 9.06 percent, respectively, for the same quarter of 2016.

For the six months ended June 30, 2017, the Company recorded net income of $15.9 million compared to $12.1 million for the same period of 2016. Diluted earnings per common share were $0.91 and $0.74 for the first six months of 2017 and 2016, respectively. Annualized return on average assets was 0.80 percent and annualized return on average common equity was 9.33 percent for the first six months of 2017, compared to 0.68 percent and 8.45 percent, respectively, for the six months ending June 30, 2016.

CONTRACTUAL OBLIGATIONS: For a discussion of our contractual obligations, see the information set forth in the Corporation’s Annual Report on Form 10-K for the year ended December 31, 2016 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 Annual Report on Form 10-K for the year ended December 31, 2016 under the heading “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Off-Balance Sheet Arrangements” which is incorporated herein by reference.

EARNINGS ANALYSIS

NET INTEREST INCOME/AVERAGE BALANCE SHEET:

The primary source of the Company'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, subordinated debt 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 Company's Net Interest Spread is affected by regulatory, economic and competitive factors that influence interest rates, loan demand and deposit flows and general levels of nonperforming assets.

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

	Three Months Ended June 30,			
(Dollars in thousands)	2017		2016	
Net interest income	$ 27,240		$ 24,410	
Interest rate spread	2.59	%	2.65	%
Net interest margin	2.76		2.79	

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	Six Months Ended June 30,			
(Dollars in thousands)	2017		2016	
Net interest income	$ 53,071		$ 48,024	
Interest rate spread	2.57	%	2.68	%
Net interest margin	2.73		2.80	

Net interest income, on a fully tax-equivalent basis, for the three months ended June 30, 2017, grew $2.8 million, or 12 percent, from the three months ended June 30, 2016. Net interest income on a fully tax equivalent basis for the six months ended June 30, 2017 increased $5.0 million, or 11 percent, when compared to the same period in 2016. This growth in both the three and six month periods is due to an increase in average loans, especially commercial (C&I) loans, partially offset by an increase of cost of funds, principally due to the issuance of subordinated debt in June 2016. Net interest spread and margin for the three and six months ending June 30, 2017 declined when compared to the same 2016 periods partially due to the continuing effect of low market yields, the effect of the subordinated debt issuance, the maintenance of higher liquidity, as well as competitive pressures in attracting new loans and deposits. The Company expects continued loan growth in this lower market rate and competitive environment.

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

	For the Three Months Ended	
	June 30,	June 30,
(In thousands)	2017	2016
Residential mortgage loans originated for portfolio	$ 54,833	$ 32,513
Residential mortgage loans originated for sale	6,491	20,221
Total residential mortgage loans	61,324	52,734
Commercial real estate loans	46,931	36,554
Multifamily properties	78,824	150,709
Commercial (C & I) loans (A)	158,476	61,309
Small business association	3,900	2,285
Wealth Lines of Credit (A)	14,905	785
Total commercial loans	303,036	251,642
Installment loans	2,075	1,077
Home equity lines of credit (A)	5,444	14,435
Total loans closed	$ 371,879	$ 319,888

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

	For the Six Months Ended	
	June 30,	June 30,
(In thousands)	2017	2016
Residential mortgage loans originated for portfolio	$119,664	$50,260
Residential mortgage loans originated for sale	9,606	28,283
Total residential mortgage loans	129,270	78,543
Commercial real estate loans	80,147	45,893
Multifamily properties	125,949	258,744
Commercial (C & I) loans (A)	286,606	128,797
Small business association	5,600	3,340
Wealth Lines of Credit (A)	22,105	2,585
Total commercial loans	520,407	439,359
Installment loans	4,221	1,563
Home equity lines of credit (A)	12,417	18,039

Total loans closed	$666,315	$537,504

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

As the Company previously explained, it has continued to manage its balance sheet such that multifamily loans decline as a percentage of the overall loan portfolio and C&I loans become a larger percentage of the overall loan portfolio. The Company anticipated that this balance sheet management, however, may not be linear each quarter, and would rather be apparent over periods of time.

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At June 30, 2017, December 31, 2016 and June 30, 2016, the Bank had a concentration in commercial real estate loans as defined by applicable regulatory guidance.

The following table presents such concentration levels for the following periods:

	June 30, 2017	December 31, 2016	June 30, 2016
Multifamily mortgage loans as a percent of total regulatory capital of the Bank	351 %	372 %	432 %
Non-owner occupied commercial real estate loans as a percent of total regulatory capital of the Bank	201	192	178
Total CRE concentration	552 %	564 %	610 %

The Bank believes it addresses the key elements in the risk management framework laid out by its regulators for the effective management of CRE concentration risks.

To supplement its C&I lending programs, the Company announced that during April 2017 it had hired a team of experienced bankers to focus on equipment financing. The Company generally expects that revenue and profitability related to this new group will lag expenses by several quarters.

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The following tables reflect 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, 2017			June 30, 2016		
(Dollars in thousands)	Average Balance	Income/ Expense	Yield	Average Balance	Income/ Expense	Yield
ASSETS:						
Interest-earning assets:						
Investments:						
Taxable (1)	$293,990	$1,477	2.01 %	$200,804	$914	1.82 %
Tax-exempt (1) (2)	25,109	190	3.03	27,127	211	3.11
Loans (2) (3):						
Mortgages	589,848	4,739	3.21	473,293	3,927	3.32
Commercial mortgages	2,085,623	18,653	3.58	2,047,112	17,830	3.48
Commercial	713,120	7,267	4.08	552,955	5,392	3.90
Commercial construction	—	—	—	1,305	13	3.98
Installment	71,364	554	3.11	63,158	420	2.66
Home equity	67,611	613	3.63	58,146	475	3.27
Other	481	11	9.15	462	11	9.52
Total loans	3,528,047	31,837	3.61	3,196,431	28,068	3.51
Federal funds sold	101	—	0.25	101	—	0.25
Interest-earning deposits	96,350	176	0.73	79,264	76	0.39
Total interest-earning assets	3,943,597	33,680	3.42 %	3,503,727	29,269	3.34 %
Noninterest-earning assets:						
Cash and due from banks	4,727			16,122		
Allowance for loan losses	(34,466)			(28,056)		
Premises and equipment	30,144			29,452		
Other assets	76,747			88,907		
Total noninterest-earning assets	77,152			106,425		
Total assets	$4,020,749			$3,610,152		
LIABILITIES:						
Interest-bearing deposits:						
Checking	$1,075,832	$1,100	0.41 %	$906,611	$607	0.27 %
Money markets	1,051,095	1,204	0.46	818,453	602	0.29
Savings	121,299	16	0.05	120,094	17	0.06
Certificates of deposit - retail	457,528	1,650	1.44	450,675	1,545	1.37
Subtotal interest-bearing deposits	2,705,754	3,970	0.59	2,295,833	2,771	0.48
Interest-bearing demand - brokered	180,000	726	1.61	200,000	760	1.52
Certificates of deposit - brokered	92,719	493	2.13	93,642	496	2.12

Total interest-bearing deposits	2,978,473	5,189	0.70	2,589,475	4,027	0.62
FHLB advances and borrowings	77,457	354	1.83	222,667	573	1.03
Capital lease obligation	9,463	114	4.82	10,007	120	4.80
Subordinated debt	48,808	783	6.42	8,777	139	6.33
Total interest-bearing liabilities	3,114,201	6,440	0.83 %	2,830,926	4,859	0.69 %
Noninterest-bearing liabilities:						
Demand deposits	534,339			464,074		
Accrued expenses and other liabilities	21,787			25,247		
Total noninterest-bearing liabilities	556,126			489,321		
Shareholders' equity	350,422			289,905		
Total liabilities and shareholders' equity	$4,020,749			$3,610,152		
Net interest income (tax-equivalent basis)		27,240			24,410	
Net interest spread			2.59 %			2.65 %
Net interest margin (4)			2.76 %			2.79 %
Tax equivalent adjustment		(268)			(234)	
Net interest income		$26,972			$24,176	

(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.

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Average Balance Sheet

Unaudited

Six Months Ended

	June 30, 2017			June 30, 2016		
(Dollars in thousands)	Average Balance	Income/ Expense	Yield	Average Balance	Income/ Expense	Yield
ASSETS:						
Interest-earning assets:						
Investments:						
Taxable (1)	$291,627	$2,981	2.04 %	$200,192	$1,840	1.84 %
Tax-exempt (1) (2)	26,125	389	2.98	25,586	411	3.21
Loans (2) (3):						
Mortgages	567,475	9,212	3.25	469,895	7,745	3.30
Commercial mortgages	2,060,602	36,386	3.53	2,003,619	35,000	3.49
Commercial	680,872	13,646	4.01	539,426	10,492	3.89
Commercial construction	194	4	4.12	1,350	27	4.00
Installment	70,395	1,055	3.00	54,032	755	2.79
Home equity	66,965	1,169	3.49	55,601	915	3.29
Other	498	23	9.24	474	23	9.70
Total loans	3,447,001	61,495	3.57	3,124,397	54,957	3.52
Federal funds sold	101	—	0.25	101	—	0.24
Interest-earning deposits	116,856	440	0.75	78,583	163	0.42
Total interest-earning assets	3,881,710	65,305	3.36 %	3,428,859	57,371	3.35 %
Noninterest-earning assets:						
Cash and due from banks	13,125			15,862		
Allowance for loan losses	(33,694)			(27,319)		
Premises and equipment	30,211			29,726		
Other assets	75,099			86,070		
Total noninterest-earning assets	84,741			104,339		
Total assets	$3,966,451			$3,533,198		
LIABILITIES:						
Interest-bearing deposits:						
Checking	$1,052,551	$1,961	0.37 %	$894,554	$1,178	0.26 %
Money markets	1,059,775	2,138	0.40	819,135	1,175	0.29
Savings	120,963	33	0.05	118,327	33	0.06
Certificates of deposit - retail	453,210	3,220	1.42	446,619	3,034	1.36
Subtotal interest-bearing deposits	2,686,499	7,352	0.55	2,278,635	5,420	0.48
Interest-bearing demand - brokered	180,000	1,446	1.61	200,000	1,501	1.50
Certificates of deposit - brokered	93,223	984	2.11	93,658	993	2.12
Total interest-bearing deposits	2,959,722	9,782	0.66	2,572,293	7,914	0.62
FHLB advances and borrowings	68,838	657	1.91	188,971	1,052	1.11
Capital lease obligation	9,534	229	4.80	10,074	242	4.80
Subordinated debt	48,792	1,566	6.42	4,388	139	6.34
Total interest-bearing liabilities	3,086,886	12,234	0.79 %	2,775,726	9,347	0.67 %

Noninterest-bearing liabilities:						
Demand deposits	517,853			449,922		
Accrued expenses and other liabilities	20,460			22,373		
Total noninterest-bearing liabilities	538,313			472,295		
Shareholders' equity	341,252			285,177		
Total liabilities and shareholders' equity	$3,966,451			$3,533,198		
Net interest income (tax-equivalent basis)		53,071			48,024	
Net interest spread			2.57 %			2.68 %
Net interest margin (4)			2.73 %			2.80 %
Tax equivalent adjustment		(508)			(438)	
Net interest income		$52,563			$47,586	

(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.

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

	Three Months Ended June 30, 2017		
	Difference due to Change In:		Change In Income/
(In Thousands):	Volume	Rate	Expense
ASSETS:			
Investments	$ 392	$ 150	$ 542
Loans	3,020	749	3,769
Federal funds sold	—	—	—
Interest-earning deposits	20	80	100
Total interest income	$ 3,432	$ 979	$ 4,411
LIABILITIES:			
Interest-bearing checking	$ 40	$ 452	$ 492
Money market	250	353	603
Savings	—	(1)	(1)
Certificates of deposit - retail	26	79	105
Certificates of deposit - brokered	(5)	2	(3)
Interest bearing demand brokered	(79)	45	(34)
Borrowed funds	(370)	151	(219)
Capital lease obligation	(6)	—	(6)
Subordinated debt	642	2	644
Total interest expense	$ 498	$ 1,083	$ 1,581
Net interest income	$ 2,934	$ (104)	$ 2,830

	Six Months Ended June 30, 2017		
	Difference due to Change In:		Change In Income/
(In Thousands):	Volume	Rate	Expense
ASSETS:			
Investments	$ 831	$ 288	$ 1,119
Loans	5,812	726	6,538
Federal funds sold	—	—	—
Interest-earning deposits	106	171	277
Total interest income	$ 6,749	$ 1,185	$ 7,934
LIABILITIES:			
Interest-bearing checking	$ 48	$ 735	$ 783
Money market	476	487	963
Savings	6	(6)	—
Certificates of deposit - retail	47	139	186
Certificates of deposit - brokered	(9)	—	(9)
Interest bearing demand brokered	(159)	104	(55)
Borrowed funds	(633)	238	(395)
Capital lease obligation	(13)	—	(13)

Subordinated debt	1,425	2	1,427
Total interest expense	$ 1,188	$ 1,699	$ 2,887
Net interest income	$ 5,561	$ (514)	$ 5,047

Interest income on earning assets, on a fully tax-equivalent basis, totaled $33.7 million for the second quarter of 2017 compared to $29.3 million for the same quarter of 2016, reflecting an increase of $4.4 million, or 15 percent. Average earning assets totaled $3.94 billion for the second quarter of 2017, an increase of $439.9 million, or 13 percent, from the same period of 2016. The average commercial loan portfolio increased $160.2 million or 29 percent, from the second quarter of 2016, averaging $713.1 million for the second quarter of 2017. The increase in this portfolio was attributed to the addition of seasoned banking professionals over the course of 2016; a continued concerted focus on the client service and value added aspects of the lending process; and a continued focus on markets outside of the immediate branch service area, including markets around the Teaneck and Princeton private banking offices, as well as the New York City market. Additionally, the average commercial mortgage portfolio (which includes multifamily mortgage loans) increased $38.5 million, or 2 percent, to $2.09 billion for the second quarter of 2017 when compared to the same period in 2016. While the Company has managed its multifamily portfolio to basically no growth, it has been focused on the origination of strong commercial real estate credits. In addition, the Company has continued its focus on relationship based residential mortgage lending, and that portfolio has grown from an average of $473.3 million in the June 2016 quarter to $589.8 million average in the June 2017 quarter. Investments totaled $319.1 million for the second quarter of 2017 compared to $227.9 million for the same 2016 quarter reflecting an increase of $91.2 million, or 40 percent. This increase coincides with the Company's desire to increase liquid portfolios.

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For the quarters ended June 30, 2017 and 2016, the average rates earned on earning assets were 3.42 percent and 3.34 percent, respectively, an increase of 8 basis points. The increase in the overall yield was principally due to the benefit from the increased market rates on adjustable rate assets in the 2017 period partially offset by the maintenance of higher liquidity (investment securities and interest earning deposits) in the 2017 period when compared to 2016.

For the second quarter of 2017, total interest-bearing deposits averaged $2.98 billion, an increase of $389.0 million, or 15 percent, from the average balance for the same period of 2016. The growth in customer deposits (excluding brokered CDs and brokered interest-bearing demand, but including reciprocal funds discussed below) has come from the addition of seasoned banking professionals over the course of 2016 and into 2017; an intense focus on providing high-touch client service; and a full array of treasury management products that support core deposit growth.

Average rates paid on total interest-bearing deposits were 70 basis points and 62 basis points for the second quarters of 2017 and 2016, respectively, an increase of 8 basis points. The increase in the average rate paid on deposits was principally due to growth in interest-bearing money market and checking accounts at slightly higher rates to ensure generation of new deposits in volumes sufficient to appropriately fund asset growth.

For the second quarters of 2017 and 2016, average borrowings totaled $77.5 million and $222.7 million, respectively, a decrease of $145.2 million during the second quarter of 2017 when compared to the same period of 2016. The decrease was principally due to scheduled maturities of FHLB advances along with reduced average overnight borrowings from the FHLB.

The Company is a participant in the Reich & Tang Demand Deposit Marketplace (“DDM”) program. The Company uses these deposit sweep services to place customer funds into interest-bearing demand (checking) accounts issued by other participating banks. Customer funds are placed at one or more participating banks to ensure that each deposit customer is eligible for the full amount of FDIC insurance. As a program participant, the Company receives reciprocal amounts of deposits from other participating banks. The DDM program is considered to be a source of brokered deposits for bank regulatory purposes. However, the Company considers these reciprocal deposit balances to be in-market customer deposits as distinguished from traditional out-of-market brokered deposits. Such reciprocal deposit balances are included in the Company’s interest-bearing checking balances. Reciprocal balances averaged $395.5 million for the June 30, 2017 quarter and $411.2 million for the June 30, 2016 quarter.

For the second quarter of 2017 total interest-bearing demand – brokered deposits decreased by $20.0 million when compared to the same quarter of 2016. This decrease is due to the management of the balance sheet to reduce such brokered deposits to the minimum level required to support the Company’s existing $180.0 million of interest rate swaps, transacted previously as part of the Company’s interest rate risk management program.

In June 2016, the Company issued $50.0 million of subordinated debt ($48.7 million net of issuance costs) bearing interest at an annual rate of 6 percent for the first five years, and thereafter at an adjustable rate and until maturity in June 2026 or earlier redemption. For the second quarter of 2017, the subordinated debt balance averaged $48.8 million compared to $8.8 million from the same period in 2016.

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Interest income on earning assets, on a fully tax-equivalent basis increased by $7.9 million, or 14 percent, for the first six months of 2017 compared to the same period in 2016. For the six months ended June 30, 2017 average earning assets increased $452.9 million from $3.43 billion for the same period in 2016. For the six months ended June 30, 2017 the average commercial portfolio increased $141.4 million, or 26 percent, from the same period in 2016. This increase was due to the addition of highly regarded bankers with industry and capital markets expertise in 2016 and in the first half of 2017. For the six months ended June 30, 2017 the average commercial mortgage portfolio (which includes multifamily mortgage loans) increased $57.0 million to $2.06 billion from the same period in 2016. While the Company has managed its multifamily portfolio to basically no growth, it has been focused on the origination of strong commercial real estate credits. In addition, the Company has continued its focus on relationship based residential mortgage lending, and that portfolio has grown $97.6 million to an average of $567.5 million for the six months ended June 30, 2017 when compared to an average of $469.9 million from the same period in 2016.

For the six months ended June 30, 2017 and 2016, the average rates earned on earning assets was 3.36 percent and 3.35 percent, respectively, an increase of 1 basis point. The increase in average rates on commercial mortgages and loans was due to an increase in market rates during the first six months of 2017. This increase was partially offset by the maintenance of higher liquidity (investment securities and interest-earning deposits) for the first six months of 2017 when compared to the comparable 2016 period.

For the six months ended June 30, 2017 total interest-bearing deposits averaged $2.96 billion, increasing $387.4 million, or 15 percent, from the average balance for the same 2016 period. The growth in customer deposits (excluding brokered CDs and brokered interest-bearing demand, but including reciprocal funds) was $407.9 million for the first half of 2017 when compared to the same period in 2016. This growth has come from the addition of seasoned banking professionals over the course of 2016 and has continued into the first six months of 2017; an intense focus on providing high-touch client service; and a full array of treasury management products that support core deposit growth. Reciprocal deposit balances are included in the Company’s interest-bearing checking balances. Reciprocal balances averaged $396.5 million for the six months ended June 30, 2017 and $426.3 million for the same 2016 period.

Average rates paid on interest-bearing deposits for the six months ended June 30, 2017 were 66 basis points compared to 62 basis points for the same period in 2016, reflecting an increase of 4 basis points. The increase in the average rate paid on deposits was principally due to competitive pressures in attracting new deposits in volumes sufficient to appropriately fund asset growth.

Average borrowings decreased by $120.1 million to $68.8 million for the six months ended June 30, 2017 when compared to the same 2016 period. The decrease was due to significant deposit growth to fund the Company’s loan growth.

As previously stated in June 2016, the Company issued $50.0 million of subordinated debt ($48.7 million net of issuance costs) bearing interest at an annual rate of 6 percent for the first five years, and thereafter at an adjustable rate

and until maturity in June 2026 or earlier redemption. For the first half of 2017, the subordinated debt balance averaged $48.8 million compared to $4.4 million from the same period in 2016.

INVESTMENT SECURITIES AVAILABLE FOR SALE: Investment securities available for sale are purchased, sold and/or maintained as a part of the Company's overall balance sheet management including liquidity and interest rate risk management strategies, and in response to changes in interest rates, liquidity needs, prepayment speeds and/or other factors. These securities are carried at estimated fair value, and unrealized changes in fair value are recognized as a separate component of shareholders' equity, net of income taxes. Realized gains and losses are recognized in income at the time the securities are sold.

At June 30, 2017, the Company had investment securities available for sale with a fair value of $315.2 million compared with $305.4 million at December 31, 2016. Net unrealized losses (net of income tax) of $572 thousand and $1.1 million were included in shareholders' equity at June 30, 2017 and December 31, 2016, respectively.

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The carrying value of investment securities available for sale as of June 30, 2017 and December 31, 2016 are shown below:

(In thousands)	June 30, 2017	December 31, 2016
U.S. treasury and U.S. government-sponsored agencies	$26,559	$ 21,517
Mortgage-backed securities-residential (principally U.S. government-sponsored entities)	242,503	237,617
SBA pool securities	6,369	6,713
State and political subdivisions	28,999	28,993
Corporate bond	3,094	3,113
Single-issuer trust preferred security	2,835	2,610
CRA investment fund	4,865	4,825
Total	$315,224	$ 305,388

The following table presents the contractual maturities and yields of debt securities available for sale, stated at fair value, as of June 30, 2017:

(Dollars in thousands)	Within 1 Year	After 1 But Within 5 Years	After 5 But Within 10 Years	After 10 Years	Total
U.S. treasury and U.S. government-sponsored agencies	$—	$9,968	$16,591	$—	$26,559
	— %	1.25 %	2.05 %	— %	1.75 %
Mortgage-backed securities-residential (1)	$130	$18,181	$21,267	$202,925	$242,503
	4.08 %	2.10 %	1.83 %	1.97 %	1.97 %
SBA pool securities	$—	$—	$—	$6,369	$6,369
	— %	— %	— %	1.22 %	1.22 %
State and political subdivisions (2)	$10,612	$9,753	$4,354	$4,280	$28,999
	1.66 %	3.18 %	2.84 %	2.81 %	2.52 %
Corporate bond	$—	$—	$3,094	$—	$3,094
	— %	— %	5.25 %	— %	5.25 %
Single-issuer trust preferred security (1)	$—	$—	$2,835	$—	$2,835
	— %	— %	1.97 %	— %	1.97 %
Total	$10,742	$37,902	$48,141	$213,574	$310,359
	1.69 %	2.15 %	2.36 %	1.96 %	2.04 %

(1) Shown using stated final maturity.

(2) Yields presented on a fully tax-equivalent basis.

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OTHER INCOME: The following table presents the major components of other income, excluding income from wealth management, which is summarized and discussed subsequently:

(In thousands)	Three Months Ended June 30, 2017	2016	Change 2017 vs 2016
Service charges and fees	$ 815	$ 818	$ (3)
Gain on sale of loans (mortgage banking)	91	309	(218)
Gain on sale of loans, at lower of cost or fair value (Multifamily Loans)	—	500	(500)
Bank owned life insurance	350	345	5
Fee income related to loan level, back-to-back swaps	1,291	—	1,291
Gain on sale of SBA loans	142	212	(70)
Securities gains	—	18	(18)
Other income	396	347	49
Total other income	$ 3,085	$ 2,549	$ 536

(In thousands)	Six Months Ended June 30, 2017	2016	Change 2017 vs 2016
Service charges and fees	$ 1,586	$ 1,625	$ (39)
Gain on sale of loans (mortgage banking)	138	430	(292)
Gain on sale of loans, at lower of cost or fair value (Multifamily Loans)	—	624	(624)
Bank owned life insurance	672	687	(15)
Fee income related to loan level, back-to-back swaps	1,747	94	1,653
Gain on sale of SBA loans	297	259	38
Securities gains	—	119	(119)
Other income	846	679	167
Total other income	$ 5,286	$ 4,517	$ 769

For the quarter ended June 30, 2017, income from the sale of newly originated residential mortgage loans was $91 thousand compared to $309 thousand for the same period in 2016. For the six months ended June 30, 2017 and 2016 income from the sale of newly originated residential mortgage loans was $138 thousand and $430 thousand, respectively. The decrease was a result of lower volume of residential mortgage loans originated for sale in the three and six months ended June 30, 2017 periods compared to the three and six months ended June 30, 2016, as a result of reduced refinance activity due principally to the higher market rate environment.

There were no securities gains in the three or six months ended June 30, 2017 compared to $18 thousand and $119 thousand for the three and six months ended June 30, 2016, respectively. Sales of securities have been generally employed to benefit interest rate risk, prepayment risk, and/or liquidity risk. Given the shorter duration of our investment portfolio and the interest rate environment, such sales will continue to be a very small component of the Company's operations.

Gains on the sale of multifamily loans held for sale at the lower of cost or fair value was $500 thousand for the quarter ending June 30, 2016 and $624 thousand for the six months ended June 30, 2016. During the first quarter of 2016, the Company began selling whole multifamily loans in addition to multifamily loan participations. The Company manages its balance sheet such that multifamily loans decline as a percentage of the overall loan portfolio while commercial loans become a larger percentage of the overall loan portfolio. The Company anticipates that this balance sheet management, however, will likely not be linear each quarter, but will rather be apparent over periods of time. There were no multifamily loan sales for the three and six months ended June 30, 2017, as, without sales, the Company's portfolio level remained at the Company's targeted level. And, additionally, market demand for such product has declined somewhat due to the regulatory environment surrounding commercial real estate lending.

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The second quarter of 2017 included $142 thousand of income related to the Company's SBA lending and sale program compared to $212 thousand in the same quarter in 2016. The six months ended June 30, 2017 included $297 thousand of income related to the Company's SBA lending and sale program compared to the $259 thousand for the same period in 2016. The SBA program was fully implemented during the March 2016 quarter and activity has grown since that period. This program is part of the Company's normal ongoing operations.

The second quarter of 2017 included $1.3 million of loan level, back-to-back swap income. There was no loan level, back-to-back swap income in the second quarter of 2016. The six months ended June 30, 2017 included $1.7 million of loan level, back-to-back swap income compared to $94 thousand for the same period in 2016. The increase is due to several factors, including increased customer awareness of the possibility of rising market interest rates, as well as increased loan opportunities for the Company. The program utilizes mirror interest rate swaps, one directly with the customer and one directly with a well-established counterparty. This enables a customer to benefit from a fixed rate loan, while the Company records a floating rate loan. The program provides enhanced interest rate risk management, as well as the potential for fee income for the Company.

Other income was $396 thousand for the June 2017 quarter compared to $347 thousand for the same quarter in 2016. For the six months ended June 30, 2017 other income was $846 compared to $679 for the same 2016 period. The three and six months ended June 30, 2017 included increases in letter of credit fees and unused line of credit fees associated with the commercial lending business, when compared to the same 2016 periods.

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

	Three Months Ended June 30,		Change
(In thousands)	2017	2016	2017 vs 2016
Compensation and employee benefits	$ 12,751	$ 11,100	$ 1,651
Premises and equipment	3,033	2,742	291
FDIC assessment	602	1,581	(979)
Other Operating Expenses:			
Wealth management division other expense	630	481	149
Professional and legal fees	785	756	29
Loan expense	57	121	(64)
Telephone	256	235	21
Advertising	355	226	129
Postage	91	62	29
Other	1,535	1,471	64
Total operating expenses	$ 20,095	$ 18,775	$ 1,320

	Six Months Ended June 30,		Change
(In thousands)	2017	2016	2017 vs 2016
Compensation and employee benefits	$ 24,664	$ 22,008	$ 2,656
Premises and equipment	5,849	5,606	243
FDIC assessment	1,288	3,140	(1,852)
Other Operating Expenses:			
Wealth management division other expense	1,332	1,103	229
Professional and legal fees	1,647	1,742	(95)
Loan expense	258	233	25
Telephone	499	473	26
Advertising	518	370	148
Postage	195	169	26
Other	3,149	3,137	12
Total operating expenses	$ 39,399	$ 37,981	$ 1,418

The Company’s total operating expenses were $20.1 million for the quarter ended June 30, 2017 compared to $18.8 million in the same 2016 quarter, reflecting a net increase of $1.3 million, or 7 percent. Total operating expense grew by $1.4 million to $39.4 million for the six months ending June 30, 2017 when compared to the same period in 2016, reflecting an increase of 4 percent.

Compensation and benefits expense increased to $12.8 million in the second quarter of 2017 from $11.1 million in the same period in 2016, an increase of $1.7 million, or 15 percent. The six months ended June 30, 2017 had compensation and benefits expense increasing to $24.7 million from $22.0 million for the same period in 2016. Both period increases were due to strategic hiring that was in line with the Company’s Plan, including staff associated with credit and risk management, normal salary increases and increased bonus/incentive accruals associated with the

Company's growth. In addition, the six person Equipment Finance Team joined the Company during the second quarter of 2017, further increasing compensation expense.

For the three months ended June 30, 2017, premises and equipment expense was $3.0 million compared to $2.7 million for the three months ended June 30, 2016, an increase of $291 thousand. For the six months ended June 30, 2017, premises and equipment expense was $5.8 million compared to $5.6 million for the six months ended June 30, 2016, an increase of $243 thousand. The increase over the same periods in 2016 was due to approximately $150 thousand of accelerated depreciation related to upgrades at the Company's Headquarters.

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For the three months ended June 30, 2017, FDIC insurance expense was $602 thousand compared to $1.6 million for the three months ended June 30, 2016, a decrease of $979 thousand. For the six months ended June 30, 2017, FDIC insurance expense decreased $1.9 million to $1.3 million when compared to the same period in 2016. Beginning July 1, 2016, the FDIC assessment system was revised. Revisions for "small institutions" (under $10 billion in assets) resulted in, among other things, the elimination of risk categories and utilization of a financial ratios method to determine assessment rates. The changes reduced the Company's assessment rate by over 50%, when compared to the three and six months ended June 30, 2016.

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, 2017 and 2016.

	At or For Three Months Ended June 30,		Change
(In thousands)	2017	2016	2017 v 2016
Total fee income	$ 5,086	$ 4,899	$ 187
Compensation and benefits (included in Operating Expenses above)	2,265	2,310	(45)
Other operating expense (included) in Operating Expenses above)	1,919	1,708	211

	At or For Six Months Ended June 30,		Change
(In thousands)	2017	2016	2017 v 2016
Total fee income	$ 9,904	$ 9,194	$ 710
Compensation and benefits (included in Operating Expenses above)	4,864	4,402	462
Other operating expense (included) in Operating Expenses above)	4,071	3,515	556

Assets under administration (market value)	$ 3.9 billion	$ 3.4 billion

The market value of the assets under administration ("AUA") of the wealth management division was $3.9 billion at June 30, 2017, reflecting an increase of 15 percent from $3.4 billion at June 30, 2016.

In the June 2017 quarter, the wealth management division generated $5.1 million in fee income compared to $4.9 million for the June 2016 quarter, reflecting a 4 percent increase. For the six months ended June 30, 2017, the wealth management division generated $9.9 million in fee income compared to $9.2 million for the same period in 2016, reflecting an 8 percent increase. The growth in fee income was due to several factors, including net flows from solid new business results from existing and new clients, partially offset by normal levels of disbursements and outflows.

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The Company continues to incorporate wealth management into conversations it has with the Company's clients, across business lines. The Company has expanded its wealth management team and will continue to grow its team and expand its products, services, and advice delivered to clients.

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 reflected increases due to overall growth in the business, several new hires, and select third party expenditures incurred in the 2017 period. Generally, revenue and profitability related to the new personnel will lag expenses by several quarters.

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

NONPERFORMING ASSETS: OREO, loans past due in excess of 90 days and still accruing, and nonaccrual loans are considered nonperforming assets.

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

	As of June 30, 2017	March 31, 2017	December 31, 2016	September 30, 2016	June 30, 2016
Loans past due over 90 days and still accruing	$—	$ —	$ —	$ —	$—
Nonaccrual loans	15,643	11,494	11,264	10,840	8,049
Other real estate owned	373	671	534	534	767
Total nonperforming assets	$16,016	$ 12,165	$ 11,798	$ 11,374	$8,816
Performing TDRs	$9,725	$ 15,030	$ 17,784	$ 18,078	$18,570
Loans past due 30 through 89 days and still accruing	$1,232	$ 622	$ 1,356	$ 8,238	$6,576
Classified loans	$43,608	$ 43,002	$ 45,798	$ 49,627	$51,084
Impaired loans	$25,294	$ 26,546	$ 29,071	$ 28,951	$26,643
Nonperforming loans (1) as a % of total loans	0.43 %	0.33 %	0.34 %	0.34 %	0.26 %
Nonperforming assets (1) as a % of total assets	0.38 %	0.31 %	0.30 %	0.30 %	0.24 %

Nonperforming assets (1) as a % of total loans plus other real estate owned	0.44 %	0.35 %	0.36 %	0.35 %	0.28 %

(1) Nonperforming loans/assets do not include performing TDRs.

The Company does not hold and has not made or invested in subprime loans or “Alt-A” type mortgages.

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PROVISION FOR LOAN LOSSES: The provision for loan losses was $2.2 million for both the second quarters of 2017 and 2016. For the six months ended June 30, 2017 and 2016 the provision for loan losses was $3.8 million and $3.9 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 generally carry a higher risk profile compared to some of the other credits, which is reflected in Management's determination of the proper level of the allowance for loan losses.

The provision for loan losses of $2.2 million in the second quarter of 2017 was reflective of loan growth experienced by the Company, as well as greater qualitative factor allocations of the allowance to commercial loans and owner occupied commercial real estate loans which experienced a higher rate of growth in balances during the first six months of 2017. Originations of commercial loans and commercial real estate loans have increased, and these loans have historically carried a higher general reserve allocation than multifamily loans. In the second quarter of 2017, Management reevaluated the qualitative factors for multifamily loan types and as a result of the evaluation, changed certain allocations as appropriate.

The overall allowance for loan losses was $35.8 million as of June 30, 2017, compared to $32.2 million at December 31, 2016. As a percentage of loans, the allowance for loan losses was 0.98 percent as of June 30, 2017, and 0.97 percent as of December 31, 2016. The specific reserves on impaired loans have decreased to $715 thousand at June 30, 2017 compared to $824 thousand as of December 31, 2016. Total impaired loans were $25.3 million and $29.1 million as of June 30, 2017 and December 31, 2016, respectively. The general component of the allowance increased from $31.4 million at December 31, 2016 to $35.0 million at June 30, 2017, due principally to the loan growth and the greater qualitative factor allocations referenced previously.

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

(In thousands)	June 30, 2017	March 31, 2017	December 31, 2016	September 30, 30, 2016	June 30, 2016
Allowance for loan losses:					
Beginning of period	$33,610	$ 32,208	$ 30,616	$ 29,219	$27,321
Provision for loan losses	2,200	1,600	1,500	2,100	2,200
Charge-offs, net	(59)	(198)	92	(703)	(302)
End of period	$35,751	$ 33,610	$ 32,208	$ 30,616	$29,219
Allowance for loan losses as a % of total loans	0.98 %	0.98 %	0.97 %	0.95 %	0.93 %
Allowance for loan losses as a % of nonperforming loans	228.54 %	292.41 %	285.94 %	282.44 %	363.01 %

INCOME TAXES: For the second quarter of 2017 and 2016 income tax expense as a percentage of pre-tax income was 38.2 percent and 38.4 percent, respectively. For the six months ended June 30, 2017 and 2016 income tax expense as a percentage of pre-tax income was 35.2 percent and 37.9 percent, respectively. During the six months ended June 30, 2017, the Company adopted ASU 2016-9, "Compensation – Stock Compensation, Improvements to Employee Share-Based Payment Accounting". As a result of this adoption, the Company recorded an income tax benefit of $662 thousand in the first quarter of 2017. The reduction in our effective tax rate for the six months ended June 30, 2017 was primarily due to the adoption of ASU 2016-9.

CAPITAL RESOURCES: A solid capital base provides the Company with the ability to support future growth and financial strength and is essential to executing the Company's Strategic Plan – "Expanding Our Reach." The Company's capital strategy is intended to provide stability to expand its businesses, even in stressed environments. Quarterly stress testing is integral to the Company's capital management process.

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The Company strives to maintain capital levels in excess of internal "triggers" and in excess of those considered to be well capitalized under regulatory guidelines applicable to banks. Maintaining an adequate capital position supports the Company's goal of providing shareholders an attractive and stable long-term return on investment.

Capital for the six months ended June 30, 2017 was benefitted by net income of $15.9 million and by $16.5 million of voluntary share purchases by our shareholders under the Dividend Reinvestment Plan.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios of Total, Common Equity Tier 1 and Tier 1 capital (each as defined in the regulations) to risk-weighted assets (as defined), and of Tier I capital (as defined) to average assets (as defined). At June 30, 2017 and December 31, 2016, all of the Bank's capital ratios remain above the levels required to be considered "well capitalized" and the Company's capital ratios remain above regulatory requirements.

To be categorized as well capitalized, the Bank must maintain minimum total risk-based, Tier I risk-based, common equity Tier I and Tier I leverage ratios as set forth in the table.

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

	Actual		To Be Well Capitalized Under Prompt Corrective Action Provisions		For Capital Adequacy Purposes		For Capital Adequacy Purposes Including Capital Conservation Buffer (A)	
(Dollars in thousands)	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of June 30, 2017:								
Total capital (to risk-weighted assets)	$427,994	12.91%	$331,573	10.00%	$265,259	8.00%	$ 306,705	9.250 %
Tier I capital (to risk-weighted assets)	392,243	11.83	265,259	8.00	198,944	6.00	240,391	7.250
Common equity tier I (to risk-weighted assets)	392,240	11.83	215,523	6.50	149,208	4.50	190,655	5.750
Tier I capital (to average assets)	392,243	9.76	200,889	5.00	160,711	4.00	160,711	4.00
As of December 31, 2016:								
Total capital (to risk-weighted assets)	$392,305	12.87%	$304,758	10.00%	$243,806	8.00%	262,854	8.625 %

Tier I capital (to risk-weighted assets)	360,097	11.82	243,806	8.00	182,855	6.00	201,902	6.625
Common equity tier I (to risk-weighted assets)	360,094	11.82	198,093	6.50	137,141	4.50	156,188	5.125
Tier I capital (to average assets)	360,097	9.31	193,430	5.00	154,744	4.00	154,744	4.00

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

(Dollars in thousands)	Actual Amount	Ratio	To Be Well Capitalized Under Prompt Corrective Action Provisions Amount	Ratio	For Capital Adequacy Purposes Amount	Ratio	For Capital Adequacy Purposes Including Capital Conservation Buffer (A) Amount	Ratio
As of June 30, 2017:								
Total capital (to risk-weighted assets)	$439,042	13.24 %	$ N/A	N/A %	$265,299	8.00 %	$ 306,752	9.250 %
Tier I capital (to risk-weighted assets)	354,462	10.69	N/A	N/A	198,975	6.00	240,428	7.250
Common equity tier I (to risk-weighted assets)	354,459	10.69	N/A	N/A	149,231	4.50	190,684	5.750
Tier I capital (to average assets)	354,462	8.82	N/A	N/A	160,732	4.00	160,732	4.00
As of December 31, 2016:								
Total capital (to risk-weighted assets)	$404,017	13.25 %	$ N/A	N/A %	$243,910	8.00 %	262,966	8.625 %
Tier I capital (to risk-weighted assets)	323,045	10.60	N/A	N/A	182,933	6.00	201,988	6.625
Common equity tier I (to risk-weighted assets)	323,042	10.60	N/A	N/A	137,200	4.50	156,255	5.125
Tier I capital (to average assets)	323,045	8.35	N/A	N/A	154,788	4.00	154,788	4.00

(A) When fully phased in on January 1, 2019, the Basel Rules will require the Company and the Bank to maintain a 2.5% "capital conservation buffer" on top of the minimum risk-weighted asset ratios. The capital conservation buffer is designed to absorb losses during periods of economic stress. Banking institutions with a ratio of (i) CET1 to risk-weighted assets, (ii) Tier 1 capital to risk-weighted assets or (iii) total capital to risk-weighted assets above the respective minimum but below the capital conservation buffer will face constraints on dividends, equity repurchases and discretionary bonus payments to executive officers based on the amount of the shortfall. The implementation of the capital conservation buffer began on January 1, 2016 at the 0.625% level and will increase by 0.625% on each subsequent January 1, until it reaches 2.5% on January 1, 2019.

The Company's regulatory total risk based capital ratio beginning June 30, 2016 was benefitted by the $49 million (net) subordinated debt issuance that closed in June 2016. At that time, the Company down-streamed approximately $40 million of those proceeds to the Bank as capital, benefitting all the Bank's regulatory capital ratios.

The Dividend Reinvestment Plan of Peapack-Gladstone Financial Corporation, or the "Reinvestment Plan," allows shareholders of the Company to purchase additional shares of common stock using cash dividends without payment of any brokerage commissions or other charges. Shareholders may also make voluntary cash payments of up to $200 thousand per quarter to purchase additional shares of common stock. The Reinvestment Plan provided $16.5 million of capital to the Company in the first six months of 2017 and we anticipate this program will provide a continuing source of capital.

The Company filed a shelf registration statement with the SEC in December 2016 that allows the Company to periodically offer and sell in one or more offerings, individually or in any combination, common stock, preferred stock and other non-equity securities not to exceed $100.0 million. The shelf registration provides the Company with flexibility in issuing capital instruments and more readily accessing the capital markets as needed to pursue future growth opportunities and ensure continued compliance with regulatory capital requirements.

As previously announced, on July 26, 2017, the Board of Directors declared a regular cash dividend of $0.05 per share payable on August 23, 2017 to shareholders of record on August 9, 2017.

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Management believes the Company’s capital position and capital ratios are adequate. Further, Management believes the Company has sufficient common equity to support its planned growth and expansion for the immediate future. The Company continually assesses other potential sources of capital to support future growth.

LIQUIDITY: Liquidity refers to an institution’s ability to meet short-term requirements including funding of loans, deposit withdrawals and maturing obligations, as well as long-term obligations, including potential capital expenditures. The Company’s liquidity risk management is intended to ensure the Company 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, securities available for sale, customer deposit inflows, loan repayments and secured borrowings. Other liquidity sources include loan sales and loan participations.

Management actively monitors and manages the Company’s liquidity position and believes it is sufficient to meet future needs. Cash and cash equivalents, including federal funds sold and interest-earning deposits, totaled $93.8 million at June 30, 2017. In addition, the Company had $315.2 million in securities designated as available for sale at June 30, 2017. These securities can be sold, or used as collateral for borrowings, in response to liquidity concerns. In addition, the Company generates significant liquidity from scheduled and unscheduled principal repayments of loans and mortgage-backed securities.

A further source of liquidity is borrowing capacity. At June 30, 2017, unused borrowing commitments totaled $1.1 billion from the FHLB, $695.6 million from the Federal Reserve Bank and $22.0 million from correspondent banks.

During the June 2017 quarter, the increase in loans of $224.4 million was primarily funded by customer deposit growth of $155.6 million, net (principally interest-bearing checking), increased capital of $15.9 million, decreased cash/cash equivalents of $25.1 million, and net increased other borrowings of $52.5 million.

Brokered interest-bearing demand (“overnight”) deposits stayed flat at $180.0 million at June 30, 2017. The interest rate paid on these deposits allows the Bank to fund at attractive rates and engage in interest rate swaps to hedge its asset-liability interest rate risk. The Company ensures ample available collateralized liquidity as a backup to these short-term brokered deposits.

From a liquidity/funding perspective, such brokered deposits, are generally a more cost effective alternative than other borrowings and do not require use of pledged collateral, as secured wholesale borrowings do. From a balance sheet management perspective, the rate paid on these short term brokered deposits is used as the basis to transact longer term interest rate swaps, basically extending repricing generally to five years for asset matching / interest rate risk management purposes. As of June 30, 2017, the Company has transacted pay fixed, receive floating interest rate swaps totaling $180.0 million notional amount.

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

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

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ASSET/LIABILITY MANAGEMENT: The Company's Asset/Liability Committee (ALCO) is responsible for developing, implementing and monitoring asset/liability management strategies and advising the Board of Directors on such strategies, 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 the management of capital, cash flows and duration of assets and liabilities, including sales and purchases of assets, as well as additions of wholesale borrowings and other sources of medium/longer term funding. ALCO is 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 (C&I) loan originations, which tend to have adjustable rate features, and which generate customer relationships that can result in higher core deposit accounts;
- Actively market commercial mortgage loan originations, which tend to have shorter terms and higher interest rates than residential mortgage loans, and which generate customer relationships that can result in higher core deposit accounts;
- Manage growth in the residential mortgage portfolio to adjustable-rate and/or shorter-term and/or "relationship" loans that result in core deposit relationships;
- Actively market core deposit relationships, which are generally longer duration liabilities;
- Utilize medium to longer term certificates of deposit and/or wholesale borrowings to extend liability duration;
- Utilize interest rate swaps to extend liability duration;
- Utilize a loan level / back to back interest rate swap program, which converts a borrower's fixed rate loan to adjustable rate for the Company;
- 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.

The interest rate swap program is administered by ALCO and follows procedures and documentation in accordance with regulatory guidance and standards as set forth in ASC 815 for cash flow hedges. The program incorporates pre-purchase analysis, liability designation, sensitivity analysis, correlation analysis, daily mark-to-market analysis and collateral posting as required. The Board is advised of all swap activity. In all of these swaps, the Company is receiving floating and paying fixed interest rates with total notional value of $180.0 million as of June 30, 2017.

In addition, during the second quarter of 2015, the Company initiated a loan level / back-to-back swap program in support of its commercial lending business. Pursuant to this program, the Company extends a floating rate loan and executes a floating to fixed swap with the borrower. At the same time, the Company executes a third party swap, the

terms of which fully offset the fixed exposure and, result in a final floating rate exposure for the Company. As of June 30, 2017, $254.5 million of notional value in swaps were executed and outstanding with borrowers under this program.

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As noted above, ALCO uses simulation modeling to analyze the Company's net interest income sensitivity, as well as the Company'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, 2017. 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 remained static as of June 30, 2017.

In an immediate and sustained 200 basis point increase in market rates at June 30, 2017, net interest income for year 1 would increase approximately 7.1 percent, when compared to a flat interest rate scenario. In year 2 this sensitivity improves to an increase of 10.2 percent, when compared to a flat interest rate scenario.

In an immediate and sustained 100 basis point decrease in market rates at June 30, 2017, net interest income would decline approximately 6.8 percent for year 1 and 8.1 percent for year 2, compared to a flat interest rate scenario.

The table below shows the estimated changes in the Company's economic value of portfolio equity ("EVPE") that would result from an immediate parallel change in the market interest rates at June 30, 2017.

(Dollars in thousands)		Estimated Increase/ Decrease in EVPE		EVPE as a Percentage of Present Value of Assets (2)	
Change In Interest Rates	Estimated			EVPE	Increase/(Decrease)
(Basis Points)	EVPE (1)	Amount	Percent	Ratio (3)	(basis points)
+200	$509,881	$4,211	0.83 %	12.89%	68
+100	516,071	10,401	2.06	12.74	53
Flat interest rates	505,670	—	—	12.21	—
-100	481,235	(24,436)	(4.83)	11.40	(81)

(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.

Model simulation results indicate the Company is slightly asset sensitive, which indicates the Company's net interest income should improve slightly in a rising rate environment. Management believes the Company's interest rate risk position is reasonable.

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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, 2017).

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 Securities Exchange Act of 1934, as amended) 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, 2017 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 1. Legal Proceedings

In the normal course of its business, lawsuits and claims may be brought against the Company and its subsidiaries. There is no currently pending or threatened litigation or proceedings against the Company or its subsidiaries, which asset claims that if adversely decided, we believe would have a material adverse effect on the Company.

ITEM 1A. Risk Factors

There were no material changes in the Corporation’s risk factors during the three months ended June 30, 2017 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, 2016.

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

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

ITEM 3. Defaults Upon Senior Securities

None.

ITEM 4. Mine Safety Disclosures

Not applicable.

ITEM 5. Other Information

None.

ITEM 6. Exhibits

3 Articles of Incorporation and By-Laws:

A. Certificate of Incorporation of the Registrant, as amended, incorporated herein by reference to Exhibit 3 of the Registrant's Quarterly Report on Form 10-Q filed on November 9, 2009 (File No. 001-16197).

B By-Laws of the Registrant, incorporated herein by reference to Exhibit 3.1 of the Registrant's Current Report on Form 8-K filed on January 26, 2015 (File No. 001-16197).

10. Material Contracts:

A. "Deferred Compensation Retention Award Plan" dated August 4, 2017, by and between Peapack-Gladstone Bank and Douglas L. Kennedy, filed herewith.

B. "Deferred Compensation Retention Award Plan" dated August 4, 2017, by and between Peapack-Gladstone Bank and Finn M.W. Caspersen, Jr., filed herewith.

C. “Deferred Compensation Retention Award Plan” dated August 4, 2017, by and between Peapack-Gladstone Bank and John P. Babcock, filed herewith.

D. “Deferred Compensation Retention Award Plan” dated August 4, 2017, by and between Peapack-Gladstone Bank and Jeffrey J. Carfora, filed herewith.

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.

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SIGNATURES

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

PEAPACK-GLADSTONE FINANCIAL CORPORATION
(Registrant)

DATE: August 7, 2017	By: /s/ Douglas L. Kennedy Douglas L. Kennedy President and Chief Executive Officer
DATE: August 7, 2017	By: /s/ Jeffrey J. Carfora Jeffrey J. Carfora Senior Executive Vice President, Chief Financial Officer (Principal Financial Officer)
DATE: August 7, 2017	By: /s/ Francesco S. Rossi Francesco S. Rossi, Chief Accounting Officer (Principal Accounting Officer)