

PEAPACK GLADSTONE FINANCIAL CORP  
Form 10-K  
March 14, 2017

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

**FORM 10-K**

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

**For the Fiscal Year Ended December 31, 2016**

**Commission File No. 000-16197**

**PEAPACK-GLADSTONE FINANCIAL CORPORATION**

(Exact name of registrant as specified in its charter)

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

<b>500 Hills Drive, Suite 300</b>	
<b>Bedminster, NJ</b>	<b>07921</b>
(Address of principal executive offices)	(Zip Code)

**Registrant's telephone number (908) 234-0700**

**Securities registered pursuant to Section 12(b) of the Act:**

<b><u>Title of Each Class</u></b>	<b><u>Name of Exchange on which Registered</u></b>
Common Stock, No par value	NASDAQ Global Select Market

**Securities registered pursuant to Section 12(g) of the Act:**

**NONE**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes\_\_ No X .

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes\_\_ No X .

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No\_\_

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation 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 \_\_.

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

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 the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act (Check one):

Large accelerated filer \_\_ Accelerated filer X  
Non-accelerated filer \_\_ Smaller reporting company \_\_

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

The aggregate market value of the shares held by unaffiliated stockholders was approximately \$291 million on June 30, 2016.

As of March 6, 2017, 17,548,472 shares of no par value Common Stock were outstanding.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the Company's Definitive Proxy Statement for the Company's 2017 Annual Meeting of Shareholders (the "2017 Proxy Statement") are incorporated by reference into Part III. The Company will file the 2017 Proxy Statement within 120 days of December 31, 2016.

**FORM 10-K**

**PEAPACK-GLADSTONE FINANCIAL CORPORATION**

**For the Year Ended December 31, 2016**

**Table of Contents**

**PART I**

<u>Item 1. Business</u>	4
<u>Item 1A. Risk Factors</u>	12
<u>Item 1B. Unresolved Staff Comments</u>	20
<u>Item 2. Properties</u>	20
<u>Item 3. Legal Proceedings</u>	20
<u>Item 4. Mine Safety Disclosure</u>	20

**PART II**

<u>Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	21
<u>Item 6. Selected Financial Data</u>	23
<u>Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	24
<u>Item 7A. Quantitative and Qualitative Disclosures About Market Risk</u>	52
<u>Item 8. Financial Statements and Supplementary Data</u>	56
<u>Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	102
<u>Item 9A. Controls and Procedures</u>	102
<u>Item 9B. Other Information</u>	103

**PART III**

<u>Item 10. Directors, Executive Officers and Corporate Governance</u>	103
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<u>Item 11. Executive Compensation</u>	104
<u>Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	105
<u>Item 13. Certain Relationships and Related Transactions, and Director Independence</u>	105
<u>Item 14. Principal Accountant Fees and Services</u>	105
<u>PART IV</u>	
<u>Item 15. Exhibits and Financial Statement Schedules</u>	106
<u>Signatures</u>	110

Table of Contents

**PART I**

**Item 1. BUSINESS**

*The disclosures set forth in this Form 10-K are qualified by Item 1A-Risk Factors and the section captioned “Cautionary Statement Concerning Forward-Looking Statements” in Item 7-Management’s Discussion and Analysis of Financial Condition and Results of Operations of this report and other cautionary statements set forth elsewhere in this report. The terms “Peapack,” “the Company,” “we,” “our” and “us” refer to Peapack-Gladstone Financial Corporation and its wholly-owned subsidiaries unless otherwise indicated or the context requires otherwise.*

**The Corporation**

Peapack-Gladstone Financial Corporation is a bank holding company registered under the Bank Holding Company Act of 1956, as amended (the “Holding Company Act”). The Company was organized under the laws of New Jersey in August 1997 by the Board of Directors of Peapack-Gladstone Bank (the “Bank”), its principal subsidiary, to become a holding company for the Bank. The Bank is a state chartered commercial bank founded in 1921 under the laws of the State of New Jersey. The Bank is a member of the Federal Reserve System. The Bank provides innovative private banking services to businesses, non-profits and consumers through its private banking locations in Bedminster, Morristown, Princeton and Teaneck, New Jersey, its wealth management division and its branch network in Somerset, Morris, Hunterdon and Union counties.

Our wealth management clients include individuals, families, foundations, endowments, trusts and estates. Our commercial loan clients are business people, including business owners, professionals, retailers, contractors and real estate investors. Most forms of commercial lending are offered, including working capital lines of credit, term loans for fixed asset acquisitions, commercial mortgages, multifamily mortgages and other forms of asset-based financing.

In addition to commercial lending activities, we offer a wide range of consumer banking services, including: checking and savings accounts, money market and interest-bearing checking accounts, certificates of deposit, and individual retirement accounts held in certificates of deposit. We also offer residential mortgages, home equity lines of credit and other second mortgage loans. Automated teller machines are available at 20 locations. Internet banking, including an online bill payment option and mobile phone banking, is available to clients.

Employees

As of December 31, 2016, the Company employed 338 full-time equivalent persons. Management considers relations with employees to be satisfactory.

### **Peapack-Gladstone Bank's Private Wealth Management Division**

The Bank's Private Wealth Management Division, is one of the largest New Jersey-based trust and investment businesses with \$3.7 billion of assets under administration as of December 31, 2016. It is headquartered in Bedminster, with additional private banking locations in Morristown, Princeton and Teaneck, NJ, as well as at the Bank's subsidiary, PGB Trust & Investments of Delaware, in Greenville, DE. The Bank's Private Wealth Management Division is known for its integrity, client service and broad range of fiduciary, investment management and tax services, designed specifically to meet the needs of high net-worth individuals, families, foundations and endowments.

We believe our wealth management business differentiates us from our competition and adds significant value. We intend to grow this business further both in and around our market areas through our Delaware Trust subsidiary; through our existing wealth, loan and depository client base; through our innovative private banking service model, which utilizes private bankers working together to provide fully integrated client solutions; and through potential acquisitions of complimentary and/or additive wealth management businesses. Throughout the wealth management division and all other business lines, we will continue to provide the unparalleled personalized, high-touch service our valued clients have come to expect.



Table of Contents

**Our Markets**

Our current market is defined as the NY-NJ-PA metropolitan statistical area. Our primary market areas are located in New Jersey and New York City, among the most attractive banking markets in the United States, with a total population exceeding 8.9 million in New Jersey and exceeding 8.5 million in New York and a median household income of \$72,093 for New Jersey and \$53,373 for New York City as of 2011-2015, compared to the U.S. median household income of \$53,889 as of 2011-2015, according to estimates from the United States Census Bureau. Somerset County, where we are headquartered, is among one of the wealthiest in New Jersey, with a 2011-2015 median household income of \$100,667 according to estimates from the United States Census Bureau. We believe that these markets have economic and competitive dynamics that are consistent with our objectives and favorable to executing our growth strategy.

**Our Business Strategy**

We began our growth strategy – Expanding Our Reach – in 2013 to principally address three industry headwinds:

- that we believed the low interest rate and tight spread environment would likely continue;
- that we believed costs associated with compliance and risk management would increase significantly; and
- that we believed our clients would continue to shift from traditional branches in favor of electronic channels.

Through 2016 the key elements of our business strategy have included:

- enhanced risk management;
- expansion of our commercial and industrial (C&I) lending business through Private Bankers and/or Private Banking teams, who lead with deposit gathering and wealth management;
- expansion of our wealth management business; and
- expansion of our residential and commercial real estate lending business.

**In particular, we have focused on the following areas of our business:**

Wealth Management. We have been in the wealth management business since 1972. The business adds significant value to our Company and differentiates us from many of our competitors. Conversations with all clients and potential clients across all lines of business have included and will continue to include a wealth management discussion. The market value of the assets under administration of the wealth management division was \$3.7 billion at December 31, 2016.

Commercial Lending. We have continued to help businesses emerge, expand and evolve. Through 2016, we grew our Commercial and Industrial (“C&I) and commercial real estate lending businesses. We further expanded our comprehensive C&I lending program designed to service individuals, professional service firms, foundations, and privately owned businesses. This C&I lending program, similar to our wealth management business, has been fully integrated into our private banking platform. Private bankers focus holistically on C&I lending, wealth advisory and deposit solutions to provide a high-touch, “white-glove” client service. Growth in 2017 and beyond will focus on C&I lending.

Retail Banking – Deposits. We see a lot of opportunity for growth in our core markets. We continued with the concept of high-touch relationship-style banking, which we introduced in 2013, to support the affluent segment of our branch network. Much like the private banking service model, this team has intimate knowledge of all Bank products and services and serves as the primary contact for clients seeking wealth, lending and deposit solutions. The structure of this team enables our existing branch network to maintain its primary objective of providing unique and unparalleled client service. Additionally, our private banking platform has and we believe it will continue to contribute significantly to our retail deposit growth, not only through stand-alone deposit relationships, but through comprehensive new relationships associated with C&I lending.

Table of Contents

**Governmental Policies and Legislation**

The banking industry is highly regulated. Statutory and regulatory controls increase a bank holding company's cost of doing business and limit the options of its management to deploy assets and maximize income. Proposals to change the laws and regulations governing the operations and taxation of banks, bank holding companies and other financial institutions are frequently made in Congress, in state legislatures and before various bank regulatory agencies. The likelihood of any major changes and the impact such changes might have on the Company or the Bank is impossible to predict. The following discussion is not intended to be a complete list of all the activities regulated by the banking laws or of the impact of such laws and regulations on the Bank. It is intended only to briefly summarize some material provisions.

**The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010**

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the "Dodd-Frank Act") was signed into law on July 21, 2010. The Dodd-Frank Act significantly changed the bank regulatory landscape and has impacted and will continue to impact the lending, deposit, investment, trading and operating activities of financial institutions and their holding companies.

The Consumer Financial Protection Bureau ("CFPB") took over responsibility for the principal federal consumer protection laws, such as the Truth in Lending Act, the Equal Credit Opportunity Act, the Real Estate Settlement Procedures Act and the Truth in Saving Act, among others, on July 21, 2011. Institutions that have assets of \$10 billion or less, such as the Bank, will continue to be supervised in this area by their primary federal regulators (in the case of the Bank, the Federal Reserve Board ("FRB")). The Dodd-Frank Act also gave the CFPB expanded data collecting powers for fair lending purposes for both small business and mortgage loans, as well as expanded authority to prevent unfair, deceptive and abusive practices.

In January 2013, the CFPB issued a series of final rules related to mortgage loan origination and mortgage loan servicing. In particular, the CFPB issued a final rule amending Regulation Z to implement certain amendments to the Truth in Lending Act. The CFPB issued a final rule implementing amendments to the Truth in Lending Act and the Real Estate Settlement Procedures Act. The rule amended Regulation Z by expanding the types of mortgage loans that are subject to the protections of the Home Ownership and Equity Protections Act of 1994 ("HOEPA"), revised and expanded the tests for coverage under HOEPA, and imposed additional restrictions on mortgages that are covered by HOEPA, including a pre-loan counseling requirement. The rule also amended Regulation Z and Regulation X by imposing other requirements related to homeownership counseling.

In addition, the CFPB amended Regulation B to implement changes to the Equal Credit Opportunity Act. The CFPB also amended Regulation Z to implement requirements and restrictions to the Truth in Lending Act concerning loan originator compensation, qualifications of, and registration or licensing of loan originators, compliance procedures for depository institutions, mandatory arbitration, and the financing of single-premium credit insurance.

The final rules also implemented the ability-to-repay and qualified mortgage (QM) provisions of the Truth in Lending Act, as amended by the Dodd-Frank Act (the “QM Rule”). The ability-to-repay provision requires creditors to make reasonable, good faith determinations that borrowers are able to repay their mortgages before extending the credit based on a number of factors and consideration of financial information about the borrower from reasonably reliable third-party documents. Under the Dodd-Frank Act and the QM Rule, loans meeting the definition of “qualified mortgage” are entitled to a presumption that the lender satisfied the ability-to-repay requirements. The presumption is a conclusive presumption/safe harbor for prime loans meeting the QM requirements, and a rebuttable presumption for higher-priced/subprime loans meeting the QM requirements. The definition of a “qualified mortgage” incorporates the statutory requirements, such as not allowing negative amortization or terms longer than 30 years. The QM Rule also added an explicit maximum 43 percent debt-to-income ratio for borrowers if the loan is to meet the QM definition, though some mortgages that meet GSE, FHA and VA underwriting guidelines may, for a period not to exceed seven years, meet the QM definition without being subject to the 43 percent debt-to-income limits.

The CFPB may issue additional final rules regarding mortgages in the future, including amendments to certain mortgage servicing rules regarding forced-placed insurance notices, policies and procedures and other matters. We cannot assure you that existing or future regulations will not have a material adverse impact on our residential mortgage loan business.

## Table of Contents

On December 10, 2013, the FRB, the Office of the Comptroller of the Currency (the “OCC”), the Federal Deposit Insurance Corporation (the “FDIC”), the Commodity Futures Trading Commission (the “CFTC”) and the SEC issued final rules to implement the Volcker Rule contained in section 619 of the Dodd-Frank Act. The Volcker Rule prohibits an insured depository institution and its affiliates (referred to as “banking entities”) from: (i) engaging in “proprietary trading” and (ii) investing in or sponsoring certain types of funds (“covered funds”) subject to certain limited exceptions. The rule also effectively prohibits short-term trading strategies by any U.S. banking entity if those strategies involve instruments other than those specifically permitted for trading and prohibits the use of some hedging strategies.

To the extent the Dodd-Frank Act remains in place or is not materially amended by the new administration it is likely to continue to increase our cost of doing business, limit our permissible activities, and affect the competitive balance within our industry and market areas.

## **Capital Requirements**

Pursuant to the Federal Deposit Insurance Corporation Improvement Act of 1991 (“FDICIA”), each federal banking agency has promulgated regulations, specifying the levels at which a financial institution would be considered “well capitalized,” “adequately capitalized,” “undercapitalized,” “significantly undercapitalized,” or “critically undercapitalized,” and to take certain mandatory and discretionary supervisory actions based on the capital level of the institution. To qualify to engage in financial activities under the Gramm-Leach-Bliley Act, all depository institutions must be “well capitalized.”

In July 2013, the FRB published final rules establishing a new comprehensive capital framework for U.S. banking organizations, referred to herein as the Basel Rules. The Basel Rules implemented the Basel Committee’s December 2010 framework, commonly referred to as Basel III, for strengthening international capital standards as well as certain provisions of the Dodd-Frank Act, as discussed below. The Basel Rules substantially revised the risk-based capital requirements applicable to bank holding companies and depository institutions, including the Company and the Bank. The Basel Rules became effective for us on January 1, 2015 (subject to phase-in periods for certain components).

The Basel Rules, among other things, (i) introduced a new capital measure called “Common Equity Tier 1,” or CET1, (ii) specified that Tier 1 capital consist of CET1 and “Additional Tier 1 capital” instruments meeting specified requirements, (iii) applied most deductions/adjustments to regulatory capital measures to CET1 and not to the other components of capital, thus potentially requiring higher levels of CET1 in order to meet minimum ratios, and (iv) expanded the scope of the reductions/adjustments from capital as compared to existing regulations.

Under the Basel Rules, the minimum capital ratios for the Company and the Bank as of January 1, 2016 are as follows:

4.5% CET1 to risk-weighted assets.

6.0% Tier 1 capital (i.e., CET1 plus Additional Tier 1) to risk-weighted assets.

8.0% Total capital (i.e., Tier 1 plus Tier 2) to risk-weighted assets.

4.0% Tier 1 capital to average consolidated assets as reported on consolidated financial statements (known as the "leverage ratio").

When fully phased in on January 1, 2019, the Basel Rules will also require the Company and the Bank to maintain a 2.5% "capital conservation buffer", composed entirely of CET1, on top of the minimum risk-weighted asset ratios, effectively resulting in minimum ratios of (i) CET1 to risk-weighted assets of at least 7.0%, (ii) Tier 1 capital to risk-weighted assets of at least 8.5%, and (iii) total capital to risk-weighted assets of at least 10.5%. 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. As of January 1, 2017, the Company and the Bank were required to maintain a capital conservation buffer of 1.25%.

The Basel Rules provide for a number of deductions from and adjustments to CET1. These include, for example, the requirement that mortgage servicing rights, deferred tax assets dependent upon future taxable income and significant investments in common equity issued by nonconsolidated financial entities be deducted from CET1 to the extent that any one such category exceeds 10% of CET1 or all such categories in the aggregate exceed 15% of CET1.

## Table of Contents

Under current capital standards, the effects of accumulated other comprehensive income items included in capital are excluded for the purposes of determining regulatory capital ratios. Under the Basel Rules, the effects of certain accumulated other comprehensive items are not excluded; however, non-advanced approaches banking organizations, including the Company and the Bank, may make a one-time permanent election to continue to exclude these items effective as of January 1, 2015. This election was made by the Company. The deductions and other adjustments to CET1 are being phased in incrementally between January 1, 2015 and January 1, 2018.

With respect to the Bank, the Basel Rules also revised the “prompt corrective action” regulations pursuant to Section 38 of the Federal Deposit Insurance Act, by (i) introducing a CET1 ratio requirement at each capital quality level (other than critically undercapitalized); (ii) increasing the minimum Tier 1 capital ratio requirement for each category; and (iii) requiring a leverage ratio of 5% to be well-capitalized. An institution will be classified as “well capitalized” if it (i) has a total risk-based capital ratio of at least 10.0 percent, (ii) has a Tier 1 risk-based capital ratio of at least 8.0 percent, (iii) has a CET1 ratio of at least 6.5 percent, (iv) has a Tier 1 leverage ratio of at least 5.0 percent, and (v) meets certain other requirements. An institution will be classified as “adequately capitalized” if it (i) has a total risk-based capital ratio of at least 8.0 percent, (ii) has a Tier 1 risk-based capital ratio of at least 6.0 percent, (iii) has a CET1 ratio of at least 4.5 percent, (iv) has a Tier 1 leverage ratio of at least 4.0 percent, and (v) does not meet the definition of “well capitalized.” An institution will be classified as “undercapitalized” if it (i) has a total risk-based capital ratio of less than 8.0 percent, (ii) has a Tier 1 risk-based capital ratio of less than 6.0 percent, (iii) has a CET1 ratio of less than 4.5 percent or (iv) has a Tier 1 leverage ratio of less than 4.0 percent. An institution will be classified as “significantly undercapitalized” if it (i) has a total risk-based capital ratio of less than 6.0 percent, (ii) has a Tier 1 risk-based capital ratio of less than 4.0 percent, (iii) has a CET1 ratio of less than 3.0 percent or (iv) has a Tier 1 leverage ratio of less than 3.0 percent. An institution will be classified as “critically undercapitalized” if it has a tangible equity to total assets ratio that is equal to or less than 2.0 percent. An insured depository institution may be deemed to be in a lower capitalization category if it receives an unsatisfactory examination rating. Similar categories apply to bank holding companies.

The Basel Rules prescribe a standardized approach for calculating risk-weighted assets that expand the risk-weighting categories from the current four Basel I-derived categories (0%, 20%, 50% and 100%) to a much larger and more risk-sensitive number of categories, depending on the nature of the assets.

The Bank’s capital ratios were all above the minimum levels required for it to be considered a “well capitalized” financial institution at December 31, 2016 under the “prompt corrective action” regulations in effect as of such date.

## **Insurance Funds Legislation**

The Bank’s deposits are insured up to applicable limits by the Deposit Insurance Fund of the Federal Deposit Insurance Corporation (the “FDIC”). Under the FDIC’s risk-based system, insured institutions are assigned to one of four risk

categories based on supervisory evaluations, regulatory capital levels and certain other factors with less risky institutions paying lower assessments on their deposits.

Effective July 1, 2016, the FDIC adopted changes that eliminated the risk categories. Assessments for institutions are now based on financial measures and supervisory ratings derived from statistical modeling estimating the probability of failure within three years. In conjunction with the Deposit Insurance Fund's reserve ratio achieving 1.15%, the assessment range (inclusive of possible adjustments) was reduced for insured institutions of less than \$10 billion in total assets to a range of 1.5 basis points to 30 basis points.

### **Restrictions on the Payment of Dividends**

The holders of the Company's common stock are entitled to receive dividends, when, as and if declared by the Board of Directors of the Company out of funds legally available. The only statutory limitation is that such dividends may not be paid when the Company is insolvent. Since the principal source of income for the Company will be dividends on Bank common stock paid to the Company by the Bank, the Company's ability to pay dividends to its shareholders will depend on whether the Bank pays dividends to it. As a practical matter, restrictions on the ability of the Bank to pay dividends act as restrictions on the amount of funds available for the payment of dividends by the Company. As a New Jersey chartered commercial bank, the Bank is subject to the restrictions on the payment of dividends contained in the New Jersey Banking Act of 1948, as amended (the "Banking Act").



## Table of Contents

Under the Banking Act, the Bank may pay dividends only out of retained earnings, and out of surplus to the extent that surplus exceeds 50% of stated capital. Under the Financial Institutions Supervisory Act, the FDIC has the authority to prohibit a state-chartered bank from engaging in conduct that, in the FDIC's opinion, constitutes an unsafe or unsound banking practice. Under certain circumstances, the FDIC could claim that the payment of a dividend or other distribution by the Bank to the Company constitutes an unsafe or unsound practice. The Company is also subject to FRB policies, which may, in certain circumstances, limit its ability to pay dividends. The FRB policies require, among other things, that a bank holding company maintain a minimum capital base and serve as a source of strength to its subsidiary bank. The FRB by supervisory letters has advised holding corporations that it has supervisory concerns when the level of dividends is too high and would seek to prevent dividends if the dividends paid by the holding company exceeded its earnings. The FRB would most likely seek to prohibit any dividend payment that would reduce a holding company's capital below these minimum amounts.

## **Incentive Compensation**

The Dodd-Frank Act requires the federal bank regulatory agencies and the SEC to establish joint regulations or guidelines prohibiting incentive-based payment arrangements at specified regulated entities, such as the Company and the Bank, with at least \$1 billion in total assets that encourage inappropriate risks by providing an executive officer, employee, director or principal shareholder with excessive compensation, fees, or benefits or that could lead to material financial loss to the entity. In addition, these regulators must establish regulations or guidelines requiring enhanced disclosure to regulators of incentive-based compensation arrangements. The agencies proposed such regulations in April 2011 and proposed revised regulations in May 2016, but the revised regulations have not been finalized. If the revised regulations are adopted in the form proposed, they will impose limitations on the manner in which the Company may structure compensation for its executives and employees.

In June 2010, the FRB, OCC and FDIC issued comprehensive final guidance on incentive compensation policies intended to ensure that the incentive compensation policies of banking organizations do not undermine the safety and soundness of such organizations by encouraging excessive risk-taking. The guidance, which covers all employees that have the ability to materially affect the risk profile of an organization, either individually or as part of a group, is based upon the key principles that a banking organization's incentive compensation arrangements should (i) provide incentives that do not encourage risk-taking beyond the organization's ability to effectively identify and manage risks, (ii) be compatible with effective internal controls and risk management, and (iii) be supported by strong corporate governance, including active and effective oversight by the organization's board of directors. These three principles are incorporated into the proposed joint compensation regulations under the Dodd-Frank Act.

The FRB will review, as part of its regular, risk-focused examination process, the incentive compensation arrangements of banking organizations, such as the Company, that are not "large, complex banking organizations." These reviews will be tailored to each organization based on the scope and complexity of the organization's activities and the prevalence of incentive compensation arrangements. The findings of the supervisory initiatives will be included in reports of examination. Deficiencies will be incorporated into the organization's supervisory ratings, which can affect the organization's ability to make acquisitions and take other actions. Enforcement actions may be taken against a banking organization if its incentive compensation arrangements, or related risk-management control or

governance processes, pose a risk to the organization's safety and soundness and the organization is not taking prompt and effective measures to correct the deficiencies.

### **Consumer Protection Regulations**

The Bank is subject to federal consumer protection statutes and regulations promulgated under those laws, including, but not limited to the following:

- Truth-In-Lending Act and Regulation Z, governing disclosures of credit terms to consumer borrowers;
- Home Mortgage Disclosure Act and Regulation C, requiring financial institutions to provide certain information about home mortgage and refinanced loans;
- Equal Credit Opportunity Act and Regulation B, prohibiting discrimination on the basis of race, creed, or other prohibited factors in extending credit;
- Fair Credit Reporting Act and Regulation V, governing the provision of consumer information to credit reporting agencies and the use of consumer information; and
- Fair Debt Collection Act, governing the manner in which consumer debts may be collected by collection agencies.

## Table of Contents

The Bank's deposit operations are also subject to the following federal statutes and regulations, among others:

- The Truth in Savings Act and Regulation DD, which requires disclosure of deposit terms to consumers;
- Regulation CC, which relates to the availability of deposit funds to consumers;
- The Right to Financial Privacy Act, which imposes a duty to maintain the confidentiality of consumer financial records and prescribes procedures for complying with administrative subpoenas of financial records; and
- Electronic Funds Transfer Act and Regulation E, governing automatic deposits to, and withdrawals from, deposit accounts and customers' rights and liabilities arising from the use of automated teller machines and other electronic banking services.

Many of the foregoing laws and regulations are subject to change resulting from the provisions in the Dodd-Frank Act, which in many cases calls for revisions to implementing regulations, such as the amendments described above in the discussion on the Dodd-Frank Act.

## **Holding Company Supervision**

The Company is a bank holding company within the meaning of the Holding Company Act. As a bank holding company, the Company is supervised by the FRB and is required to file reports with the FRB and provide such additional information as the FRB may require.

The Holding Company Act prohibits the Company, with certain exceptions, from acquiring direct or indirect ownership or control of more than five percent of the voting shares of any company which is not a bank and from engaging in any business other than that of banking, managing and controlling banks or furnishing services to subsidiary banks, except that it may, upon application, engage in, and may own shares of companies engaged in, certain businesses found by the FRB to be so closely related to banking "as to be a proper incident thereto." The Holding Company Act requires prior approval by the FRB of the acquisition by the Company of more than five percent of the voting stock of any additional bank. Satisfactory capital ratios, Community Reinvestment Act ratings and anti-money laundering policies are generally prerequisites to obtaining federal regulatory approval to make acquisitions. The policy of the FRB provides that a bank holding company is expected to act as a source of financial strength to its subsidiary bank and to commit resources to support the subsidiary bank in circumstances in which it might not do so absent that policy. Acquisitions through the Bank require the approval of the FRB and the New Jersey Department of Banking and Insurance ("NJDOBI").

## **Sarbanes-Oxley Act of 2002**

The Sarbanes-Oxley Act of 2002 (“Sarbanes-Oxley Act”) added new legal requirements for public companies affecting corporate governance, accounting and corporate reporting.

The Sarbanes-Oxley Act provides for, among other things:

- a prohibition on personal loans made or arranged by the issuer to its directors and executive officers (except for loans made by a bank subject to Regulation O);
- independence requirements for audit committee members;
- independence requirements for company auditors;
- certification of financial statements within the Annual Report on Form 10-K and Quarterly Reports on Form 10-Q by the chief executive officer and the chief financial officer;
- the forfeiture by the chief executive officer and the chief financial officer of bonuses or other incentive-based compensation and profits from the sale of an issuer’s securities by such officers in the twelve month period following initial publication of any financial statements that later require restatement due to corporate misconduct;
- disclosure of off-balance sheet transactions;
- two-business day filing requirements for insiders filing on Form 4;
- disclosure of a code of ethics for financial officers and filing a Current Report on Form 8-K for a change in or waiver of such code;
- the reporting of securities violations “up the ladder” by both in-house and outside attorneys;
- restrictions on the use of non-GAAP financial measures in press releases and SEC filings;
- the formation of a public accounting oversight board;

## Table of Contents

- various increased criminal penalties for violations of securities laws;
- an assertion by management with respect to the effectiveness of internal control over financial reporting; and
- a report by the company's external auditor on management's assertion and the effectiveness of internal control over financial reporting.

Each of the national stock exchanges, including the National Association of Securities Dealers Automated Quotations (NASDAQ) Global Select Market where the Company's securities are listed, have implemented corporate governance listing standards, including rules strengthening director independence requirements for boards, and requiring the adoption of charters for the nominating and audit committees.

## **USA PATRIOT Act**

As part of the USA PATRIOT Act, Congress adopted the International Money Laundering Abatement and Financial Anti-Terrorism Act of 2001 (the "Anti Money Laundering Act"). The Anti Money Laundering Act authorizes the Secretary of the Treasury, in consultation with the heads of other government agencies, to adopt special measures applicable to financial institutions such as banks, bank holding companies, broker-dealers and insurance companies. Among its other provisions, the Anti Money Laundering Act requires each financial institution: (i) to establish an anti-money laundering program; (ii) to establish due diligence policies, procedures and controls that are reasonably designed to detect and report instances of money laundering in United States private banking accounts and correspondent accounts maintained for non-United States persons or their representatives; and (iii) to avoid establishing, maintaining, administering, or managing correspondent accounts in the United States for, or on behalf of, a foreign shell bank that does not have a physical presence in any country. In addition, the Anti Money Laundering Act expands the circumstances under which funds in a bank account may be forfeited and requires covered financial institutions to respond under certain circumstances to requests for information from federal banking agencies within 120 hours.

Regulations implementing the due diligence requirements, require minimum standards to verify customer identity and maintain accurate records, encourage cooperation among financial institutions, federal banking agencies, and law enforcement authorities regarding possible money laundering or terrorist activities, prohibit the anonymous use of "concentration accounts," and requires all covered financial institutions to have in place an anti-money laundering compliance program. Federal and state banking agencies have strictly enforced various anti-money laundering and suspicious activity reporting requirements using formal and informal enforcement tools to cause banks to comply with these provisions.

The Anti Money Laundering Act amended the Holding Company Act and the Bank Merger Act to require the federal banking agencies to consider the effectiveness of any financial institution involved in a proposed merger transaction in combating money laundering activities when reviewing an application under these acts.

## **Gramm-Leach-Bliley Act**

The Gramm-Leach-Bliley Financial Modernization Act of 1999 (“Modernization Act”) became effective in early 2000. The Modernization Act:

- allows bank holding companies meeting management, capital and Community Reinvestment Act standards to engage in a substantially broader range of non-banking activities than was previously permissible, including insurance underwriting;
- allows insurers and other financial services companies to acquire banks;
- removes various restrictions that previously applied to bank holding company ownership of securities firms and mutual fund advisory companies; and
- establishes the overall regulatory structure applicable to bank holding companies that also engage in insurance and securities operations.

If a bank holding company elects to become a financial holding company, it files a certification, effective in 30 days, and thereafter may engage in certain financial activities without further approvals. The Company has not elected to become a financial holding company.

Table of Contents

The Modernization Act modified other financial laws, including laws related to financial privacy and community reinvestment.

**Item 1A. RISK FACTORS**

The material risks and uncertainties that Management believes affect the Company are described below. These risks and uncertainties are not the only ones affecting the Company. Additional risks and uncertainties that Management is not aware of or focused on or that Management currently deems immaterial may also impair the Company's business operations. This report is qualified in its entirety by these risk factors. If any one or more of the following risks actually occur, the Company's financial condition and results of operations could be materially and adversely affected.

**Risks Relating to Ownership of Our Common Stock**

*We may not be able to continue to grow our business, which may adversely impact our results of operations.*

Our business strategy calls for continued expansion. Our ability to continue to grow depends, in part, upon our ability to successfully attract deposits and identify favorable loan and investment opportunities. We expect to add personnel to assist in this growth. In the event that we do not continue to grow, or the new personnel do not produce sufficient new revenues, our results of operations could be adversely impacted.

*We may not be able to manage our growth, which may adversely impact our financial results.*

As part of our expansion strategy, we plan to broaden and expand our commercial lending in both existing and new geographic markets. In addition, as part of our expansion strategy, we may add new lines of business or offer new products and services within existing lines of business. There are substantial risks and uncertainties associated with these efforts, particularly in instances where the markets are not fully developed. We may invest significant time and resources to develop and market new lines of business and/or products and services. Initial timetables for the introduction and development of new lines of business and/or new products or services may not be achieved and price and profitability targets may not prove feasible. External factors, such as compliance with regulations, competitive alternatives, and shifting customer preferences may also impact the successful implementation of a new line of business or a new product or service. Additionally, any new line of business and/or new product or service could have a significant impact on the effectiveness of our system of internal controls. Failure to successfully manage these risks could have a material adverse effect on our business, results of operations and financial condition.

Our ability to implement our expansion strategy will depend upon a variety of factors, including our ability to attract and retain experienced personnel, the continued availability of desirable business opportunities and locations, the competitive responses from other financial institutions in the new market areas and our ability to manage growth. In order to implement our expansion strategy, we plan to hire new personnel in our existing and target markets. However, we may be unable to hire qualified management. In addition, the organizational and overhead costs may be greater than we anticipated. Moreover, we may not be able to obtain the regulatory approvals necessary. New business expansion efforts may take longer than expected to reach profitability, and we cannot assure that they will become profitable. The additional costs of adding new personnel may adversely impact our financial results.

Our ability to manage growth successfully will depend on whether we can continue to fund this growth while maintaining cost controls and asset quality, as well as on factors beyond our control, such as national and regional economic conditions and interest rate trends. If we are not able to control costs and maintain asset quality, such growth could adversely impact our earnings and financial condition.

The Company is required by Federal regulatory authorities to maintain adequate levels of capital to support its operations. The Company may at some point need to raise additional capital to support continued growth. The Company's ability to raise additional capital, if needed, will depend on conditions in the capital markets at that time, which are outside the Company's control, and on its financial performance. Accordingly, the Company cannot assure you of its ability to raise additional capital if needed or on terms acceptable to the Company. If the Company cannot raise additional capital when needed, the ability to further expand its operations could be materially impaired.



Table of Contents

***The Dodd-Frank Wall Street Reform and Consumer Protection Act has and may continue to adversely affect our business activities, financial position and profitability by increasing our regulatory compliance burden and associated costs, placing restrictions on certain products and services, and limiting our future capital raising strategies.***

On July 21, 2010, the President signed into law the Dodd-Frank Act, which implements significant changes in the financial regulatory landscape and will impact all financial institutions, including the Company and the Bank. The Dodd-Frank Act has and may continue to increase our regulatory compliance burden.

Among the Dodd-Frank Act's significant regulatory changes, it created the CFPB that is empowered to promulgate new consumer protection regulations and revise existing regulations in many areas of consumer protection. The CFPB has exclusive authority to issue regulations, orders and guidance to administer and implement the objectives of federal consumer protection laws. Moreover, the Dodd-Frank Act permits states to adopt stricter consumer protection laws and state attorney generals may enforce consumer protection rules issued by the CFPB. The Dodd-Frank Act also changes the scope of federal deposit insurance coverage. The CFPB and these other changes have increased, and will continue to increase, our regulatory compliance burden and costs and may restrict the financial products and services we offer to our clients.

The Dodd-Frank Act also imposed more stringent capital requirements on bank holding companies by, among other things, imposing leverage ratios on bank holding companies and prohibiting new trust preferred issuances from counting as Tier I capital. These restrictions may limit our future capital strategies. The Dodd-Frank Act also increases regulation of derivatives and hedging transactions, which could limit our ability to enter into, or increase the costs associated with, interest rate and other hedging transactions.

Although certain provisions of the Dodd-Frank Act, such as required direct supervision by the CFPB, will not apply to banking organizations with less than \$10 billion of assets, such as the Company and the Bank, the changes resulting from the legislation will impact our business. New consumer protection rules issued by the CFPB will apply to us. These changes will require us to invest significant management attention and resources to evaluate and make necessary changes.

***Negative developments in the financial services industry and U.S. and global credit markets may adversely impact our operations and results.***

Our businesses and operations, which primarily consist of lending money to clients in the form of loans, borrowing money from clients in the form of deposits and investing in securities, are sensitive to general business and economic

conditions in the United States. If the U.S. economy weakens, our growth and profitability from our lending, deposit and investment operations could be constrained. Uncertainty about the federal fiscal policymaking process, the medium and long-term fiscal outlook of the federal government and future tax rates is a concern for businesses, consumers and investors in the United States. In addition, economic conditions in foreign countries could affect the stability of global financial markets, which could hinder U.S. economic growth. Weak economic conditions are often characterized by deflation, fluctuations in debt and equity capital markets, a lack of liquidity and/or depressed prices in the secondary market for mortgage loans, increased delinquencies on mortgage, consumer and commercial loans, residential and commercial real estate price declines and lower home sales and commercial activity.

The current economic environment is also characterized by interest rates at continued low levels, which impacts our ability to attract deposits and to generate attractive earnings through our investment portfolio. All of these factors are detrimental to our business, and the interplay between these factors can be complex and unpredictable. Our business is also significantly affected by monetary and related policies of the U.S. federal government and its agencies. Changes in any of these policies are influenced by macroeconomic conditions and other factors that are beyond our control. Adverse economic conditions and government policy responses to such conditions could have a material adverse effect on our business, financial condition, results of operations and prospects.

***We are more sensitive than our more geographically diversified competitors to adverse changes in the local economy.***

Much of our business is with clients located within Central and Northern New Jersey, as well as New York City. Our business loans are generally made to small to mid-sized businesses, most of whose success depends on the regional economy. These businesses generally have fewer financial resources in terms of capital or borrowing capacity than larger entities. Adverse economic and business conditions in our market area could reduce our growth rate, affect our borrowers' ability to repay their loans and, consequently, adversely affect our financial condition and performance. Further, we place

Table of Contents

substantial reliance on real estate as collateral for our loan portfolio. A sharp downturn in real estate values in our market area could leave many of our loans under-secured, which could adversely affect our earnings.

***If our allowance for loan losses were not sufficient to cover actual loan losses, our earnings would decrease.***

We maintain an allowance for loan losses based on, among other things, the level of non-performing loans, loan growth, national and regional economic conditions, historical loss experience, delinquency trends among loan types and various qualitative factors. However, we cannot predict loan losses with certainty and we cannot assure you that charge-offs in future periods will not exceed the allowance for loan losses. In addition, regulatory agencies, as an integral part of their examination process, review our allowance for loan losses and may require additions to the allowance based on their judgment about information available to them at the time of their examination. Factors that require an increase in our allowance for loan losses could reduce our earnings.

***Changes in interest rates may adversely affect our earnings and financial condition.***

Our net income depends primarily upon our net interest income. Net interest income is the difference between interest income earned on loans, investments and other interest-earning assets and the interest expense incurred on deposits and borrowed funds.

Different types of assets and liabilities may react differently, and at different times, to changes in market interest rates. We expect that we will periodically experience “gaps” in the interest rate sensitivities of our assets and liabilities. That means either our interest-bearing liabilities will be more sensitive to changes in market interest rates than our interest-earning assets, or vice versa. When interest-bearing liabilities mature or reprice more quickly than interest-earning assets, an increase in market rates of interest could reduce our net interest income. Likewise, when interest-earning assets mature or reprice more quickly than interest-bearing liabilities, falling interest rates could reduce our net interest income. We are unable to predict changes in market interest rates, which are affected by many factors beyond our control, including inflation, recession, unemployment, money supply, domestic and international events and changes in the United States and other financial markets.

***Our exposure to credit risk could adversely affect our earnings and financial condition.***

There are certain risks inherent in making loans, including risks that the principal of or interest on the loan will not be repaid timely or at all or that the value of any collateral supporting the loan will be insufficient to cover our outstanding exposure. These risks may be affected by the strength of the borrower’s business sector and local, regional and national market and economic conditions. Our risk management practices, such as monitoring the concentration of

our loans within specific industries and our credit approval practices, may not adequately reduce credit risk, and our credit administration personnel, policies and procedures may not adequately adapt to changes in economic or any other conditions affecting clients and the quality of the loan portfolio. Finally, many of our loans are made to small and medium-sized businesses that are less able to withstand competitive, economic and financial pressures than larger borrowers. A failure to effectively measure and limit the credit risk associated with our loan portfolio could have a material adverse effect on our business, financial condition, results of operations and prospects.

***Competition from other financial institutions in originating loans and attracting deposits may adversely affect our profitability.***

We face substantial competition in originating loans. This competition comes principally from other banks, savings institutions, mortgage banking companies and other lenders. Many of our competitors enjoy advantages, including greater financial resources and higher lending limits, a wider geographic presence, and more accessible branch office locations.

In attracting deposits, we face substantial competition from other insured depository institutions such as banks, savings institutions and credit unions, as well as institutions offering uninsured investment alternatives, including money market funds. Many of our competitors enjoy advantages, including greater financial resources, more aggressive marketing campaigns, better brand recognition and more branch locations. These competitors may offer higher interest rates than we do, which could decrease the deposits that we attract or require us to increase our rates to retain existing deposits or attract new deposits. Increased deposit competition could adversely affect our ability to generate the funds necessary for lending operations and increase our cost of funds.

Table of Contents

We also compete with non-bank providers of financial services, such as brokerage firms, consumer finance companies, insurance companies and governmental organizations, which may offer more favorable terms. Some of our non-bank competitors are not subject to the same extensive regulations that govern our operations. As a result, such non-bank competitors may have advantages over us in providing certain products and services. This competition may reduce or limit our margins on banking services, reduce our market share and adversely affect our earnings and financial condition.

***Limits on our ability to use brokered deposits as part of our funding strategy may adversely affect our ability to grow.***

A “brokered deposit” is any deposit that is obtained from or through the mediation or assistance of a deposit broker, which includes larger correspondent banks and securities brokerage firms. These deposit brokers attract deposits from individuals and companies throughout the country and internationally whose deposit decisions are based almost exclusively on obtaining the highest interest rates. At December 31, 2016, brokered deposits represented approximately 19.5% of our total deposits and equaled \$666.7 million, comprised of the following: interest-bearing demand-brokered of \$180.0 million, brokered certificates of deposits of \$93.7 million and reciprocal deposits of \$393.0 million. There are risks associated with using brokered deposits. In order to continue to maintain our level of brokered deposits, we may be forced to pay higher interest rates than contemplated by our asset-liability pricing strategy. In addition, banks that become less than “well capitalized” under applicable regulatory capital requirements may be restricted in their ability to accept or prohibited from accepting brokered deposits. If this funding source becomes more difficult to access, we will have to seek alternative funding sources in order to continue to fund our growth. This may include increasing our reliance on Federal Home Loan Bank borrowings, attempting to attract non-brokered deposits, reducing our available for sale securities portfolio and selling loans. There can be no assurance that brokered deposits will be available, or if available, sufficient to support our continued growth.

***Our commercial real estate loan portfolio exposes us to risks that may be greater than the risks related to our other mortgage loans.***

Our loan portfolio includes non-owner-occupied commercial real estate loans for individuals and businesses for various purposes, which are secured by commercial properties, as well as real estate construction and development loans. These loans typically involve repayment dependent upon income generated, or expected to be generated, by the property securing the loan in amounts sufficient to cover operating expenses and debt service. This may be adversely affected by changes in the economy or local market conditions. These loans expose a lender to greater credit risk than loans secured by residential real estate because the collateral securing these loans typically cannot be liquidated as easily as residential real estate. If we foreclose on these loans, our holding period for the collateral typically is longer than for a single or multifamily residential property because there are fewer potential purchasers of the collateral. Additionally, non-owner-occupied commercial real estate loans generally involve relatively large balances to single borrowers or related groups of borrowers. Accordingly, charge-offs on non-owner-occupied commercial real estate loans may be larger on a per loan basis than those incurred with our residential or consumer loan portfolios. Unexpected deterioration in the credit quality of our commercial real estate loan portfolio would require us to increase our provision for loan losses, which would reduce our profitability and could materially adversely affect our business,

financial condition, results of operations and prospects.

*We are subject to environmental liability risk associated with our lending activities.*

In the course of our business, we may purchase real estate, or we may foreclose on and take title to real estate. As a result, we could be subject to environmental liabilities with respect to these properties. We may be held liable to a governmental entity or to third parties for property damage, personal injury, investigation and clean-up costs incurred by these parties in connection with environmental contamination or may be required to investigate or clean up hazardous or toxic substances or chemical releases at a property. The costs associated with investigation or remediation activities could be substantial. In addition, if we are the owner or former owner of a contaminated site, we may be subject to common law claims by third parties based on damages and costs resulting from environmental contamination emanating from the property. Any significant environmental liabilities could cause a material adverse effect on our business, financial condition, results of operations and prospects.

*Lack of seasoning of our loan portfolio could increase risk of credit defaults in the future.*

A large portion of loans in our loan portfolio and of our lending relationships are of relatively recent origin. In general, loans do not begin to show signs of credit deterioration or default until they have been outstanding for some period of time, a process referred to as “seasoning.” As a result, a portfolio of older loans will usually behave more predictably than a

Table of Contents

newer portfolio. Because a large portion of our portfolio is relatively new, the current level of delinquencies and defaults may not represent the level that may prevail as the portfolio becomes more seasoned. If delinquencies and defaults increase, we may be required to increase our provision for loan losses, which could materially adversely affect our business, financial condition, results of operations and prospects.

***Deterioration in the fiscal position of the U.S. federal government could adversely affect us and our banking operations.***

The fiscal position of the U.S. federal government may become uncertain. In addition to causing economic and financial market disruptions, any deterioration in the fiscal outlook of the U.S. federal government, could, among other things, materially adversely affect the market value of the U.S. and other government and governmental agency securities that we hold, the availability of those securities as collateral for borrowing, and our ability to access capital markets on favorable terms. In particular, it could increase interest rates and disrupt payment systems, money markets, and long-term or short-term fixed income markets, adversely affecting the cost and availability of funding, which could negatively affect our profitability. Any of these developments could materially adversely affect our business, financial condition, results of operations and prospects.

***Government regulation significantly affects our business.***

The banking industry is extensively regulated. Banking regulations are intended primarily to protect depositors, and the FDIC deposit insurance fund, not the shareholders of the Company. We are subject to regulation and supervision by the New Jersey Department of Banking and Insurance and the Federal Reserve Bank. Regulatory requirements affect our lending practices, capital structure, investment practices, dividend policy and growth. The bank regulatory agencies possess broad authority to prevent or remedy unsafe or unsound practices or violations of law. We are subject to various regulatory capital requirements, which involve both quantitative measures of our assets and liabilities and qualitative judgments by regulators regarding risks and other factors. Failure to meet minimum capital requirements or comply with other regulations could result in actions by regulators that could adversely affect our ability to pay dividends or otherwise adversely impact operations. In addition, changes in laws, regulations and regulatory practices affecting the banking industry may limit the manner in which we conduct our business. Such changes may adversely affect us, including our ability to offer new products and services, obtain financing, attract deposits, make loans and achieve satisfactory spreads and may impose additional costs on us.

The Bank is also subject to a number of Federal laws, which, among other things, require it to lend to various sectors of the economy and population, and establish and maintain comprehensive programs relating to anti-money laundering and customer identification. The Bank's compliance with these laws will be considered by the Federal banking regulators when reviewing bank merger and bank holding company acquisitions or commencing new activities or making new investments in reliance on the Gramm-Leach-Bliley Act. As a public company, we are also subject to the corporate governance standards set forth in the Sarbanes-Oxley Act, as well as any rules or regulations promulgated by the SEC or the NASDAQ Stock Market.

*The long-term impact of the Basel III capital rules is uncertain.*

In July 2013, the FRB published final rules establishing a new comprehensive capital framework for U.S. banking organizations, referred to herein as the “Basel Rules”. For a detailed description of the Basel Rules, please refer to Part I, Item 1, Business – “Governmental Policies and Legislation – Capital Requirements” of this Annual Report. The Basel Rules implement the Basel Committee’s December 2010 framework, commonly referred to as Basel III, for strengthening international capital standards as well as certain provisions of the Dodd-Frank Act. Basel III creates a new regulatory capital standard based on Tier 1 common equity and increases the minimum leverage and risk-based capital ratios applicable to all banking organizations. Basel III also changes how a number of the regulatory capital components are calculated. A significant increase in our capital requirement could reduce our growth and profitability and materially adversely affect our business, financial condition, results of operations and prospects.

In January 2016 we announced the amendment to our FR Y-9C and the Bank’s amendment of its call report FFIEC 041 to correct three of the Company’s and the Bank’s regulatory capital ratios. The reason for the amendment is to correct an error in the Company’s and the Bank’s calculation of risk-weighting of certain of the Bank’s multifamily loans. It was determined by Management that the Bank was not compliant with the clarified regulatory guidance relating to the risk-weighting of multifamily loans for call report purposes. As a result, certain of the Bank’s loans were risk-weighted at a 50% level when they should have been risk-weighted at the 100% level. While we believe that there are no other such



Table of Contents

errors, we can provide no assurances that we will not experience similar difficulties in the interpretation of new regulation of capital rules to requirements and interpretations.

***Inability to fulfill minimum capital requirements could limit our ability to conduct or expand our business, pay a dividend, or result in termination of our FDIC deposit insurance, and thus impact our financial condition, our results of operations, and the market value of our stock.***

We are subject to the comprehensive, consolidated supervision and regulation set forth by the FRB. Such regulation includes, among other matters, the level of leverage and risk-based capital ratios we are required to maintain. Depending on general economic conditions, changes in our capital position could have a materially adverse impact on our financial condition and risk profile, and also could limit our ability to grow through acquisitions or otherwise. Compliance with regulatory capital requirements may limit our ability to engage in operations that require the intensive use of capital and therefore could adversely affect our ability to maintain our current level of business or expand.

Furthermore, it is possible that future regulatory changes could result in more stringent capital or liquidity requirements, including increases in the levels of regulatory capital we are required to maintain and changes in the way capital or liquidity is measured for regulatory purposes, either of which could adversely affect our business and our ability to expand. For example, federal banking regulations adopted under Basel III standards require bank holding companies and banks to undertake significant activities to demonstrate compliance with higher capital requirements. Any additional requirements to increase our capital ratios or liquidity could necessitate our liquidating certain assets, perhaps on terms that are unfavorable to us or that are contrary to our business plans. In addition, such requirements could also compel us to issue additional securities, thus diluting the value of our common stock.

In addition, failure to meet established capital requirements could result in the FRB placing limitations or conditions on our activities and further restricting the commencement of new activities. The failure to meet applicable capital guidelines could subject us to a variety of enforcement remedies available to the federal regulatory authorities, including limiting our ability to pay dividends; issuing a directive to increase our capital; and terminating our FDIC deposit insurance. See “Capital Requirements” under Item 1, “Business” for a further discussion of the various capital requirements to which we are, and in the future may be, subject.

***We are subject to liquidity risk.***

Liquidity risk is the potential that we will be unable to meet our obligations as they become due, capitalize on growth opportunities as they arise, or pay regular dividends because of an inability to liquidate assets or obtain adequate funding in a timely basis, at a reasonable cost and within acceptable risk tolerances.

Liquidity is required to fund various obligations, including credit commitments to borrowers, mortgage and other loan originations, withdrawals by depositors, repayment of borrowings, dividends to shareholders, operating expenses and capital expenditures.

Liquidity is derived primarily from retail deposit growth and retention; principal and interest payments on loans; principal and interest payments; sale, maturity and prepayment of investment securities; net cash provided from operations and access to other funding sources.

Our access to funding sources in amounts adequate to finance our activities could be impaired by factors that affect us specifically or the financial services industry in general. Factors that could detrimentally impact our access to liquidity sources include a decrease in the level of our business activity due to a market downturn or adverse regulatory action against us. Our ability to borrow could also be impaired by factors that are not specific to us, such as a severe disruption of the financial markets or negative views and expectations about the prospects for the financial services industry as a whole as banking organizations face turmoil and domestic and worldwide credit markets deteriorate. Our ability to borrow from alternative sources, such as brokered deposits could also be impaired should the Bank's regulatory capital falls below well capitalized.

Table of Contents

***Cyber-attacks and information security breaches could compromise our information or result in the data of our customers being improperly divulged, which could expose us to liability and losses.***

Many financial institutions and companies engaged in data processing have reported significant breaches in the security of their websites or other systems, some of which have involved sophisticated and targeted attacks intended to obtain unauthorized access to confidential information, destroy data, disable or degrade service, or sabotage systems, often through the introduction of computer viruses or malware, cyber-attacks and other means. Although we have not experienced, to date, any material losses relating to such cyber-attacks or other information security breaches, there can be no assurance that we will not suffer such losses in the future. Additionally, our risk exposure to security matters may remain elevated or increase in the future due to, among other things, the increasing size and prominence of the Company in the financial services industry, our expansion of Internet and mobile banking tools and products based on customer needs, and the system and customer account conversions associated with the integration of merger targets.

***The price of our common stock may fluctuate.***

The price of our common stock on the NASDAQ Global Select Market constantly changes and has fluctuated widely. We expect that the market price of our common stock will continue to fluctuate. Holders of our common stock will be subject to the risk of volatility and changes in prices.

Our common stock price can fluctuate as a result of a variety of factors, many of which are beyond our control. These factors include:

- quarterly fluctuations in our operating and financial results;
- operating results that vary from the expectations of Management, securities analysts and investors;
- changes in expectations as to our future financial performance, including financial estimates by securities analysts and investors;
- events negatively impacting the financial services industry which result in a general decline in the market valuation of our common stock;
- announcements of material developments affecting our operations or our dividend policy;
- future sales of our equity securities;
- new laws or regulations or new interpretations of existing laws or regulations applicable to our business;
- changes in accounting standards, policies, guidance, interpretations or principles; and
- general domestic economic and market conditions.

In addition, recently the stock market generally has experienced extreme price and volume fluctuations, and industry factors and general economic and political conditions and events, such as economic slowdowns or recessions, interest rate changes or credit loss trends, could also cause our stock price to decrease regardless of our operating results.

***Our ability to pay dividends to our common shareholders is limited.***

Since the principal source of income for the Company is dividends paid to the Company by the Bank, the Company's ability to pay dividends to its shareholders will depend on whether the Bank pays dividends to it. As a practical matter, restrictions on the ability of the Bank to pay dividends act as restrictions on the amount of funds available for the payment of dividends by the Company. As a New Jersey-chartered commercial bank, the Bank is subject to the restrictions on the payment of dividends contained in the New Jersey Banking Act of 1948, as amended. Under the Banking Act, the Bank may pay dividends only out of retained earnings, and out of surplus to the extent that surplus exceeds 50% of stated capital. The Company is also subject to FRB policies, which may, in certain circumstances, limit its ability to pay dividends. The FRB policies require, among other things, that a bank holding company maintain a minimum capital base and the FRB in supervisory guidance has cautioned bank holding companies about paying out too much of their earnings in dividends and has stated that banks should not pay out more in dividends than they earn. The FRB would most likely seek to prohibit any dividend payment that would reduce a holding company's capital below these minimum amounts.

***We may lose lower-cost funding sources.***

Checking, savings, and money market deposit account balances and other forms of client deposits can decrease when clients perceive alternative investments, such as the stock market, as providing a better risk/return tradeoff. If clients move

Table of Contents

money out of bank deposits and into other investments, we could lose a relatively low cost source of funds, increasing our funding costs and reducing our net interest income and net income.

*There may be changes in accounting policies or accounting standards.*

Our accounting policies are fundamental to understanding our financial results and condition. Some of these policies require use of estimates and assumptions that may affect the value of our assets or liabilities and financial results. We identified our accounting policies regarding the allowance for loan losses, goodwill and other intangible assets, and income taxes to be critical because they require Management to make difficult, subjective and complex judgments about matters that are inherently uncertain. Under each of these policies, it is possible that materially different amounts would be reported under different conditions, using different assumptions, or as new information becomes available.

From time to time the Financial Accounting Standards Board ("FASB") and the SEC change the financial accounting and reporting standards that govern the form and content of our external financial statements. In addition, accounting standard setters and those who interpret the accounting standards (such as the FASB, SEC, banking regulators and our independent auditors) may change or even reverse their previous interpretations or positions on how these standards should be applied. Changes in financial accounting and reporting standards and changes in current interpretations may be beyond our control, can be hard to predict and could materially impact how we report our financial results and condition. In certain cases, we could be required to apply a new or revised standard retroactively or apply an existing standard differently (also retroactively) which may result in our restating prior period financial statements in material amounts.

*The FASB has recently issued an accounting standard update that will result in a significant change in how the Company recognizes credit losses and may have a material impact on the Company's financial condition or results of operations.*

In June 2016, the Financial Accounting Standards Board ("FASB") issued an accounting standard update, "Financial Instruments-Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments," which replaces the current "incurred loss" model for recognizing credit losses with an "expected loss" model referred to as the Current Expected Credit Loss ("CECL") model. Under the CECL model, the Company will be required to present certain financial assets carried at amortized cost, such as loans held for investment and held-to-maturity debt securities, at the net amount expected to be collected. The measurement of expected credit losses is to be based on information about past events, including historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amount. This measurement will take place at the time the financial asset is first added to the balance sheet and periodically thereafter. This differs significantly from the "incurred loss" model required under current generally accepted accounting principles ("GAAP"), which delays recognition until it is probable a loss has been incurred. Accordingly, we expect that the adoption of the CECL model will materially affect how the Company determines the allowance for loan losses and could require the Company to significantly increase our allowance.

Moreover, the CECL model may create more volatility in the level of our allowance for loan losses. If we are required to materially increase the level of allowance for loan losses for any reason, such increase could adversely affect our business, financial condition and results of operations.

*We encounter continuous technological change.*

The financial services industry is continually undergoing rapid technological change with frequent introductions of new technology-driven products and services. The effective use of technology increases efficiency and enables financial institutions to better serve clients and to reduce costs. Our future success depends, in part, upon our ability to address the needs of our clients by using technology to provide products and services that will satisfy client demands, as well as to create additional efficiencies in our operations. Many of our competitors have substantially greater resources to invest in technological improvements. We may not be able to effectively implement new technology-driven products and services or be successful in marketing these products and services to our clients. Failure to successfully keep pace with technological change affecting the financial services industry could have a material adverse impact on our business and, in turn, our financial condition and results of operations.

Table of Contents

***We are subject to operational risk.***

We face the risk that the design of our controls and procedures, including those to mitigate the risk of fraud by employees or outsiders, may prove to be inadequate or are circumvented, thereby causing delays in detection of errors or inaccuracies in data and information. Management regularly reviews and updates our internal controls, disclosure controls and procedures, and corporate governance policies and procedures. Any system of controls, however well designed and operated, is based in part on certain assumptions and can provide only reasonable, not absolute, assurances that the objectives of the system are met. Any failure or circumvention of our controls and procedures or failure to comply with regulations related to controls and procedures could have a material adverse effect on our business, results of operations and financial condition.

We may also be subject to disruptions of our systems arising from events that are wholly or partially beyond our control (including, for example, computer viruses or electrical or telecommunications outages), which may give rise to losses in service to clients and to financial loss or liability. We are further exposed to the risk that our external vendors may be unable to fulfill their contractual obligations (or will be subject to the same risk of fraud or operational errors by their respective employees as we are) and to the risk that our (or our vendors') business continuity and data security systems prove to be inadequate.

Our performance is largely dependent on the talents and efforts of highly skilled individuals. There is intense competition in the financial services industry for qualified employees. In addition, we face increasing competition with businesses outside the financial services industry for the most highly skilled individuals. Our business operations could be adversely affected if we were unable to attract new employees and retain and motivate our existing employees.

***There may be claims and litigation pertaining to fiduciary responsibility.***

From time to time as part of the Company's normal course of business, clients make claims and take legal action against the Company based on its actions or inactions. If such claims and legal actions are not resolved in a manner favorable to the Company, they may result in financial liability and/or adversely affect the market perception of the Company and its products and services. This may also impact client demand for the Company's products and services. Any financial liability or reputation damage could have a material adverse effect on the Company's business, which, in turn, could have a material adverse effect on its financial condition and results of operations.

**Item 1B.**

**UNRESOLVED STAFF COMMENTS**

None.

**Item 2.**

**PROPERTIES**

The Company owns 9 branches and leases 11 branches. The Company leases an administrative and operations office building in Bedminster, New Jersey, private banking offices in Princeton, Morristown and Teaneck, New Jersey and a trust office in Greenville, Delaware.

**Item 3.**

**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 assert claims that if adversely decided, we believe would have a material adverse effect on the Company.

**Item 4.**

**MINE SAFETY DISCLOSURE**

Not applicable.



Table of Contents

## PART II

**Item MARKET FOR REGISTRANT'S COMMON EQUITY RELATED STOCKHOLDER MATTERS AND  
5. ISSUER PURCHASES OF EQUITY SECURITIES**

The Common Stock of Peapack-Gladstone Financial Corporation is traded on the NASDAQ Global Select Market under the symbol PGC. The following table sets forth, for the periods indicated, the reported high and low sale prices on known trades and cash dividends declared per share by the Company.

2016	High	Low	Dividend Per Share
1 <sup>st</sup> QUARTER	\$21.60	\$16.17	\$ 0.05
2 <sup>nd</sup> QUARTER	20.09	16.60	0.05
3 <sup>rd</sup> QUARTER	22.53	18.53	0.05
4 <sup>th</sup> QUARTER	31.98	20.83	0.05

2015	High	Low	Dividend Per Share
1 <sup>st</sup> QUARTER	\$21.84	\$17.50	\$ 0.05
2 <sup>nd</sup> QUARTER	22.89	19.96	0.05
3 <sup>rd</sup> QUARTER	22.97	19.93	0.05
4 <sup>th</sup> QUARTER	23.82	19.05	0.05

Future dividends payable by the Company will be determined by the Board of Directors after consideration of earnings and financial condition of the Company, need for capital and such other matters as the Board of Directors deems appropriate. The payment of dividends is subject to certain restrictions, see Part I, Item 1, "Business - Restrictions on the Payment of Dividends."

Table of Contents**Performance**

The following graph compares the cumulative total return on a hypothetical \$100 investment made on December 31, 2011 in (a) the Company's common stock; (b) the Russell 3000 Stock Index, and (c) the Keefe, Bruyette & Woods KBW 50 Index (top 50 U.S. banks). The graph is calculated assuming that all dividends are reinvested during the relevant periods. The graph shows how a \$100 investment would increase or decrease in value over time, based on dividends (stock or cash) and increases or decreases in the market price of the stock.

## Peapack-Gladstone Financial Corporation

Index	Period Ending					
	12/31/11	12/31/12	12/31/13	12/31/14	12/31/15	12/31/16
Peapack-Gladstone Financial Corporation	100.00	132.83	182.40	179.11	200.87	303.85
Russell 3000	100.00	116.42	155.47	175.00	175.84	198.23
KBW NASDAQ Bank	100.00	132.91	183.08	200.24	201.22	258.59

On December 31, 2016, the last reported sale price of the Common Stock was \$30.88. Also, on March 7, 2017, there were approximately 905 registered shareholders of record.

Table of Contents**Issuer Purchases of Equity Securities**

None.

**Sales of Unregistered Securities**

None.

**Equity Compensation Plan Information**

The information set forth in Item 12 of Part III of this Annual Report is incorporated by reference herein.

**Item 6.****SELECTED FINANCIAL DATA**

The following is selected consolidated financial data for the Company and its subsidiaries for the years indicated. This information is derived from the historical consolidated financial statements and should be read in conjunction with the consolidated financial statements and notes.

(In thousands, except per share data)	Years Ended December 31,				
	2016	2015	2014	2013	2012
Summary earnings:					
Interest income	\$117,048	\$99,142	\$75,575	\$57,053	\$56,090
Interest expense	20,613	14,690	7,681	4,277	4,687
Net interest income	96,435	84,452	67,894	52,776	51,403
Provision for loan losses	7,500	7,100	4,875	3,425	8,275
Net interest income after provision for loan losses	88,935	77,352	63,019	49,351	43,128
Wealth management income	18,240	17,039	15,242	13,838	12,282
Other income, exclusive of securities gains, net	10,559	6,148	5,305	5,917	5,211
Securities gains, net	119	527	260	840	3,810
Total expenses	75,112	68,926	59,540	55,183	48,330
Income before income tax expense	42,741	32,140	24,286	14,763	16,101
Income tax expense	16,264	12,168	9,396	5,502	6,405
Net income	26,477	19,972	14,890	9,261	9,696

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Dividends on preferred stock and accretion	—	—	—	—	474
Net income available to common shareholders	\$26,477	\$19,972	\$14,890	\$9,261	\$9,222
Per share data:					
Earnings per share-basic	\$1.62	\$1.31	\$1.23	\$1.02	\$1.05
Earnings per share-diluted	1.60	1.29	1.22	1.01	1.05
Cash dividends declared	0.20	0.20	0.20	0.20	0.20
Book value end-of-period	19.10	17.61	16.36	14.79	13.90
Basic weighted average shares outstanding	16,318,868	15,187,637	12,065,615	9,094,111	8,780,973
Common stock equivalents (dilutive)	196,130	247,359	106,492	82,688	47,501
Fully diluted weighted average shares outstanding	16,514,998	15,434,996	12,172,107	9,176,799	8,828,474
Balance sheet data (at period end):					
Total assets	\$3,878,633	\$3,364,659	\$2,702,397	\$1,966,948	\$1,667,836
Securities available to sale	305,388	195,630	332,652	268,447	304,479
FHLB and FRB stock, at cost	13,813	13,984	11,593	10,032	4,639
Total loans	3,312,144	2,913,242	2,250,267	1,574,201	1,132,584
Allowance for loan losses	32,208	25,856	19,480	15,373	12,735
Total deposits	3,411,837	2,935,470	2,298,693	1,647,250	1,516,427
Total shareholders' equity	324,210	275,676	242,267	170,657	122,057
Cash dividends:					
Common	3,296	3,100	2,414	1,802	1,774
Preferred	—	—	—	—	112
Assets under administration at Wealth Management Division (market value)	<b>3.7 billion</b>	3.3 billion	3.0 billion	2.7 billion	2.3 billion

Table of Contents

	Years Ended December 31,									
	2016	2015	2014	2013	2012					
Selected performance ratios:										
Return on average total assets	0.72	%	0.64	%	0.63	%	0.54	%	0.61	%
Return on average common shareholders' equity	8.92		7.71		7.96		7.37		8.03	
Dividend payout ratio	12.45		15.52		16.21		19.46		19.24	
Average equity to average assets ratio	8.12		8.30		7.94		7.26		7.25	
Net interest margin	2.74		2.80		3.01		3.26		3.50	
Non-interest expenses to average assets	2.06		2.21		2.53		3.19		3.04	
Non-interest income to average assets	0.79		0.76		0.88		1.19		1.34	
Asset quality ratios (at period end):										
Nonperforming loans to total loans	0.34	%	0.23	%	0.30	%	0.42	%	1.04	%
Nonperforming assets to total assets	0.30		0.22		0.30		0.44		0.91	
Allowance for loan losses to nonperforming loans	285.94		383.22		284.38		231.87		108.55	
Allowance for loan losses to total loans	0.97		0.89		0.87		0.98		1.12	
Net charge-offs to average loans										
Plus other real estate owned	0.04		0.03		0.04		0.06		0.80	
Liquidity and capital ratios:										
Average loans to average deposits	100.97%		98.30%		92.55%		83.05%		76.39%	
Total shareholders' equity to total assets	8.36		8.19		8.96		8.68		7.32	
Company:										
Total capital to risk-weighted assets	13.25		11.40		15.55		15.33		13.08	
Tier 1 capital to risk-weighted assets	10.60		10.42		14.38		14.07		11.83	
Common equity tier 1 capital ratio to risk-weighted assets	10.60		10.42		N/A		N/A		N/A	
Tier 1 leverage ratio	8.35		8.10		9.11		9.00		7.27	

## Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

**OVERVIEW:** The following discussion and analysis is intended to provide information about the financial condition and results of operations of Peapack-Gladstone Financial Corporation and its subsidiaries on a consolidated basis and should be read in conjunction with the consolidated financial statements and the related notes and supplemental financial information appearing elsewhere in this report.

Peapack-Gladstone Financial Corporation (the "Company"), formed in 1997, is the parent holding company for Peapack-Gladstone Bank (the "Bank"), formed in 1921, a commercial bank providing innovative private banking

services to businesses, non-profits and consumers which help them to establish, maintain and expand their legacy. Through its private banking locations in Bedminster, Morristown, Princeton and Teaneck, its wealth management division, and its branch network in Somerset, Hunterdon, Morris and Union counties, the Bank offers a strong commitment to client service.

For the year ended December 31, 2016, the Company recorded net income of \$26.48 million, and diluted earnings per share of \$1.60 compared to \$19.97 million and \$1.29, respectively, for the same twelve month period last year, reflecting increases of \$6.51 million, or 33 percent, and \$0.31 per share, or 24 percent, respectively. During the fourth quarter of 2015 the Company recorded \$2.5 million of charges related to the closure of two branch offices. These charges reduced 2015 pretax income by \$2.5 million, net income by \$1.6 million and earnings per share by approximately \$0.10 per share. During 2016, the Company continued to focus on executing its Strategic Plan – known as “Expanding Our Reach” – which focuses on the client experience and organic growth across all lines of business. The Strategic Plan called for expansion of existing lines of business, and expansion of the Company’s commercial and industrial (“C&I”) lending platform, through the use of private bankers, who lead with deposit gathering and wealth management discussions.

Table of Contents

In addition to continuing to execute the Strategic Plan, the following are additional highlights for 2016:

Fee income from the Private Wealth Management Division totaled \$18.2 million for the year ended 2016, growing from \$17.0 million for the year ended 2015.

Total end of year loan balances for the Company were \$3.31 billion. This level reflected an increase of \$399 million, or 14 percent, from the balance at December 31, 2015.

Total “customer” deposits (defined as deposits excluding brokered CDs and brokered “overnight” interest-bearing demand deposits) at the end of 2016 were \$3.14 billion, reflecting an increase of \$496 million, or 19 percent, from the balance at December 31, 2015.

At December 31, 2016, the market value of assets under administration at the Private Wealth Management Division of the Bank was \$3.7 billion, reflecting an increase of 11 percent from the balance at December 31, 2015.

Asset quality metrics continued to be strong at December 31, 2016. Nonperforming assets at December 31, 2016 were just \$11.8 million, or 0.30 percent of total assets. Total loans past due 30 through 89 days and still accruing were \$1.4 million or 0.04 percent of total loans at December 31, 2016.

The book value per share at December 31, 2016 of \$19.10 reflected improvement when compared to \$17.61 at December 31, 2015.

The Company’s common stock trades on the NASDAQ Global Select Market under the symbol “PGC.”

***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, assumption 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 the New York City area. 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 may experience continuing 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. Debt securities are classified as held to maturity and carried at amortized cost when Management has the positive intent and ability to hold them to maturity. Debt securities are classified as available for sale when they might be sold before maturity due to changes in interest rates, prepayment risk, liquidity or other factors. Securities available for sale are carried at fair value, with unrealized holding gains and losses reported in other comprehensive income, net of tax. As of December 31, 2016 and 2015, all securities were classified as available for sale.

Securities are evaluated on at least a quarterly basis to determine whether a decline in value is other-than-temporary. To determine whether a decline in value is other-than-temporary, Management considers the reasons underlying the decline,



Table of Contents

the near-term prospects of the issuer, the extent and duration of the decline and 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. "Other-than-temporary" is not intended to indicate that the decline is permanent, but indicates that the prospects for a near-term recovery of value is not necessarily favorable, or that there is a lack of evidence to support a realizable value equal to or greater than the carrying value of the investment. Once a decline in value is determined to be other-than-temporary, the amount of the impairment is split into two components – other-than-temporary impairment related to credit loss, which must be recognized through earnings. No impairment charges were recognized in 2016, 2015 or 2014. For equity securities, the entire amount of impairment is recognized through earnings.

**EARNINGS SUMMARY:**

The following table presents certain key aspects of our performance for the years ended December 31, 2016, 2015 and 2014.

(Dollars in thousands, except per share data)	Years Ended December 31,			Change		
	2016	2015	2014	2016 v 2015	2015 v 2014	
<b>Results of Operations:</b>						
Interest income	\$117,048	\$99,142	\$75,575	\$17,906	\$23,567	
Interest expense	20,613	14,690	7,681	5,923	7,009	
Net interest income	96,435	84,452	67,894	11,983	16,558	
Provision for loan losses	7,500	7,100	4,875	400	2,225	
Net interest income after provision for loan losses	88,935	77,352	63,019	11,583	14,333	
Wealth management fee income	18,240	17,039	15,242	1,201	1,797	
Other income	10,678	6,675	5,565	4,003	1,110	
Total operating expense	75,112	68,926	59,540	6,186	9,386	
Income before income tax expense	42,741	32,140	24,286	10,601	7,854	
Income tax expense	16,264	12,168	9,396	4,096	2,772	
Net income	\$26,477	\$19,972	\$14,890	\$6,505	\$5,082	
<b>Per Share Data:</b>						
Basic earnings per common share	\$1.62	\$1.31	\$1.23	\$0.31	\$0.08	
Diluted earnings per common share	1.60	1.29	1.22	0.31	0.07	
Average common shares outstanding	16,318,868	15,187,637	12,065,615	1,131,231	3,122,022	
Diluted average common shares outstanding	16,514,998	15,434,996	12,172,107	1,080,002	3,262,889	
Average equity to average assets	8.12	% 8.30	% 7.94	% (0.18	)% 0.36	%

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Return on average assets	0.72	0.64	0.63	0.08	0.01	
Return on average equity	8.92	7.71	7.96	1.21	(0.25)	)
Selected Balance Sheet Ratios:						
Total capital to risk-weighted assets	13.25	% 11.40	% 15.55	% 1.85	% (4.15)	)%
Leverage ratio	8.35	8.10	9.11	0.25	(1.01)	)
Average loans to average deposits	100.97	98.30	92.55	1.90	5.75	
Allowance for loan losses to total loans	0.97	0.89	0.87	0.08	0.02	
Allowance for loan losses to nonperforming loans	285.94	383.22	284.38	(97.28)	)	98.84
Nonperforming loans to total loans	0.34	0.23	0.30	0.11	(0.07)	)
Noninterest bearing deposits to total deposits	14.35	14.30	15.94	0.05	(1.64)	)
Time deposits to total deposits	16.14	17.99	14.38	(1.85)	)	3.61

Table of Contents

*2016 compared to 2015*

The Company recorded net income of \$26.48 million and diluted earnings per share of \$1.60 for the year ended December 31, 2016 compared to net income of \$19.97 million and diluted earnings per share of \$1.29 for the year ended December 31, 2015. These results produced a return on average assets of 0.72 percent and 0.64 percent in 2016 and 2015, respectively, and a return on average shareholders' equity of 8.92 percent and 7.71 percent in 2016 and 2015, respectively.

The increase in net income for the 2016 year was due to higher net interest income and other income, offset by an increased provision for loan losses and other operating expenses when compared to 2015. Higher operating expenses were principally due to costs associated with the Strategic Plan, described in the "Overview" section above.

*2015 compared to 2014*

The Company recorded net income of \$19.97 million and diluted earnings per share of \$1.29 for the year ended December 31, 2015 compared to net income of \$14.89 million and diluted earnings per share of \$1.22 for the year ended December 31, 2014. These results produced a return on average assets of 0.64 percent and 0.63 percent in 2015 and 2014, respectively, and a return on average shareholders' equity of 7.71 percent and 7.96 percent in 2015 and 2014, respectively.

The increase in net income for the 2015 year was due to higher net interest income and other income, offset by an increased provision for loan losses and other operating expenses when compared to 2014. Higher operating expenses were principally due to costs associated with the Strategic Plan and a branch restructuring charge, described in the "Overview" section above.

***NET INTEREST INCOME AND NET INTEREST MARGIN***

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, money market, savings and time deposits, Federal Home Loan Bank advances and other borrowings. Net interest income is determined by the difference between the yields earned on earning assets and the rates paid on interest-bearing liabilities ("Net Interest Spread") and the relative amounts of earning assets and interest-bearing liabilities. The 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 for the periods indicated:

(Dollars in thousands)	Years Ended December 31,					
	2016	2015	2014			
Net interest income	\$96,435	\$84,452	\$67,894			
Interest rate spread	2.60	%	2.69	%	2.92	%
Net interest margin	2.74		2.80		3.01	

Table of Contents

The following table compares the average balance sheets, net interest spreads and net interest margins for the years ended

December 31, 2016, 2015 and 2014 (on a fully tax-equivalent basis-“FTE”):

Year Ended December 31, 2016

(In thousands except yield information)	Average Balance	Income/Expense (FTE )	Yield (FTE)
Assets:			
Interest-earnings assets:			
Investments:			
Taxable (1)	\$208,980	\$ 4,018	1.92 %
Tax-exempt (1)(2)	27,225	840	3.09
Loans (2)(3):			
Mortgages	483,088	15,790	3.27
Commercial mortgages	2,022,936	70,775	3.50
Commercial	564,598	22,206	3.93
Commercial construction	991	41	4.14
Installment	61,362	1,737	2.83
Home Equity	59,555	1,964	3.30
Other	474	47	9.92
Total loans	3,193,004	112,560	3.53
Federal funds sold	101	—	0.24
Interest-earning deposits	128,488	551	0.43
Total interest-earning assets	3,557,798	\$ 117,969	3.32
Noninterest-earning assets:			
Cash and due from banks	9,580		
Allowance for loan losses	(29,068 )		
Premises and equipment	29,839		
Other assets	86,228		
Total noninterest-earning assets	96,579		
Total assets	\$3,654,377		
Liabilities and shareholders' equity:			
Interest-bearing deposits:			
Checking	\$926,713	\$ 2,547	0.27 %
Money markets	894,215	2,775	0.31
Savings	119,043	68	0.06
Certificates of deposit - retail	455,946	6,270	1.38
Subtotal interest-bearing deposits	2,395,917	11,660	0.49
Interest-bearing demand - brokered	199,208	3,020	1.52
Certificates of deposit - brokered	93,674	1,995	2.13
Total interest-bearing deposits	2,688,799	16,675	0.62
Borrowed funds	132,985	1,764	1.33
Capital lease obligation	9,940	478	4.81
Subordinated debt	26,679	1,696	6.36
Total interest-bearing liabilities	2,858,403	20,613	0.72
Noninterest-bearing liabilities:			

Demand deposits	473,536	
Accrued expenses and other liabilities	25,528	
Total noninterest-bearing liabilities	499,064	
Shareholders' equity	296,908	
Total liabilities and shareholders' equity	\$3,654,375	
Net interest income	\$ 97,356	
Net interest spread		2.60 %
Net interest margin (4)		2.74 %

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.

Table of Contents

Year Ended December 31, 2015

(In thousands except yield information)	Average Balance	Income/Expense (FTE )	Yield (FTE)
Assets:			
Interest-earnings assets:			
Investments:			
Taxable (1)	\$231,152	\$ 4,079	1.76 %
Tax-exempt (1)(2)	31,158	858	2.75
Loans (2)(3):			
Mortgages	466,873	15,244	3.27
Commercial mortgages	1,718,171	61,286	3.57
Commercial	404,908	15,101	3.73
Commercial construction	3,679	156	4.24
Installment	32,774	1,096	3.34
Home Equity	51,227	1,657	3.23
Other	518	48	9.27
Total loans	2,678,150	94,588	3.53
Federal funds sold	101	—	0.10
Interest-earning deposits	95,287	204	0.21
Total interest-earning assets	3,035,848	\$ 99,729	3.29
Noninterest-earning assets:			
Cash and due from banks	7,445		
Allowance for loan losses	(22,550 )		
Premises and equipment	31,771		
Other assets	67,915		
Total noninterest-earning assets	84,581		
Total assets	\$3,120,429		
Liabilities and shareholders' equity:			
Interest-bearing deposits:			
Checking	\$741,199	\$ 1,495	0.20 %
Money markets	746,329	2,047	0.27
Savings	116,289	64	0.06
Certificates of deposit - retail	354,626	4,411	1.24
Subtotal interest-bearing deposits	1,958,443	8,017	0.41
Interest-bearing demand - brokered	268,414	2,534	0.94
Certificates of deposit - brokered	102,937	2,034	1.98
Total interest-bearing deposits	2,329,794	12,585	0.54
Borrowed funds	113,027	1,602	1.42
Capital lease obligation	10,452	503	4.81
Total interest-bearing liabilities	2,453,273	14,690	0.60
Noninterest-bearing liabilities:			
Demand deposits	394,567		
Accrued expenses and other liabilities	13,530		
Total noninterest-bearing liabilities	408,097		
Shareholders' equity	259,059		
Total liabilities and shareholders' equity	\$3,120,429		
Net interest income		\$ 85,039	
Net interest spread			2.69 %

Net interest margin (4)

2.80 %

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.



Table of Contents

Year Ended December 31, 2014

(In thousands except yield information)	Average Balance	Income/ Expense (FTE )	Yield (FTE)
Assets:			
Interest-earnings assets:			
Investments:			
Taxable (1)	\$212,038	\$4,156	1.96 %
Tax-exempt (1)(2)	52,015	1,160	2.23
Loans (2)(3):			
Mortgages	490,830	16,572	3.38
Commercial mortgages	1,156,509	44,319	3.83
Commercial	171,701	6,818	3.97
Commercial construction	5,996	262	4.37
Installment	24,223	969	4.00
Home Equity	48,055	1,550	3.23
Other	571	53	9.28
Total loans	1,897,885	70,543	3.72
Federal funds sold	101	—	0.10
Interest-earning deposits	111,554	248	0.22
Total interest-earning assets	2,273,593	\$76,107	3.35
Noninterest-earning assets:			
Cash and due from banks	6,475		
Allowance for loan losses	(17,462 )		
Premises and equipment	31,220		
Other assets	60,474		
Total noninterest-earning assets	80,707		
Total assets	\$2,354,300		
Liabilities and shareholders' equity:			
Interest-bearing deposits:			
Checking	\$498,408	\$782	0.16 %
Money markets	680,760	1,612	0.24
Savings	114,702	59	0.05
Certificates of deposit - retail	162,418	1,522	0.94
Subtotal interest-bearing deposits	1,456,288	3,975	0.27
Interest-bearing demand – brokered	128,855	306	0.24
Certificates of deposit – brokered	97,944	1,384	1.41
Total interest-bearing deposits	1,683,087	5,665	0.34
Borrowed funds	95,713	1,533	1.60
Capital lease obligation	10,085	483	4.79
Total interest-bearing liabilities	1,788,885	7,681	0.43
Noninterest-bearing liabilities:			
Demand deposits	366,424		
Accrued expenses and other liabilities	11,960		
Total noninterest-bearing liabilities	378,384		
Shareholders' equity	187,031		
Total liabilities and shareholders' equity	\$2,354,300		
Net interest income		\$68,426	

Net interest spread	2.92 %
Net interest margin (4)	3.01 %

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.

Table of Contents

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

	Year Ended 2016 Compared with 2015			Year Ended 2015 Compared with 2014		
	Difference due to Change In:		Net Change In Income/ Expense	Change In		Net Change In Income/ Expense
(In Thousands):	Volume	Rate		Volume	Rate	
<b>ASSETS:</b>						
Investments	\$(370 )	\$291	\$(79 )	(124 )	(255 )	\$(379 )
Loans	18,288	(316 )	17,972	28,388	(4,343)	24,045
Federal funds sold	—	—	—	—	—	—
Interest-earning deposits	87	260	347	(34 )	(10 )	(44 )
Total interest income	\$18,005	\$235	\$18,240	28,230	(4,608)	\$23,622
<b>LIABILITIES:</b>						
Checking	\$541	\$510	\$1,051	655	58	\$713
Money market	518	212	730	303	132	435
Savings	3	—	3	(6 )	11	5
Certificates of deposit - retail	1,333	526	1,859	2,276	613	2,889
Certificates of deposit - brokered	(189 )	150	(39 )	71	579	650
Interest bearing demand brokered	(1,071 )	1,557	486	1,326	902	2,228
Borrowed funds	63	99	162	72	(3 )	69
Capital lease obligation	(26 )	1	(25 )	17	3	20
Subordinated debt	1,696	—	1,696	—	—	—
Total interest expense	\$2,868	\$3,055	\$5,923	4,714	2,295	\$7,009
Net interest income	\$15,137	\$(2,820)	\$12,317	23,516	(6,903)	\$16,613

*2016 compared to 2015*

Net interest income, on a fully tax-equivalent basis, grew \$12.3 million, or 14 percent, in 2016 to \$97.4 million from net interest income of \$85.0 million in 2015. The net interest margin was 2.74 percent and 2.80 percent for the years ended December 31, 2016 and 2015, respectively, a decrease of 6 basis points year over year. Net interest income increased in 2016 due to an increase in average loans, especially commercial mortgages and commercial loans, partially offset by the effect of lower market rates on loans and investments and an increased cost of funds. The net interest margin in 2016 was impacted by the effect from the \$50 million subordinated debt offering in June 2016, and also continued to be impacted by the effect of the low interest rate environment throughout the majority of 2016, as well as competitive pressures in attracting new loans and deposits.

On a fully tax-equivalent basis, interest income on earning assets increased \$18.2 million, or 18 percent, to \$118.0 million in 2016 from \$99.7 million in 2015. Average earning assets for the year ended December 31, 2016 totaled

\$3.56 billion compared to \$3.04 billion for the same period of 2015, an increase of \$522 million or 17 percent over 2015 average earning assets. The average rate earned on earning assets was 3.32 percent in 2016, compared to 3.29 percent in 2015, an increase of 3 basis points.

Average interest-bearing liabilities for the year ended December 31, 2016, totaled \$2.86 billion, an increase of \$405 million, or 17 percent, over the average interest-bearing liabilities for 2015 of \$2.45 billion. The average rate paid increased to 0.72 percent for 2016 from 0.60 percent for 2015. The increase in the average rate on interest-bearing liabilities was principally due to growth in higher costing certificates of deposit, the issuance of subordinated debt to help manage the Company's interest rate risk position, and competitive pressures in attracting new deposits in volumes sufficient to appropriately fund asset growth. The increase in the average rate paid on interest-bearing demand-brokered deposits is primarily due to interest paid on the \$180.0 million notional principal in interest rate swaps that the Company is using to hedge against future rises in interest rates. These swaps resulted in an increase of approximately \$2.0 million in interest expense, or an additional 0.53 percent in the average rate paid. Brokered certificates of deposit are generally medium/longer term and have been used in the Company's interest rate risk management practices. The Company utilized a diverse funding mix to meet its funding needs to manage interest rate risk, as well as to retain a higher level of liquidity on its balance sheet.

Table of Contents

The average balance of borrowings was \$133.0 million for 2016 compared to \$113.0 million during 2015, an increase of \$20.0 million. The average rates paid on total borrowings was 1.33 percent during 2016 compared to 1.42 percent during 2015, a decrease of 9 basis points. The increase in the average balance of short-term borrowings was due to increased use of overnight borrowings to fund loan growth ahead of deposit growth, which positively impacted the cost of funds on borrowings.

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 until maturity in June 2026 or earlier redemption.

The average balance on capital lease obligations was \$9.9 million and \$10.5 million during 2016 and 2015, respectively, while the average rate paid on capital lease obligations was 4.81 percent for both 2016 and 2015.

*2015 compared to 2014*

Net interest income, on a fully tax-equivalent basis, grew \$16.6 million, or 24 percent, in 2015 to \$85.0 million from net interest income of \$68.4 million in 2014. The net interest margin was 2.80 percent and 3.01 percent for the years ended December 31, 2015 and 2014, respectively, a decrease of 21 basis points year over year. Net interest income increased in 2015 due to an increase in loan volumes, especially multifamily mortgages and commercial loans, offset by declines in the average investment portfolios, as well as the effect of lower market rates on loans and investments. The net interest margin for 2015 was impacted by the effect of low market yields, competitive pressures in attracting new loans and deposits, and the maintenance of larger interest bearing deposit/cash balances.

On a fully tax-equivalent basis, interest income on earning assets increased \$23.6 million, or 31 percent, to \$99.7 million in 2015 from \$76.1 million in 2014. Average earning assets for the year ended December 31, 2015 totaled \$3.04 billion compared to \$2.27 billion for the same period of 2014, an increase of \$762 million, or 34 percent, over 2014 average earning assets. The average rate earned on earning assets was 3.29 percent in 2015, compared to 3.35 percent in 2014, a decrease of 6 basis points.

Average interest-bearing liabilities for the year ended December 31, 2015, totaled \$2.45 billion, an increase of \$664 million, or 37 percent, over the average interest-bearing liabilities for 2014 of \$1.79 billion. The average rate paid increased to 0.60 percent for 2015 from 0.43 percent for 2014. The increase in the average rate on interest-bearing liabilities was due to competitive pressures in attracting new deposits to support loan growth, as well as the growth of brokered certificates of deposits and the effect of interest rate swaps. The increase in the average rate paid on interest-bearing demand-brokered deposits is primarily due to interest paid on the \$180.0 million notional principal in interest rate swaps that the Company is using to hedge against future rises in interest rates. These swaps resulted in an increase of approximately \$1.6 million in interest expense in 2015, or an additional 0.59 percent in the average rate

paid, compared to 2014. Brokered certificates of deposit are generally medium/longer term and have been used in the Company's interest rate risk management practices. The Company utilized a diverse funding mix to meet its funding needs to manage interest rate risk, as well as to retain a higher level of liquidity on its balance sheet.

The average balance of borrowings was \$113.0 million for 2015 compared to \$95.7 million during 2014, an increase of \$17.3 million. Average overnight borrowings increased \$16.7 million during 2015 to \$29.3 million. The average rates paid on total borrowings was 1.42 percent during 2015 compared to 1.60 percent during 2014, a decrease of 18 basis points. The average rates paid on the Company's overnight borrowings during 2015 was 0.36 percent compared to 0.38 percent during 2014, while the average rates paid on Federal Home Loan Bank advances was 1.78 percent in 2015 and 2014. The decrease in the overall rate on borrowings is a result of higher utilization of overnight borrowings.

The average balance on capital lease obligations was \$10.5 million and \$10.1 million during 2015 and 2014, respectively, while the average rate paid on capital lease obligations was 4.81 percent and 4.79 percent in 2015 and 2014, respectively.

Table of Contents

**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 December 31, 2016, the Company had investment securities available for sale with a fair value of \$305.4 million compared with \$195.6 million at December 31, 2015. A net unrealized loss (net of income tax) of \$1.1 million and a net unrealized gain (net of income tax) of \$408 thousand were included in shareholders' equity at December 31, 2016 and 2015, respectively.

The carrying value of investment securities available for sale for the years ended December 31, 2016, 2015 and 2014 are shown below:

(In thousands)	2016	2015	2014
U.S. treasury and U.S. government-sponsored entity bonds	\$21,517	\$—	\$35,670
Mortgage-backed securities-residential (principally U.S. government-sponsored entities)	237,617	160,607	242,289
SBA pool securities	6,713	7,520	7,944
State and political subdivision	28,993	22,029	41,394
Corporate bond	3,113	—	—
Single-issuer trust preferred securities	2,610	2,535	2,400
CRA investment fund	4,825	2,939	2,955
Total	\$305,388	\$195,630	\$332,652

The following table presents the contractual maturities and yields of debt securities available for sale, stated at fair value, as of December 31, 2016:

(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 entity bonds	\$—	\$9,998	\$11,519	\$—	\$21,517
Mortgage-backed securities-	\$26	\$17,494	\$30,832	\$189,265	\$237,617
	— %	1.25 %	1.81 %	— %	1.56 %

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residential (1)	4.34	%	2.37	%	1.78	%	2.03	%	2.02	%
SBA pool securities	\$—		\$—		\$—		\$6,713		\$6,713	
	—	%	—	%	—	%	0.73	%	0.73	%
State and political subdivisions (2)	\$9,487		\$9,453		\$5,241		\$4,812		\$28,993	
	1.37	%	3.27	%	2.75	%	3.02	%	2.51	%
Corporate bond	\$—		\$—		\$3,113		\$—		\$3,113	
	—	%	—	%	5.25	%	—	%	5.25	%
Single-issuer trust preferred securities (1)	\$—		\$—		\$—		\$2,610		\$2,610	
	—	%	—	%	—	%	1.69	%	1.69	%
Total	\$9,513		\$36,945		\$50,705		\$203,400		\$300,563	
	1.38	%	2.30	%	2.22	%	2.01	%	2.06	%

(1) Shown using stated final maturity  
(2) Yields presented on a fully tax-equivalent basis.

Federal funds sold and interest-earning deposits are an additional part of the Company's liquidity and interest rate risk management strategies. The combined average balance of these investments during 2016 was \$128.6 million compared to \$95.4 million in 2015.



Table of Contents

**LOANS:** The loan portfolio represents the largest portion of the Company's earning assets and is the primary source of interest and fee income. Loans are primarily originated in the State of New Jersey and the boroughs of New York City and, to a lesser extent, Pennsylvania. As of December 31, 2016, 44 percent of the total loan portfolio is concentrated in multifamily mortgages and 17 percent of the total loan portfolio is concentrated in commercial mortgages. The discussion below excludes \$82.2 million of performing multifamily loans held for sale, as of December 31, 2015, at lower of cost or fair value. There were no multifamily loans held for sale as of December 31, 2016.

Total loans were \$3.31 billion and \$2.91 billion at December 31, 2016 and 2015, respectively, an increase of \$398.9 million, or 14 percent, over the previous year. During 2016, commercial mortgages increased \$138.1 million due to a continued focus on this type of business. Commercial loans totaled \$636.7 million at December 31, 2016, increasing \$123.8 million, or 24 percent, from 2015, as the Company continued its comprehensive C&I lending program and added seasoned bankers focused on C&I lending in both 2015 and 2016, including a seasoned head of C&I lending in early 2015. The C&I lending program resulted in robust growth during the current year. Residential mortgage loans totaled \$527.4 million at December 31, 2016, an increase of \$56.5 million, or 12 percent, from 2015, as the Company focused on relationship based residential mortgage lending. Multifamily mortgage loans during 2016 were basically managed relatively flat compared to 2015, through reduced origination levels and loan sales and participations. This was part of the Company's balance sheet management strategy to reduce multifamily loans as a percent of the overall loan portfolio and as a percent of total regulatory capital, with C&I loans becoming a larger percentage of the overall loan portfolio.

In late 2015, the Company began providing loans that are partially guaranteed by the Small Business Administration ("SBA"), for the purposes of providing working capital and/or, financing the purchase of equipment, inventory or commercial real estate and that could be used for start-up businesses. All SBA loans are underwritten and documented as prescribed by the SBA. The Company will generally sell the guaranteed portion of the SBA loans in the secondary market, with the nonguaranteed portion held in the loan portfolio. During 2016, the Bank sold \$6.0 million of the guaranteed portion of SBA loans into the secondary market. As of December 31, 2016, the balance of the non-guaranteed portion of SBA loans held on our balance sheet totaled \$1.9 million.

The following table presents an analysis of outstanding loans by loan type, excluding multifamily loans held for sale, net of unamortized discounts and deferred loan origination costs, as of December 31,

(In thousands)	2016	2015	2014	2013	2012
Residential mortgage	\$527,370	\$470,869	\$466,760	\$532,911	\$515,014
Multifamily mortgage	1,459,594	1,416,775	1,080,256	541,503	161,705
Commercial mortgage	551,233	413,118	308,491	290,494	258,381
Commercial loans	636,714	512,886	308,743	131,795	115,372
Construction loans	1,405	1,401	5,998	5,893	9,328
Home equity lines of credit	65,682	52,649	50,141	47,905	49,635
Consumer and other loans	70,146	45,544	29,878	23,700	23,149
Total loans	\$3,312,144	\$2,913,242	\$2,250,267	\$1,574,201	\$1,132,584

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The following table presents the contractual repayments of the loan portfolio, by loan type, at December 31, 2016:

(In thousands)	Within One Year	After 1 But Within 5 Years	After 5 Years	Total
Residential mortgage	\$ 136,899	\$ 267,065	\$ 123,406	\$ 527,370
Commercial mortgage (including multifamily)	445,621	1,389,254	175,952	2,010,827
Commercial loans	453,354	154,992	28,368	636,714
Construction loans	1,405	—	—	1,405
Home equity lines of credit	65,682	—	—	65,682
Consumer and other loans	59,028	7,309	3,809	70,146
Total loans	\$ 1,161,989	\$ 1,818,620	\$ 331,535	\$ 3,312,144

Table of Contents

The following table presents the loans, by loan type, that have a predetermined interest rate and an adjustable interest rate due after one year at December 31, 2016:

(In thousands)	Predetermined Interest Rate	Adjustable Interest Rate
Residential mortgage	\$ 205,217	\$ 244,227
Commercial mortgage (including multifamily)	163,345	1,554,386
Commercial loans	60,359	90,000
Construction loans	—	1,400
Consumer loans	14,167	—
Total loans	\$ 443,088	\$ 1,890,013

The Company has not made nor invested in subprime loans or “Alt-A” type mortgages. At December 31, 2016, there were no commitments to lend additional funds to borrowers whose loans are classified as nonperforming.

Consistent with the Company’s balance sheet management strategy, the Company sold approximately \$234 million of performing multifamily mortgages, of which \$34 million were participations in 2016. The Company sold approximately \$200 million of performing multifamily mortgages through loan participations in 2015. In addition, the Company had \$82.2 million of performing multifamily loans classified as loans held for sale, at lower of cost or fair value as of December 31, 2015. There were no multifamily loans held for sale, at lower of cost or fair value as of December 31, 2016.

The geographic breakdown of the multifamily portfolio, net of participated multifamily loans, at December 31, 2016 is as follows:

(Dollars in thousands)		
New York	\$ 737,373	51 %
New Jersey	557,722	38
Pennsylvania	164,499	11
Total Multifamily	\$ 1,459,594	100 %

A further breakdown of the multifamily portfolio by County within each respective State is as follows:

New Jersey	New York	Pennsylvania
Essex County	25 % Bronx County	64 % Philadelphia
Hudson County	22 Kings County	16 Bucks County
		21

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Passaic County	7	New York County	15	Lehigh County	5
Bergen County	3	All other NY		All other PA	
Monmouth County	6	Counties	5	Counties	16
All other NJ Counties	37				
Total	100%	Total	100%	Total	100%

Principal types of owner occupied commercial real estate properties (by Call Report code), included in commercial loans on the balance sheet, at December 31, 2016 are:

(Dollars in thousands)

Office Buildings/Office Condominiums	\$45,533	26	%
Medical Offices	28,098	16	
Industrial (including Warehouse)	27,708	16	
Retail Buildings/ Shopping Centers	16,910	10	
Auto Dealerships	13,911	8	
Schools	7,935	5	
Restaurants	7,245	4	
Other Owner Occupied CRE Properties	28,783	15	
Total Owner Occupied CRE Loans	\$176,123	100%	

Table of Contents

Principal types of non-owner occupied commercial real estate properties (by Call Report code), at December 31, 2016 are:

(Dollars in thousands)

Retail Buildings/Shopping Centers	\$ 197,939	26	%
Healthcare	118,502	16	
Office Buildings/Office Condominiums	104,758	14	
Hotels and Hospitality	97,586	13	
Industrial (including Warehouse)	49,813	7	
Mixed Use (Retail / Office)	43,235	6	
Mixed Use (Commercial / Residential)	39,705	5	
Medical Offices	37,658	5	
Manufactured Home Parks	33,927	4	
Other Non-Owner Occupied CRE Properties	29,135	4	
Total Non-Owner Occupied CRE Loans	\$752,258	100	%

At December 31, 2016 and 2015, the Bank had a concentration in commercial real estate loans as defined by applicable regulatory guidance.

The following table presents such concentration levels at December 31, 2016 and 2015:

	As of December 31,	
	2016	2015
Multifamily mortgage loans as a percent of total regulatory capital of the Bank	<b>372</b> %	504 %
Non-owner occupied commercial real estate loans as a percent of total regulatory capital of the Bank	<b>192</b>	191
Total CRE concentration	<b>564</b> %	695 %

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.

**DEPOSITS:** At December 31, 2016 and 2015, the Company reported total deposits of \$3.41 billion and \$2.94 billion, an increase of \$476.4 million, or 16.2 percent, year over year. The Company's strategy is to fund a majority of loan

growth with core deposits, which is an important factor in the generation of net interest income. The Company's average deposits for 2016 increased \$438.0 million, or 16.1 percent, over 2015 average levels to \$3.16 billion. On average, the Company saw the largest dollar growth in non-interest-bearing demand, interest-bearing checking, retail certificate of deposits and money market balances. The Company has successfully focused on:

- Growth in deposits associated with its private banking activities, including lending activities;
- Business and personal core deposit generation, particularly checking; and
- Municipal relationships within its market territory.

The Company continues to maintain brokered interest-bearing demand deposits as an additional source of liquidity. Such deposits are generally a more cost effective alternative to wholesale borrowings and do not require pledging of collateral, as the borrowings do. These deposits decreased to \$180.0 million at December 31, 2016 from \$200.0 million at December 31, 2015. The Company ensures ample available collateralized liquidity as a backup to these short-term brokered deposits. There are \$180.0 million of notional principal interest rate swaps matched to these deposits for interest rate risk management purposes.

Average brokered certificates of deposit were reduced slightly in 2016. The majority of these deposits are longer term and were transacted as part of the Company's interest rate risk management strategy.

Table of Contents

The following table sets forth information concerning the composition of the Company's average deposit base and average interest rates paid for the following years:

(Dollars in thousands)	2016		2015		2014	
Noninterest-bearing demand	\$473,536	— %	\$394,567	— %	\$366,424	— %
Checking	926,713	0.27	741,199	0.20	498,408	0.16
Savings	119,043	0.06	116,289	0.06	114,702	0.05
Money markets	894,215	0.31	746,329	0.27	680,760	0.24
Certificates of deposit - retail	455,946	1.38	354,626	1.24	162,418	0.94
Interest-bearing						
Demand - brokered	199,208	1.52	268,414	0.94	128,855	0.24
Certificates of deposit - brokered	93,674	2.13	102,937	1.98	97,944	1.41
Total deposits	\$3,162,335	0.53 %	\$2,724,361	0.46 %	\$2,049,511	0.28 %

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 bank 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. Reciprocal deposits of \$393.0 million are included in the Company's interest bearing checking deposits as of December 31, 2016.

The following table shows the maturity for certificates of deposit of \$100,000 or more as of December 31, 2016 (in thousands):

Three months or less	\$30,471
Over three months through six months	12,798
Over six months through twelve months	52,996
Over twelve months	288,764
Total	\$385,029

**FEDERAL HOME LOAN BANK ADVANCES AND OTHER BORROWINGS:** At December 31, 2016, Federal Home Loan Bank (FHLB) advances totaled \$61.8 million with a weighted average interest rate of 2.02 percent compared to \$83.7 million with a weighted average interest rate of 1.78 percent for the same period in 2015. The Company considers FHLB advances an added source of funding, and accordingly, may execute transactions from time to time as an additional part of Company's liquidity and interest rate risk management strategies. The FHLB advances outstanding at December 31, 2016 have varying maturities, call dates and interest rates, as well as prepayment penalties. At December 31, 2016 there were no overnight borrowings. At December 31, 2015 overnight borrowings totaled \$40.7 million with a weighted average rate of 0.52%.

***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 benefitted 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, benefitting all of the Bank’s regulatory capital amounts and ratios. The remaining funds



Table of Contents

(approximately \$10 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.

**ALLOWANCE FOR LOAN LOSSES AND RELATED PROVISION:** The allowance for loan losses was \$32.2 million at December 31, 2016 compared to \$25.9 million at December 31, 2015. At December 31, 2016, the allowance for loan losses as a percentage of total loans outstanding was 0.97 percent compared to 0.89 percent at December 31, 2015. The provision for loan losses was \$7.5 million for 2016, \$7.1 million for 2015 and \$4.9 million for 2014.

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, Pennsylvania and Florida. On a case by case basis, the Bank will lend in additional states, pending compliance with that state’s laws governing residential lending. When reviewing residential mortgage loan applications, detailed verifiable information is gathered on income, assets, employment and a tri-merged credit report obtained from a credit repository that will determine total monthly debt obligations. Utilizing an independent appraisal from an approved Appraisal Management Company, the Bank makes residential mortgage loans up to 80 percent of the appraised value and up to 97 percent with private mortgage insurance. The Bank has developed a portfolio of mortgage products that are used exclusively to attract or maintain wealth, commercial or retail banking relationships. There is no differentiation by property type and loan-to-value (“LTVs”) are done uniformly. There are three loan levels: (1) loans up to \$1 million, (2) loans greater than \$1 million to \$3 million, and (3) loans greater than \$3 million to \$5 million. Loans greater than \$5 million will also be considered based on the strength of the overall credit profile of the borrower. Underwriting guidelines include (i) minimum credit report scores of 700 and (ii) a maximum debt to income ratio of 45 percent. The Bank may consider an exception to any guideline if there are strong compensating factors that address and mitigate any risk. Generally, the Bank retains in its portfolio residential mortgage loans with fixed rate maturities of no greater than 7 years, which then convert to annually adjusted floating rates. Community Development loans granted under the Affordable Housing Program are offered with 30 year maturities. Loans with longer maturities or lower credit scores are sold to secondary market investors. The Bank does not originate, purchase or carry any sub-prime mortgage loans.

Primary risk characteristics associated with primary 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. These loans are primarily in a second lien position, but may be used as a first lien, in lieu of a primary residential first mortgage. When reviewing home equity line of credit applications, the Bank collects detailed verifiable information regarding income, assets, employment and a single merged credit report that will determine total monthly debt obligations. The Bank will use an automated valuation model on all lines up to \$250,000 and will obtain an independent appraisal of the subject property on all applications exceeding \$250,000. LTVs and combined LTVs are capped at 80% or 65% on primary residences, depending on the combined debt b) amount, and are not allowed on investment properties. These loans are subordinate to a first mortgage which may be from another lending institution. The Bank will require that the mortgage securing the home equity line of credit be no lower than a second lien position. The combined first mortgage and home equity line, must be no more than 80 percent of the appraised value of the property when the combined debt is less than or equal to \$800,000. For line amounts where the combined debt exceeds \$800,000, the maximum LTV ratio is 65 percent. All applications for home equity lines of credit adhere to the underwriting standards and guidelines that consumer lending is regulated and governed by. Exceptions can be made to these guidelines with compensating factors that address and mitigate the risk associated with the exception.

## Table of Contents

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.

Junior Lien Loan on Residence. The Bank provides junior lien loans (“JLL”) against one to four family properties in the Tri-State area. Junior lien loans can be either in the form of an amortizing fixed rate 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. The Bank will require that the mortgage securing the JLL be no lower than a second lien position. When reviewing the JLL application, the Bank collects detailed verifiable information regarding income, assets, employment and a single merged credit report that will determine total monthly debt obligations. The Bank will use an automated valuation model on all JLLs up to \$250,000 and will obtain an independent appraisal of the subject property on all applications exceeding \$250,000. LTV and combined LTVs are capped at 80% or 65% on primary residences, depending on the combined debt amount, and are not allowed on investment properties. The combined first mortgage and JLL, must be no more than 80 percent of the appraised value of the property when the combined debt is less than or equal to \$800,000. For JLL amounts where the combined debt exceeds \$800,000, the maximum loan-to-value ratio is 65 percent. All applications for JLLs adhere to the underwriting standards and guidelines that consumer lending is regulated and governed by. Exceptions can be made to these guidelines with compensating factors that address and mitigate the risk associated with the exception. 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 values could drop significantly and cause the value of the property to fall below the loan amount, creating additional potential exposure for the Bank.

Multifamily Loans. Multifamily loans are commercial mortgages on residential apartment buildings. Within the multifamily sector, the Bank’s primary focus is to lend against larger non-luxury apartment buildings and rent regulated properties with at least 30 units that are owned and managed by experienced sponsors. As of December 31, 2016, the average property size in the portfolio was 45 units.

Multifamily loans are expected to be repaid from the cash flow of the underlying property so the collective amount of rents must be sufficient to cover all operating expense, maintenance, taxes and debt service. The Bank includes debt service coverage covenants in these loans and the average ratio at original underwriting was about 1.54x. Increases in vacancy rates, interest rates or other changes in general economic conditions can all have an impact on the borrower and their ability to repay the loan. Certain markets, such as the Boroughs of New York City, are rent regulated, and as such, feature rents that are considered to be below market rates. Generally, rent regulated properties are characterized by relatively stable occupancy levels and longer term tenants. As a loan asset class for many banks, multifamily loans have experienced much lower historical loss rates compared to other types of commercial lending.

The Bank’s loan policy allows loan to appraised value ratios of up to 75 percent and the overall portfolio average loan to value ratio was at 60.0% at year-end 2016. To obtain the optimum 50% risk capital rating under regulatory guidance, we have modified our underwriting of multifamily loans. The majority of all new originations have a ten

year maturity with a five year reprice as contrasted with our former standard of a five year maturity with the borrower having an option to renew for five years at a reprice. For all new originations of refinances, we obtain prior pay history documentation, so that we can document an adequate twelve month pay history. These changes allow us to use a 50% risk rating for multifamily loans as long as other criteria are met.

Multifamily loan terms include prepayment penalties for early payoffs and generally require that the Bank escrow for real estate taxes. Multifamily loans will typically have a minimum debt service coverage ratio that provides for an adequate cushion for unexpected or uncertain events and changes in market conditions. In the loan underwriting process, the Bank requires an independent appraisal and review, appropriate environmental due diligence and an assessment of the property's condition.

## Table of Contents

Commercial Real Estate Loans. The Bank provides mortgage loans for commercial real estate that is either owner occupied or managed as an investment property (non-owner occupied). The terms and conditions of all commercial mortgage loans are tailored to the specific attributes of the borrower and any guarantors as well as the nature of the property and loan purpose. In the case of investment commercial real estate properties, the Bank reviews, among other things, the composition and diversity of the underlying tenants, terms and conditions of the underlying tenant lease agreements, the resources and experience of the sponsor, and the condition and location of the subject property.

Commercial real estate loans are generally considered to have a higher degree of credit risk than multifamily loans as they may be dependent on the ongoing success and operating viability of a fewer number of tenants who are occupying the property and who may have a greater degree of exposure to various industry or economic conditions. To mitigate this risk, the Bank will generally require an assignment of leases, direct recourse to the owners, and a risk appropriate interest rate and loan structure. In underwriting an investment commercial real estate loan, the Bank evaluates the property's historical operating income as well as its projected sustainable cash flow and generally requires a minimum debt service coverage ratio that provides for an adequate cushion for unexpected or uncertain events and changes in market conditions.

With an owner occupied property, a detailed credit assessment is made of the operating business since its ongoing success and profitability will be the primary source of repayment. While owner occupied properties include the real estate as collateral, the risk assessment of the operating business is more similar to the underwriting of commercial and industrial loans (described below). The Bank will evaluate factors such as, but not limited to, the expected sustainability of profits and cash flow, the depth and experience of management and ownership, the nature of competition, and the impact of forces like regulatory change and evolving technology.

The Bank's policy allows loan to appraised value ratios of up to 75 percent. Commercial mortgage loans are generally made on a fixed rate basis with periodic rate resets every five or seven years over an underlying market index. Resets may not be automatic and subject to re-approval. Commercial mortgage loan terms include prepayment penalties for early payoffs and generally require that the Bank escrow for real estate taxes. The Bank requires an independent appraisal, an assessment of the property's condition, and appropriate environmental due diligence. With all commercial real estate loans, the Bank's standard practice is to require a depository relationship.

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. When underwriting business loans, among other things, the Bank evaluates the historical profitability and debt servicing capacity of the borrowing entity and the financial resources and character of the principal owners and guarantors.

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.

g) 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.

h) Commercial Construction. The Bank does not currently engage in commercial construction activity, given the current economic environment, and is not likely to be increasing its exposure in this category.

Table of Contents

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.

Bank Management believes that the underwriting guidelines previously described address the primary risk characteristics. Further, the Bank has dedicated staff and system resources to monitor and collect on any potentially problematic loans.

The provision was based upon Management's review and evaluation of the size and composition of the loan portfolio, actual loan loss experience, level of delinquencies, general market and economic conditions, detailed analysis of individual loans for which full collectability may not be assured, and the existence and fair value of the collateral and guarantees securing the loans. Although Management used 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 the New York City area. Accordingly, the collectability of a substantial portion of the carrying value of the Company's loan portfolio is susceptible to changes in market conditions in these areas and may be adversely affected should real estate values decline further or if the geographic areas serviced experience continued adverse economic conditions. Future adjustments to the allowance may be necessary due to economic, operating, regulatory and other conditions beyond the Company's control.

The following table presents the loan loss experience, by loan type, during the periods ended December 31, of the years indicated:

(Dollars in thousands)	2016	2015	2014	2013	2012
Allowance for loan losses at					
Beginning of year	\$25,856	\$19,480	\$15,373	\$12,735	\$13,223
Loans charged-off during the period:					
Residential mortgage	1,047	638	273	611	1,676
Commercial mortgage	531	16	669	56	6,987
Commercial	16	73	123	16	305
Home equity lines of credit	91	210	—	—	91
Consumer and other	5	54	23	357	100
Total loans charged-off	1,690	991	1,088	1,040	9,159
Recoveries during the period:					
Residential mortgage	28	17	1	48	3
Commercial mortgage	318	29	124	114	316
Commercial	92	205	85	65	60
Home equity lines of credit	16	2	—	—	—
Consumer and other	88	14	110	26	17
Total recoveries	542	267	320	253	396

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Net charge-offs	1,148	724	768	787	8,763
Provision charge to expense	7,500	7,100	4,875	3,425	8,275
Allowance for loan losses at end of year	\$32,208	\$25,856	\$19,480	\$15,373	\$12,735

Ratios:

Allowance for loan losses/total loans	0.97	%	0.89	%	0.87	%	0.98	%	1.12	%
Allowance for loan losses/ total nonperforming loans	285.94		383.22		284.38		231.87		108.55	



Table of Contents

The following table shows the allocation of the allowance for loan losses and the percentage of each loan category, by collateral type, to total loans as of December 31, of the years indicated:

(Dollars in thousands)		% of Loan Category To Total		% of Loan Category To Total		% of Loan Category To Total		% of Loan Category To Total		% of Loan Category To Total	
		2016	Loans	2015	Loans	2014	Loans	2013	Loans	2012	Loans
Residential	\$3,915	19.1	\$2,449	18.8	\$3,188	24.1	\$2,698	38.7	\$3,628	52.2	
Commercial and other	28,050	78.7	23,293	79.6	16,196	74.7	12,597	60.3	9,015	46.4	
Consumer	243	2.2	112	1.6	96	1.2	78	1.0	92	1.4	
Total	\$32,208	100.00	\$25,856	100.00	\$19,480	100.0	\$15,373	100.0	\$12,735	100.0	

The allowance for loan losses as of December 31, 2016 totaled \$32.2 million compared to \$25.9 million at December 31, 2015. The allowance for loan loss as a percentage of loans increased to 0.97 percent at December 31, 2016 compared to 0.89 percent at December 31, 2015. The provision for loan losses made during 2016 totaled \$7.5 million compared with \$7.1 million for 2015. The provision for loan losses made was primarily influenced by net charge offs taken during the year of \$1.1 million, increases in specific reserves on impaired loans, and the impact of loan growth experienced during 2016. The Company believes that the allowance for loan losses as of December 31, 2016 represents a reasonable estimate for probable incurred losses in the portfolio.

The portion of the allowance for loan losses allocated to loans collectively evaluated for impairment, commonly referred to as general reserves, was \$31.4 million at December 31, 2016 and \$25.4 million at December 31, 2015. General reserves at December 31, 2016 and 2015 represent 0.96 percent and 0.87 percent, respectively, of loans collectively evaluated for impairment. The increase in general reserves is a result of growth experienced by the Company in certain loan classes (C&I, CRE) that carry a higher general reserve calculation because of the inherent nature of these loans compared to less risky loans, such as multifamily and residential that carry a lower general reserve allocation. The Company experienced growth in the loan portfolio of approximately \$317 million, including loans held for sale. Multifamily and residential loan classes make up 60 percent of the loan portfolio as of December 31, 2016 compared to approximately 66 percent at December 31, 2015.

The specific reserve component of the allowance for loan losses increased to \$824 thousand at December 31, 2016 compared to \$490 thousand as of December 31, 2015.

The allowance for loan losses as a percentage of nonperforming loans decreased, as the level of nonperforming loans increased during the year. Nonperforming loans are specifically evaluated for impairment. Also, Management commonly records partial charge-offs of the excess of the principal balance over the fair value, less costs to sell, of collateral for collateral dependent impaired loans; as a result, the allowance for loan losses does not always change

proportionately with changes in nonperforming loans. Management charged off \$1.7 million on loans identified as collateral-dependent impaired loans during 2016 and charged off \$938 thousand on loans identified as collateral-dependent impaired loans during 2015.

Table of Contents**ASSET QUALITY:**

The following table presents various asset quality data for the years indicated. These tables do not include loans held for sale.

(Dollars in thousands)	Years Ended December 31,				
	2016	2015	2014	2013	2012
Loans past due 30-89 days	\$1,356	\$2,143	\$1,755	\$2,953	\$3,786
Troubled debt restructured loans	\$22,275	\$18,663	\$15,033	\$13,966	\$9,316
Loans past due 90 days or more and still accruing interest	\$—	\$—	\$—	\$—	\$—
Nonaccrual loans	11,264	6,747	6,850	6,630	11,732
Total nonperforming loans	11,264	6,747	6,850	6,630	11,732
Other real estate owned	534	563	1,324	1,941	3,496
Total nonperforming assets	\$11,798	\$7,310	\$8,174	\$8,571	\$15,228

## Ratios:

Total nonperforming loans/total loans	0.34	%	0.23	%	0.30	%	0.42	%	1.04	%
Total nonperforming loans/total assets	0.29		0.20		0.25		0.34		0.70	
Total nonperforming assets/total assets	0.30		0.22		0.30		0.44		0.91	

Due to the continued weakness in the housing markets and economic environment during 2016, some borrowers have found it difficult to make their loan payments under contractual terms. In certain of these cases, the Company has chosen to grant concessions and modify certain loan terms.

The following table presents the troubled debt restructured loans, by collateral, at December 31, 2016 and 2015:

(Dollars in thousands)	December 31,	Number of	December 31,	Number of
	2016	Relationships	2015	Relationships
Primary residential mortgage	\$ 10,369	31	\$ 6,642	27
Junior Lien Loan on Residence	114	2	59	1
Owner-occupied commercial real estate	711	1	750	1
Investment commercial real estate	10,927	3	11,074	3
Commercial and industrial	154	2	138	1
Total	\$ 22,275	39	\$ 18,663	33

At December 31, 2016 there were \$4.5 million of troubled debt restructured loans included in nonaccrual loans above compared to \$2.4 million at December 31, 2015. All troubled debt restructured loans are considered and included in impaired loans at December 31, 2016 and had specific reserves of \$550 thousand. At December 31, 2015, all troubled debt restructured loans were considered and included in impaired loans and had specific reserves of \$441 thousand.

Except as disclosed, the Company does not have any potential problem loans that causes Management to have serious doubts as to the ability of such borrowers to comply with the present loan repayment terms and which may result in disclosure of such loans.

Impaired loans totaled \$29.1 million and \$23.1 million at December 31, 2016 and 2015. Impaired loans include nonaccrual loans of \$11.3 million and \$6.7 million at December 31, 2016 and 2015, respectively. Impaired loans also include accruing troubled debt restructuring loans of \$17.8 million at December 31, 2016 and \$16.2 million at December 31, 2015.

Table of Contents

The following table presents impaired loans, by collateral type, at December 31, 2016 and 2015.

(Dollars in thousands)	December 31, 2016	Number of Relationships	December 31, 2015	Number of Relationships
Primary residential mortgage	\$ 15,814	52	\$ 9,752	45
Home equity lines of credit	53	3	254	5
Junior lien loan on residence	229	4	176	3
Owner-occupied commercial real estate	1,486	3	1,272	2
Investment commercial real estate	11,335	4	11,482	4
Commercial and industrial	154	2	171	2
Total	\$ 29,071	68	\$ 23,107	61
Specific reserves, included in the allowance for loan losses	\$ 824		\$ 490	

**CONTRACTUAL OBLIGATIONS:** The following table shows the significant contractual obligations of the Company by expected payment period, as of December 31, 2016:

(In thousands)	Less Than	1-3 Years	3-5 Years	More Than 5 Years	Total
Loan commitments	\$434,364	\$—	\$—	\$—	\$434,364
Long-term debt obligations	23,897	37,898	—	48,764	110,559
Purchase obligations	4,118	8,000	4,218	22	16,358
Capital lease obligations	1,081	2,273	2,427	6,587	12,368
Operating lease obligations	1,821	3,034	2,513	1,953	9,321
Total contractual obligations	\$465,281	\$51,205	\$9,158	\$57,326	\$582,970

Long-term debt obligations include borrowings from the Federal Home Loan Bank with defined terms. The table reflects scheduled repayments of principal.

Leases represent obligations entered into by the Company for the use of land and premises. The leases generally have escalation terms based upon certain defined indexes. Common area maintenance charges may also apply and are adjusted annually based on the terms of the lease agreements.

Purchase obligations represent legally binding and enforceable agreements to purchase goods and services from third parties and consist of contractual obligations under data processing service agreements. The Company also enters into

various routine rental and maintenance contracts for facilities and equipment. These contracts are generally for one year.

**OFF-BALANCE SHEET ARRANGEMENTS:** The following table shows the amounts and expected maturities of significant commitments, consisting primarily of letters of credit, as of December 31, 2016.

(In thousands)	Less Than		More Than		Total
	One Year	1-3 Years	3-5 Years	5 Years	
Financial letters of credit	\$ 2,548	\$ —	\$ 2,353	\$ 322	\$5,223
Performance letters of credit	2,650	—	3,610	226	6,486
Commercial letters of credit	—	—	1,062	20	1,082
Total letters of credit	\$ 5,198	\$ —	\$ 7,025	\$ 568	\$12,791

Commitments under standby letters of credit, both financial and performance, do not necessarily represent future cash requirements, in that these commitments often expire without being drawn upon.

Table of Contents

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

(In thousands)	Years Ended December 31,			Change	
	2016	2015	2014	2016 v 2015	2015 v 2014
Service charges and fees	\$3,252	\$3,323	\$3,111	\$(71 )	\$ 212
Bank owned life insurance	1,407	1,297	1,092	110	205
Loan fee income	1,259	567	280	692	287
Gains on loans held for sale at fair value (mortgage banking)	1,010	528	439	482	89
Securities gains, net	119	527	260	(408 )	267
Fee income related to loan level, back-to-back swaps	1,638	373	—	1,265	373
Gains on loans held for sale at lower of cost or fair value (residential)	—	—	166	—	(166 )
Gains on loans held for sale at lower of cost or fair value (multifamily)	1,233	—	—	1,233	—
Gain on sale of SBA loans	623	7	—	616	7
Other income	137	53	217	84	(164 )
Total other income	\$10,678	\$6,675	\$5,565	\$4,003	\$ 1,110

*2016 compared to 2015*

The Company recorded total other income of \$10.7 million, excluding wealth management fee income, reflecting an increase of \$4.0 million, or 60 percent, compared to 2015 levels. The increase in 2016 was attributable to increases in fee income related to loan level, back-to-back swaps, gain on Small Business Administration (“SBA”) loans, loan fee income, and gain on sale of loans held for sale at lower of cost or fair value, partially offset by a decrease in securities gains.

Loan fee income, including late fees, unused credit lines fees and loan servicing income increased \$692 thousand to \$1.3 million for 2016 as compared to 2015. Increases in loan servicing fees were due to our continued multifamily loan participations. Additionally, the Company recorded greater unused line of credit fees associated with the commercial lending business.

Securities gains were \$119 thousand for 2016 compared to \$527 thousand for 2015. 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.

Bank owned life insurance income was \$1.4 million for 2016 compared to \$1.3 million for 2015, an increase of \$110 thousand related to an increase in the bank-owned life insurance (“BOLI”) policy of \$10 million which occurred in the fourth quarter of 2015. This increase was partially offset by additional income related to the net life insurance death benefit under its BOLI policies in 2015.

Fee income related to loan level, back-to-back swaps was \$1.6 million for 2016 compared to \$373 thousand in 2015. The increase was a result of new contracts in 2016. The program utilizes mirror interest rate swaps, one directly with a commercial loan customer and one directly with a well-established counterparty. This enables a commercial loan 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. While the Company cannot predict the amount of fee income that may be recognized each period, this program is a part of ongoing operations.

In late 2015, the Company began providing loans that are partially guaranteed by the Small Business Administration (“SBA”), for the purposes of providing working capital and/or, financing the purchase of equipment, inventory or commercial real estate and that could be used for start-up business. All SBA loans are underwritten and documented as prescribed by the SBA. The Company will generally sell the guaranteed portion of the SBA loans in the secondary market, with the non-guaranteed portion of SBA loans held in the loan portfolio. Gain on sale of SBA loans for 2016 included \$623 thousand of income related to the Company’s SBA lending and sale program.



Table of Contents

Gains on the sale of multifamily loans held for sale at the lower of cost or fair value was \$1.2 million for 2016. During the first quarter of 2016, the Company began selling whole multifamily loans in addition to multifamily loan participations. The Company intends to continue to employ loan sales and loan participations, as needed, to manage the Company's balance sheet.

*2015 compared to 2014*

The Company recorded total other income, excluding wealth management fee income of \$6.7 million in 2015, reflecting an increase of \$1.1 million or 20 percent compared to 2014 levels. The increase in 2015 was attributable to increases in net securities gains, service charges, BOLI and swap fee income, partially offset by a decrease in gain on ORE and gain on loans held at lower of cost or fair value.

Loan fee income, including late fees increased \$287 thousand to \$567 thousand for 2015 as compared to 2014. The increase in loan sale gains is due to increased levels of mortgage loans originated for sale. This increase in originations for sale was caused by market changes, as well as a shift in strategy, emphasizing the sale of mortgages.

Securities gains were \$527 thousand for 2015 compared to \$260 thousand for 2014. Sales of securities have been generally employed to benefit interest rate risk, prepayment risk, and/or liquidity risk. Given the short duration of the securities portfolio, sales have been employed much more often in 2015 compared to 2014.

BOLI income was \$1.3 million for 2015 compared to \$1.1 million for 2014 an increase of \$205 thousand related to a net life insurance death benefit under its BOLI policies.

Swap fee income was \$373 thousand for 2015 related to the Company's loan level/back-to-back swap program, which was implemented during 2015.

**OPERATING EXPENSES:** The following table presents the major components of operating expenses:

(In thousands)	Years Ended December 31,			Change	
	2016	2015	2014	2016 v 2015	2015 v 2014
Compensation and employee benefits	\$45,003	\$40,278	\$36,241	\$4,725	\$ 4,037
Premises and equipment	11,245	11,569	9,963	(324 )	1,606

Other operating expenses:					
Professional and legal fees	3,459	2,747	1,873	712	874
FDIC assessment	4,758	2,154	1,381	2,604	773
Wealth Division other expense	2,029	2,147	1,896	(118 )	251
Branch restructure	—	1,735	—	(1,735)	1,735
Telephone	976	942	914	34	28
Advertising	824	637	594	187	43
Loan expense	715	426	532	289	(106 )
Postage	341	376	391	(35 )	(15 )
Stationery and supplies	297	318	306	(21 )	12
Provision for ORE losses	—	250	400	(250 )	(150 )
Other operating expenses	5,465	5,347	5,049	118	298
Total operating expense	\$75,112	\$68,926	\$59,540	\$6,186	\$ 9,386

*2016 compared to 2015*

Operating expenses totaled \$75.1 million in 2016, compared to \$68.9 million in 2015, reflecting an increase of \$6.2 million, or 9 percent. Salaries and benefits expense, which accounts for the largest portion of operating expenses, totaled \$45.0 million in 2016, reflecting an increase of \$4.7 million or 12 percent, when compared to 2015. Strategic hiring that was in line with the Company's Strategic Plan, including staff associated with credit and risk management, normal salary increases, the acquisition of Wealth Management Consultants in May 2015 and increased bonus/incentive accruals associated with the Company's growth, all of which contributed to the increase in salaries and benefits expense when comparing the 2016 to the 2015 years.

## Table of Contents

In 2015, the Company recorded a total of \$2.5 million of charges related to the closure of two branch offices. Branch restructure charges, included in other operating expenses, totaled \$1.7 million, while depreciation expense, included in premises and equipment expense, related to the closures totaled \$723 thousand of the \$2.5 million.

The Company recorded FDIC assessment expense of \$4.8 million and \$2.2 million in 2016 and 2015, respectively, an increase of \$2.6 million, or 121 percent year over year. The Company previously disclosed the FDIC assessment expense for 2016 would be significantly higher than 2015. However, starting in the third quarter of 2016, the Company's FDIC premium declined because 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 nearly 50 percent in the third and fourth quarters of 2016, when compared to the first and second quarters' 2016 assessment rate.

The Company also previously disclosed that other operating expenses, including professional fees, would be higher in 2016. Professional fees were \$3.5 million for the twelve months ended December 31, 2016 as compared to \$2.7 million for the twelve months ended December 31, 2015, an increase of \$712 thousand or 26 percent. Given the Company's significant growth and high concentration in multifamily lending, the Company accelerated costs over 2016 to ensure it adhered to best in class risk management practices. The Company had originally planned for such expenditures over a two to three year period, but felt it prudent to push them forward into 2016.

### *2015 compared to 2014*

Operating expenses totaled \$68.9 million in 2015, compared to \$59.5 million in 2014, resulting in an increase of \$9.4 million, or 16 percent. Salaries and benefits expense, which accounts for the largest portion of operating expenses, totaled \$40.3 million in 2015, reflecting an increase of \$4.0 million or 11 percent, when compared to 2014. This is largely due to the continuation of strategic hiring in line with the Strategic Plan. Strategic hiring that was considered in the Company's Strategic Plan, the acquisition of a wealth management company, normal salary increases and increases in bonus and incentive accruals contributed to the increase in salaries and benefits expense when comparing the 2015 to the 2014 years.

In 2015, the Company recorded a total of \$2.5 million of charges related to the closure of two branch offices. Branch restructure charges totaled \$1.7 million, while depreciation expense related to the closures totaled \$723 thousand of the \$2.5 million. Management anticipates that the restructuring will create future benefit in the form of lower expenses.

Provision for ORE expense was \$250 thousand and \$400 thousand in 2015 and 2014, respectively. All ORE provision was related to one large ORE property. Loan expense decreased \$106 thousand or 20 percent to \$426 thousand in

2015, due to fewer problem loans in 2015 compared to 2014.

The Company recorded FDIC assessment expense of \$2.2 million and \$1.4 million in 2015 and 2014, respectively, an increase of \$773 thousand, or 56 percent year over year. This increase is largely due to the increased size of our balance sheet from 2014.

**INCOME TAXES:** Income tax expense for the year ended December 31, 2016, was \$16.3 million compared to income tax expense of \$12.2 million for the same period of 2015. The effective tax rate for the year ended December 31, 2016 was 38.05 percent compared to 37.86 percent for the year ended December 31, 2015. The increase in income tax expense for the year ended December 31, 2016 was due to an increase in pre-tax income.

**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.

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.

Table of Contents

The Company's capital position during 2016 was benefitted by net income of \$26.5 million and \$22.5 million related to voluntary share purchases under the Dividend Reinvestment Plan, which the Company believes will continue to be a source of new capital for the Company.

At December 31, 2016, the Company's GAAP capital as a percent of total assets was 8.36 percent. At December 31, 2016, the Company's regulatory leverage, common equity tier 1, tier 1 and total risk based capital ratios were 8.35 percent, 10.60 percent, 10.60 percent and 13.25 percent, respectively. At December 31, 2016, the Bank's regulatory leverage, common equity tier 1, tier 1 and total risk based capital ratios were 9.31 percent, 11.82 percent, 11.82 percent and 12.87 percent, respectively. The Bank's regulatory capital ratios are all above the ratios to be considered well capitalized under regulatory guidance.

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)	
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
(Dollars in thousands)								
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
As of December 31, 2015:								
Total capital (to risk-weighted assets)	\$ 297,497	11.32 %	\$ 262,719	10.00 %	\$ 210,176	8.00 %	N/A	N/A

Tier I capital (to risk-weighted assets)	271,641	10.34	210,176	8.00	157,632	6.00	N/A	N/A
Common equity tier I (to risk-weighted assets)	271,641	10.34	170,768	6.50	118,224	4.50	N/A	N/A
Tier I capital (to average assets)	271,641	8.04	169,027	5.00	135,221	4.00	N/A	N/A

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		For Capital Adequacy Purposes		For Capital Adequacy Purposes Including Capital Conservation Buffer (A)	
As of December 31, 2016:			Amount	Ratio	Amount	Ratio	Amount	Ratio
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
As of December 31, 2015:								
Total capital (to risk-weighted assets)	\$299,593	11.40%	N/A	N/A	\$210,209	8.00%	N/A	N/A
Tier I capital (to risk-weighted assets)	273,738	10.42	N/A	N/A	157,657	6.00	N/A	N/A
Common equity tier I (to risk-weighted assets)	273,738	10.42	N/A	N/A	118,242	4.50	N/A	N/A
Tier I capital (to average assets)	273,738	8.10	N/A	N/A	135,237	4.00	N/A	N/A

Table of Contents

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. (A) 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 \$48.7 million (net) subordinated debt issuance that closed in June 2016. The Company down-streamed approximately \$40 million of those proceeds to the Bank as capital, benefitting all the Bank’s regulatory capital ratios at that time.

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. Such optional cash purchases provided \$22.5 million and \$13.6 million of common equity in 2016 and 2015, respectively.

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.

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, in addition to common equity 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 \$162.7 million at December 31, 2016. In addition, the Company had \$305.4 million in securities designated as available for sale at December 31, 2016. 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 December 31, 2016, unused secured borrowing commitments totaled \$1.1 billion from the FHLB and \$632 million from the Federal Reserve Bank of New York.

At December 31, 2016, customer deposits increased \$496 million (principally interest-bearing checking and money market), when compared to



Table of Contents

December 31, 2015. Capital increased \$49 million at December 31, 2016 when compared to December 31, 2015. This increase in customer deposits and capital primarily funded \$22 million in maturing FHLB advances, an increase in loans of approximately \$300 million, and an increase in investment securities of approximately \$110 million.

Brokered interest-bearing demand (“overnight”) deposits declined \$20 million to \$180 million at December 31, 2016 compared to \$200 million at December 31, 2015. The interest rate paid on these deposits allowed the Bank to fund operations at attractive rates and engage in interest rate swaps as part of its asset-liability interest rate risk management. As of December 31, 2016, the Company has transacted pay fixed, receive floating interest rate swaps totaling \$180 million notional amount. The Company ensures ample available collateralized liquidity as a backup to these short term brokered deposits.

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.

***EFFECTS OF INFLATION AND CHANGING PRICES:*** The financial statements and related financial data presented herein have been prepared in terms of historical dollars without considering changes in the relative purchasing power of money over time due to inflation. Unlike most industrial companies, virtually all of the assets and liabilities of a financial institution are monetary in nature. As a result, interest rates have a more significant impact on a financial institution’s performance than do general levels of inflation.

***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. This division also provides lending, residential mortgages and deposit services to high net worth individuals. Officers from the Private Wealth Management Division are available to provide wealth management, trust and investment services at the Bank’s corporate headquarters in Bedminster, at private banking locations in 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 Private Wealth Management Division’s performance for the years ended December 31, 2016, 2015 and 2014.

(In thousands, except per share data)	Years Ended December 31,			Change	
	2016	2015	2014	2016 v 2015	2015 2014
Total fee income	\$18,240	\$17,039	\$15,242	\$1,201	\$2,038

Compensation and benefits (included in Operating Expenses section above)	8,540	8,145	7,562	395	583
Other operating expense (included in Operating Expenses section above)	6,286	5,811	5,170	475	641
Assets under administration (market value)	<b>3.7 billion</b>	3.3 billion	3.0 billion		

*2016 compared to 2015*

The market value of assets under administration at December 31, 2016 and 2015 was \$3.7 billion and \$3.3 billion, respectively, an increase of 11 percent over the prior year. This includes assets held at Peapack-Gladstone Bank at year end 2016 and 2015 of \$334.4 million and \$237.7 million, respectively.

Wealth management fees increased \$1.2 million or 7 percent to \$18.2 million for the year ended December 31, 2016 from \$17.0 million in 2015. The growth in fee income was due to several factors, including continued healthy new business results, somewhat offset by normal levels of disbursements and outflows.

Table of Contents

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.

Private Wealth Management Division expenses increased to \$14.8 million compared to \$14.0 million for the same period in 2015, an increase of \$870 thousand, or 6 percent. Other operating expenses increased \$475 thousand or 8 percent to \$6.3 million for the year ended 2016 when compared to the same period in 2015. Compensation and benefits expense totaled \$8.5 million and \$8.1 million for the years ended 2016 and 2015, respectively, increasing \$395 thousand or 5 percent. Expenses in 2016 include the expenses of the Wealth Management Consultants Division for a full year, which was acquired in May 2015. Remaining expenses are in line with the Company's Strategic Plan, particularly the hiring of key management and revenue-producing personnel. Revenue and profitability related to the new personnel will generally lag expenses by several quarters.

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

*2015 compared to 2014*

The market value of assets under administration at December 31, 2015 and 2014 was \$3.3 billion and \$3.0 billion, respectively, an increase of 10 percent over the prior year. This includes assets held at Peapack-Gladstone Bank at year end 2015 and 2014 of \$237.7 million and \$139.1 million, respectively. The increase was the result of the acquisition of the Wealth Management Consultants, partially offset by declining market activity in the fourth quarter of 2015.

Wealth management fees increased \$2.0 million or 13 percent to \$17.3 million for the year ended December 31, 2015 from \$15.2 million in 2014. The increase reflects increased relationships, a greater mix of higher margin business and an improvement in the market value of assets under management.

Private Wealth Management Division expenses increased to \$14.0 million compared to \$12.7 million for the same period in 2014, an increase of \$1.2 million, or 10 percent. Other operating expenses increased \$641 thousand or 12 percent to \$5.8 for the year ended 2015 when compared to the same period in 2014. Salaries and benefits expense totaled \$8.1 million and \$7.6 million for the years ended 2015 and 2014, respectively, increasing \$583 thousand or 8 percent. Expenses increased due to strategic hiring in line with the Company's Strategic Plan, as well as growth in the business.

**CAUTIONARY STATEMENT CONCERNING FORWARD LOOKING STATEMENTS:** This Annual Report on Form 10-K, both in the foregoing discussion 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 confidence and strategies and Management's expectations about new and existing programs and products, investments, relationships, opportunities and market conditions. These statements may be identified by such forward-looking terminology as "expect," "look," "believe," "anticipate," "may," or similar statements or variations of such terms. Actual results may differ materially from such forward-looking statements. Factors that may cause actual results to differ materially from those contemplated by such forward-looking statements include, but are not limited to:

- 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 manage our growth;
  - inability to successfully integrate our expanded employee base;
- a continued or unexpected decline in the economy, in particular in our New Jersey and New York market areas;
- declines in 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;
- a continued or unexpected decline in real estate values within our market areas;

Table of Contents

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 undertakes no duty to update any forward-looking statement to conform the statement to actual results or changes in the Company's expectations. 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.

**Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK**

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, 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.

Table of Contents

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.

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 with 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 December 31, 2016, \$126.8 million of notional value in swaps were executed and outstanding with borrowers under this program.

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 December 31, 2016. 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 December 31, 2016.

In an immediate and sustained 200 basis point increase in market rates at December 31, 2016, net interest income for year 1 would increase approximately 5.6 percent, when compared to a flat interest rate scenario. In year 2 this sensitivity improves to an increase of 8.3 percent, when compared to a flat interest rate scenario.

In an immediate and sustained 100 basis point decrease in market rates at December 31, 2016, net interest income would decline approximately 5.2 percent for year 1 and 6.7 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 December 31, 2016.

(Dollars in thousands) Change In Interest Rates (Basis Points)	Estimated Increase/ Decrease in EVPE			EVPE as a Percentage of Present Value of Assets (2)		
	Estimated EVPE (1)	Amount	Percent	EVPE Ratio (3)		Increase/(Decrease) (basis points)
+200	\$454,124	\$(3,241 )	(0.71 )%	12.38	%	50

+100	463,296	5,931	1.30	12.32	44
Flat interest rates	457,365	—	—	11.88	—
-100	442,325	(15,040)	(3.29 )	11.25	(63 )

(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.



Table of Contents

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.

Table of Contents

**Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

Report of Independent Registered Public Accounting Firm

Audit Committee

Peapack-Gladstone Financial Corporation

Bedminster, New Jersey

We have audited the accompanying consolidated statements of condition of Peapack-Gladstone Financial Corporation (the "Company") as of December 31, 2016 and 2015, and the related consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for each of the years in the three-year period ended December 31, 2016. We also have audited Peapack-Gladstone Financial Corporation's internal control over financial reporting as of December 31, 2016, based on criteria established in 2013 Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Peapack-Gladstone Financial Corporation's Management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control over Financial Reporting located in Item 9A. Our responsibility is to express an opinion on these financial statements and an opinion on the Company's internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by Management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance

with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of Management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Peapack-Gladstone Financial Corporation as of December 31, 2016 and 2015, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2016, in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, Peapack-Gladstone Financial Corporation maintained, in all material respects, effective internal control over financial reporting as of December 31, 2016, based on criteria established in 2013 Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

/s/ Crowe Horwath LLP

Livingston, New Jersey

March 14, 2017

55

Table of Contents**CONSOLIDATED STATEMENTS OF CONDITION**

(In thousands, except share data)	December 31,	
	2016	2015
<b>ASSETS</b>		
Cash and due from banks	\$24,580	\$11,550
Federal funds sold	101	101
Interest-earning deposits	138,010	58,509
Total cash and cash equivalents	162,691	70,160
Securities available for sale	305,388	195,630
FHLB and FRB stock, at cost	13,813	13,984
Loans held for sale, at fair value	1,200	1,558
Loans held for sale, at lower of cost or fair value	388	82,200
Loans	3,312,144	2,913,242
Less: allowance for loan losses	32,208	25,856
Net loans	3,279,936	2,887,386
Premises and equipment	30,371	30,246
Other real estate owned	534	563
Accrued interest receivable	8,153	6,820
Bank owned life insurance	43,806	42,885
Deferred tax assets, net	15,320	15,582
Goodwill	1,573	1,573
Intangibles	1,584	1,708
Other assets	13,876	14,364
<b>Total assets</b>	<b>\$3,878,633</b>	<b>\$3,364,659</b>
<b>LIABILITIES</b>		
Deposits:		
Noninterest-bearing demand deposits	\$489,485	\$419,887
Interest-bearing deposits:		
Checking	1,023,081	861,697
Savings	120,056	115,007
Money market accounts	1,048,494	810,709
Certificates of deposit	457,000	434,450
Subtotal deposits	3,138,116	2,641,750
Interest-bearing demand – Brokered	180,000	200,000
Certificates of deposit - Brokered	93,721	93,720
Total deposits	3,411,837	2,935,470
Overnight borrowings	—	40,700
Federal home loan bank advances	61,795	83,692
Capital lease obligation	9,693	10,222
Subordinated debt, net	48,764	—
Accrued expenses and other liabilities	22,334	18,899
Total liabilities	3,554,423	3,088,983
<b>SHAREHOLDERS' EQUITY</b>		
Preferred stock (no par value; authorized 500,000 shares)	—	—
Common stock (no par value; stated value \$0.83 per share; authorized 21,000,000 shares; issued shares, 17,666,173 at December 31, 2016 and 16,476,297 at December 31, 2015; outstanding shares, 17,257,995 at December 31, 2016 and		

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16,068,119 at December 31, 2015)	14,717	13,717
Surplus	238,708	213,203
Treasury stock at cost (408,178 shares at December 31, 2016 and 2015)	(8,988 )	(8,988 )
Retained earnings	81,304	58,123
Accumulated other comprehensive loss	(1,531 )	(379 )
Total shareholders' equity	324,210	275,676
Total liabilities and shareholders' equity	\$3,878,633	\$3,364,659
See accompanying notes to consolidated financial statements		

56

Table of Contents**CONSOLIDATED STATEMENTS OF INCOME**

(In thousands, except per share data)	Years Ended December 31,		
	2016	2015	2014
<b>INTEREST INCOME</b>			
Loans, including fees	\$ 111,971	\$ 94,339	\$ 70,468
Securities available for sale:			
Taxable	4,018	4,079	4,156
Tax-exempt	508	520	703
Interest-earning deposits	551	204	248
Total interest income	117,048	99,142	75,575
<b>INTEREST EXPENSE</b>			
Checking accounts	2,146	1,495	781
Savings and money market accounts	3,244	2,111	1,671
Certificates of deposit	6,270	4,411	1,521
Overnight and short-term borrowings	316	107	48
Federal Home Loan Bank advances	1,448	1,495	1,485
Capital lease obligation	478	503	483
Subordinated debt	1,696	—	—
Subtotal – interest expense	15,598	10,122	5,989
Interest-bearing demand - brokered	3,020	2,534	307
Interest on certificates of deposits – brokered	1,995	2,034	1,385
Total interest expense	20,613	14,690	7,681
Net interest income before provision for loan losses	96,435	84,452	67,894
Provision for loan losses	7,500	7,100	4,875
Net interest income after provision for loan losses	88,935	77,352	63,019
<b>OTHER INCOME</b>			
Wealth management fee income	18,240	17,039	15,242
Service charges and fees	3,252	3,323	3,111
Bank owned life insurance	1,407	1,297	1,092
Gain on loans held for sale at fair value	1,010	528	439
Gain on loans held for sale at lower of cost or fair value	1,233	—	166
Fee income related to loan level, back-to-back swaps	1,638	373	—
Gain on sale of SBA loans	623	7	—
Other income	1,396	620	497
Securities gains, net	119	527	260
Total other income	28,918	23,714	20,807
<b>OPERATING EXPENSES</b>			
Compensation and employee benefits	45,003	40,278	36,241
Premises and equipment	11,245	11,569	9,963
Other operating expenses	18,864	17,079	13,336
Total operating expenses	75,112	68,926	59,540
Income before income tax expense	42,741	32,140	24,286
Income tax expense	16,264	12,168	9,396
Net income	\$ 26,477	\$ 19,972	\$ 14,890

**EARNINGS PER SHARE**

Basic	\$1.62	\$1.31	\$1.23
Diluted	1.60	1.29	1.22

See accompanying notes to consolidated financial statements

57

Table of Contents**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

	Years Ended December 31,		
	2016	2015	2014
(Dollars in thousands)			
Net income	\$26,477	\$19,972	\$14,890
Other comprehensive (loss)/income:			
Unrealized (losses) gains on available for sale securities:			
Unrealized holding (losses) gains arising during the period	(2,310 )	(959 )	2,378
Less: Reclassification adjustment for net gains included in net income	(119 )	(527 )	(260 )
Tax effect	930	573	(820 )
Net of tax	(1,499 )	(913 )	1,298
Unrealized loss on cash flow hedge			
Unrealized holding gain (loss)	587	(1,162 )	(169 )
Reclassification adjustment for losses included in net income	—	—	—
Tax effect	(240 )	475	69
Net of tax	347	(687 )	(100 )
Total other comprehensive (loss)/income	(1,152 )	(1,600 )	1,198
Total comprehensive income	\$25,325	\$18,372	\$16,088

See accompanying notes to consolidated financial statements



Table of Contents**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**

(In thousands, except per share data)	Preferred Stock	Common Stock	Surplus	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Income	Total
Balance at January 1, 2014						\$ 23	\$ 170,657
11,788,517 common shares outstanding	\$ —	\$ 10,148	\$ 140,699	\$ (8,988)	\$ 28,775		\$ 170,657
Net income 2014					14,890		14,890
Accumulated other comprehensive income						1,198	1,198
Issuance of restricted stock, net of forfeitures, 145,747 shares		121	(121 )				—
Amortization of restricted stock			1,475				1,475
Cash dividends declared on common stock (\$0.20 per share)					(2,414 )		(2,414 )
Common stock option expense			234				234
Common stock options exercised and related tax benefits, 14,702 shares		14	160				174
Sales of shares (dividend reinvestment program), 416,057 shares		347	7,082				7,429
Issuance of shares, Profit Sharing Plan, 3,781 shares		3	67				70
Issuance of shares for Employee Stock Purchase Plan, 10,698 shares		8	188				196
Issuance of stock offering net of costs, 2,776,215 shares		2,313	46,045				48,358
Balance at December 31, 2014							
15,155,717 common shares outstanding	\$ —	\$ 12,954	\$ 195,829	\$ (8,988)	\$ 41,251	\$ 1,221	\$ 242,267
Net Income 2015					19,972		19,972
Accumulated other comprehensive loss						(1,600 )	(1,600 )
Issuance of restricted stock, net of forfeitures, 160,457 shares		134	(134 )				—
Restricted stock repurchased on vesting to pay taxes, (3,776) shares		(3 )	(78 )				(81 )
Amortization of restricted stock			1,621				1,621
Cash dividends declared on common stock (\$0.20 per share)					(3,100 )		(3,100 )
Common stock option expense			219				219
Common stock options exercised, 18,891 net of 7,506 shares used to exercise and related tax benefits, 11,385 shares		11	75				86
Sales of shares (dividend reinvestment program), 665,654 shares		555	13,093				13,648
Issuance of shares for Employee Stock Purchase Plan, 30,766 shares		26	618				644

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Issuance of common stock for							
For acquisition, 47,916 shares	40	960				1,000	
Issuance of warrants		1,000				1,000	
Balance at December 31, 2015							
16,068,119 common shares outstanding	\$ —	\$13,717	\$213,203	\$(8,988)	\$58,123	\$(379)	\$275,676
Net income 2016					26,477		26,477
Accumulated other							
comprehensive loss						(1,152)	(1,152)
Restricted stock							
forfeitures, (12,133) shares	(10)	)	10				—
Restricted stock repurchased on vesting							
to pay taxes, (29,088) shares	(24)	)	(530)	)			(554)
Amortization of restricted stock awards/units			2,836				2,836
Cash dividends declared on common stock							
(\$0.20 per share)					(3,296)		(3,296)
Common stock option expense			56				56
Common stock options exercised, 70,632							
net of 9,723 used to exercise and							
related taxes benefits, 60,909 shares	59		1,010				1,069
Sales of shares (Dividend Reinvestment							
Program), 1,137,998 shares	948		21,513				22,461
Issuance of shares for Employee Stock							
Purchase plan, 32,190 shares	27		610				637
Balance at December, 31 2016							
17,257,995 common shares outstanding	\$ —	\$14,717	\$238,708	\$(8,988)	\$81,304	\$(1,531)	\$324,210
See accompanying notes to consolidated financial statements							

Table of Contents**CONSOLIDATED STATEMENTS OF CASH FLOWS**

(In thousands)	Years Ended December 31,		
	2016	2015	2014
Operating activities:			
Net income	\$26,477	\$19,972	\$14,890
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	3,093	3,921	2,993
Amortization of premium and accretion of discount on securities, net	1,478	1,664	1,533
Amortization of restricted stock	2,836	1,621	1,475
Amortization of intangible assets	123	82	—
Amortization of subordinated debt costs	71	—	—
Provision for loan losses	7,500	7,100	4,875
Valuation allowance on other real estate owned	—	250	400
Stock-based compensation and employee stock purchase plan expense	156	319	283
Deferred tax expense/(benefit)	952	(4,043 )	(1,480 )
Gains on sale of securities, available for sale, net	(119 )	(527 )	(260 )
Proceeds from sales of loans held for sale (1)	72,477	34,543	30,585
Loans originated for sale (1)	(70,874 )	(34,734 )	(28,985 )
Gain on loans held for sale (1)	(1,633 )	(535 )	(438 )
Gain on sale of loans held for sale at lower of cost or fair value	(1,233 )	—	(166 )
Gain on OREO sold	(5 )	—	(139 )
Loss/(gain) on disposal of premises and equipment	—	15	(9 )
Gain on death benefit	—	(285 )	—
Increase in cash surrender value of life insurance	(921 )	(643 )	(752 )
Increase in accrued interest receivable	(1,333 )	(1,449 )	(1,285 )
Decrease/(increase) in other assets	945	(476 )	2,590
Increase in accrued expenses and other liabilities	2,936	3,511	1,153
Net cash provided by operating activities	42,926	30,306	27,263
Investing activities:			
Maturities and calls of securities available for sale	67,999	96,194	80,382
Redemptions for FHLB & FRB stock	61,606	48,627	29,722
Sales of securities available for sale	5,499	46,254	35,411
Purchase of securities available for sale	(187,043)	(8,049 )	(179,153)
Purchase of FHLB & FRB stock	(61,435 )	(51,018 )	(31,283 )
Sales of whole loans held for sale at lower of cost or fair value	201,681	—	68,022
Net increase in loans, net of participations sold	(518,832)	(746,132)	(745,434)
Sales of other real estate	568	744	1,100
Purchases of premises and equipment	(3,218 )	(1,924 )	(3,941 )
Disposal of premises and equipment	—	—	15
Purchase of wealth management company	—	(800 )	—
Proceeds from death benefit	—	677	—
Purchase of life insurance	—	(10,000 )	—

Net cash used in investing activities	(433,175)	(625,427)	(745,159)
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Table of Contents

(In thousands)	Years Ended December 31,		
	2016	2015	2014
<b>Financing activities:</b>			
Net increase in deposits	476,367	636,777	651,443
Net decrease in overnight borrowings	(40,700 )	(13,900 )	(300 )
Proceeds from Federal Home Loan Bank advances	—	—	9,000
Repayments of FHLB advances	(21,897 )	—	—
Dividends paid on common stock	(3,296 )	(3,100 )	(2,414 )
Exercise of stock options, net stock swaps	1,069	86	174
Restricted stock repurchased on vesting to pay taxes	(554 )	(81 )	—
Proceeds from issuance of subordinated debt	48,693	—	—
Net proceeds, rights offering	—	—	48,358
Sale of common shares (Dividend Reinvestment Program)	22,461	13,648	7,429
Purchase of shares of profit sharing plan	—	—	70
Issuance of shares for employee stock purchase plan	637	644	196
Net cash provided by financing activities	482,780	634,074	713,956
Net increase/(decrease) in cash and cash equivalents	92,531	38,953	(3,940 )
Cash and cash equivalents at beginning of year	70,160	31,207	35,147
Cash and cash equivalents at end of year	\$162,691	\$70,160	\$31,207
Supplemental disclosures of cash flow information			
<b>Cash paid during the year for:</b>			
Interest	\$19,965	\$13,726	\$7,042
Income taxes	14,870	15,572	7,747
Transfer of loans to loans held for sale	182,694	286,519	67,855
Transfer of loans held for sale to loan portfolio	30,121	—	—
Transfer of loans to other real estate owned	534	233	744
Increase in capital lease	—	—	2,326
Acquisition (Note 18)			
Goodwill	—	1,010	—
Customer relationship & other intangibles	—	1,790	—

(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

Table of Contents

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Principles of Consolidation and Organization:** The consolidated financial statements of Peapack-Gladstone Financial Corporation (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 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 Peapack-Gladstone Financial Corporation and Peapack-Gladstone 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.

**Business:** Peapack-Gladstone Bank, a subsidiary of the Company, is a commercial bank that provides innovative private banking services to businesses, non-profits and consumers which help them to establish, maintain and expand their legacy. Wealth management services are also provided through its subsidiary, PGB Trust & Investments of Delaware. The Bank is subject to competition from other financial institutions, is regulated by certain federal and state agencies and undergoes periodic examinations by those regulatory authorities.

**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 sales.

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. 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.

**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/(loss), 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.

## Table of Contents

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. 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. 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 on the Statement 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 \$5.8 million and \$236 thousand as of December 31, 2016 and 2015, respectively. As of December 31, 2016, SBA loans held for sale totaled \$388 thousand. There were no SBA loans held for sale as of December 31, 2015. The servicing asset recorded was not material.

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, is reversed against interest income. Payments received on nonaccrual loans are recorded as principal payments. A nonaccrual loan is returned to accrual status only when interest and principal payments are brought current and future payments are reasonably assured, generally when the Bank receives contractual payments for a minimum of six months. Commercial loans are generally charged off after an analysis is completed which indicates that collectability of the full principal balance is in doubt. Consumer loans are generally charged off after they become 120 days past due. Subsequent payments are credited to income only if collection of principal is not in doubt. If principal and interest payments are brought contractually current and future collectability is reasonably assured, loans are returned to accrual status. Nonaccrual mortgage loans are generally charged off when the value of the underlying collateral does not cover the outstanding

Table of Contents

principal balance. The majority of the Company's loans are secured by real estate in the State of New Jersey and New York.

**Allowance for Loan Losses:** The allowance for loan losses is a valuation allowance for incurred credit losses that are deemed to be probable. When Management is reasonably certain that a loan balance is not fully collectable an analysis is completed and either 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, 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.

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 is allocated so that the loan is reported, net, at the present value of estimated future cash flows using the loan's existing rate or at the fair value of collateral less estimated disposition costs if repayment is expected solely from the collateral. If a residential mortgage is placed on nonaccrual status and is in the process of collection, such as through a foreclosure action, then it is evaluated for impairment on an individual basis and the loan is reported, net, at the fair value of the collateral less estimated disposition costs.

A troubled debt restructuring is a modified loan with concessions made by the lender to a borrower who is experiencing financial difficulty. Troubled debt restructurings are impaired and are measured at the present value of estimated future cash flows using the loan's effective rate at inception. If a troubled debt restructuring is considered to be a collateral dependent loan, the loan is reported, net, at the fair value of the collateral, less estimated disposition costs. For troubled debt restructurings that subsequently default, the 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 economic factors include consideration of the following: levels of and trends in delinquencies and impaired loans; effects of any changes in risk selection and underwriting standards; other changes in lending policies, procedures and practices; experience, ability and depth of lending management and other relevant staff; national and local economic trends and conditions; industry conditions; and effects of changes in credit concentrations. 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 December 31, 2016 and 2015, the multiple was 4.0 times and 5.0 times for non-impaired substandard loans and 2.0 times and 2.5 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

## Table of Contents

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.

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 their 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.

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.

## Table of Contents

**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.

**Premises and Equipment:** Land is carried at cost. Premises and equipment are states at cost less accumulated depreciation. Depreciation charges are computed using the straight-line method. Equipment and other fixed assets are depreciated over the estimated useful lives, which range from three to ten years. Premises are depreciated over the estimated useful life of 40 years, while leasehold improvements are amortized on a straight-line basis over the shorter of their estimated useful lives or the term of the lease. Expenditures for maintenance and repairs are expensed as incurred. The cost of major renewals and improvements are capitalized. Gains or losses realized on routine dispositions are recorded as other income or other expense.

**Other Real Estate Owned (OREO):** OREO acquired through foreclosure on loans secured by real estate, is initially recorded at fair value less costs to sell. Physical possession of residential real estate property collateralizing a consumer mortgage loan occurs when legal title is obtained upon completion of foreclosure or when the borrower conveys all interest in the property to satisfy the loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. The assets are subsequently accounted for at the lower of cost or fair value, as established by a current appraisal, less estimated costs to sell. Any write-downs at the date of foreclosure are charged to the allowance for loan losses. Expenses incurred to maintain these properties, losses resulting from write-downs after the date of foreclosure, and realized gains and losses upon sale of the properties are included in other noninterest expense and other noninterest income, as appropriate.

**Bank Owned Life Insurance (BOLI):** The Bank has purchased life insurance policies on certain key executives. BOLI is recorded at the amount that can be realized under the insurance contract at the balance sheet date, which is the cash surrender value adjusted for other charges or other amounts due that are probable at settlement.

**Loan Commitments and Related Financial Instruments:** Financial instruments include off-balance sheet credit instruments, such as commitments to make loans and commercial letters of credit, issued to meet customer financing needs. The face amount for these items represents the exposure to loss, before considering customer collateral or ability to repay. Such financial instruments are recorded when they are funded.

**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 terminates, 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

Table of Contents

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.

**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 state and local tax authorities for years prior to 2012.

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

**Benefit Plans:** The Company has a 401(K) profit-sharing and investment plan, which covers substantially all salaried employees over the age of 21 with at least 12 months of service.

**Stock-Based Compensation:** Compensation cost is recognized for stock options and restricted stock awards/units issued to employees and non-employee directors, based on the fair value of these awards at the date of grant. A Black-Scholes model is utilized to estimate the fair value of stock options, while the fair value of the Company’s common stock at the date of grant is used for restricted stock awards/units. Compensation expense is recognized over the required service or performance period, generally defined as the vesting period. For awards with graded vesting, compensation expense is recognized on a straight-line basis over the requisite service period. The stock options granted under these plans are exercisable at a price equal to the fair value of common stock on the date of grant and expire not more than ten years after the date of grant.



**Employee Stock Purchase Plan (“ESPP”):** On April 22, 2014, the shareholders of the Company approved the 2014 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 one percent and 15 percent 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 percent of the closing market price of a share of common stock on the purchase date. Participation in the ESPP is entirely voluntary and employees can cancel their purchases at any time during the period without penalty. The fair value of each share purchase right is determined using the Black-Scholes option pricing model and the Company recorded \$100 thousand, \$100 thousand and \$49 thousand of expense in salaries and employee benefits expense for the twelve months ended December 31, 2016, 2015 and 2014. Total shares issued under the ESPP were 32,190, 30,766 and 10,698 during 2016, 2015 and 2014, respectively.

**Earnings Per Share (“EPS”):** In calculating earnings per share, there are no adjustments to net income available to common shareholders, which is the numerator of both the Basic and Diluted EPS. The weighted average number of shares outstanding used in the denominator for Diluted EPS is increased over the denominator used for Basic EPS by the effect of potentially dilutive common stock equivalents utilizing the treasury stock method. Common stock options outstanding are common stock equivalents, as are restricted stock/units until vested. Earnings and dividends per share are restated for all stock splits and stock dividends through the date of issuance of the financial statements.

Table of Contents

The following table shows the calculation of both basic and diluted earnings per share for the years ended December 31, 2016, 2015 and 2014:

(In thousands, except share and per share data)	2016	2015	2014
Net income available to common shareholders	\$26,477	\$19,972	\$14,890
Basic weighted average shares outstanding	16,318,868	15,187,637	12,065,615
Plus: common stock equivalents	196,130	247,359	106,492
Diluted weighted average shares outstanding	16,514,998	15,434,996	12,172,107
Earnings per share:			
Basic	\$1.62	\$1.31	\$1.23
Diluted	1.60	1.29	1.22

Stock options totaling 2,479, 92,720 and 478,389 shares were not included in the computation of diluted earnings per share in the years ended December 31, 2016, 2015 and 2014, respectively, because they were considered antidilutive.

**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 reasonably 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.

**Equity:** Stock dividends in excess of 20 percent are reported by transferring the par value of the stock issued from retained earnings to common stock. Stock dividends for 20 percent or less are reported by transferring the fair value, as of the ex-dividend date, of the stock issued from retained earnings to common stock and additional paid-in capital. Fractional share amounts are paid in cash with a reduction in retained earnings. Treasury stock is carried at cost.

**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 acquire (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 exists 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 asset 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.

**Reclassification:** Certain reclassifications have been made in the prior periods' financial statements in order to conform to the 2016 presentation and had no effect on the consolidated income statements or shareholders' equity.

**New Accounting Policies:** 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: (is) identify the contract(s) with a

Table of Contents

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 does not expect the guidance will have a material impact on its consolidated financial statements.

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 is evaluating the impact of these amendments 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. We are currently evaluating the impact that the standard will have on our consolidated financial statements.

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 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. Upon adoption, excess tax benefits and tax deficiencies will be recognized in the provision for income taxes on the consolidated statement of operations and will be presented within operating activities on the consolidated statement of cash flows.

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" (the ASU). 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 is currently in the process of evaluating the impact of this ASU on its consolidated financial statements.

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.

Table of Contents**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 December 31, 2016 and 2015 follows:

	2016			
(In thousands)	Amortized Cost	Gross Unrecognized Gains	Gross Unrecognized 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

  

	2015			
(In thousands)	Amortized Cost	Gross Unrecognized Gains	Gross Unrecognized Losses	Fair Value
Mortgage-backed securities-residential	\$159,747	\$ 1,293	\$ (433)	) \$160,607
SBA pool securities	7,601	—	(81)	) 7,520
State and political subdivisions	21,612	417	—	) 22,029
Single-issuer trust preferred security	2,999	—	(464)	) 2,535
CRA investment fund	3,000	—	(61)	) 2,939
Total	\$194,959	\$ 1,710	\$ (1,039)	) \$195,630

The amortized cost and approximate fair value of investment securities available for sale as of December 31, 2016, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or repay obligations with or without call or prepayment penalties. Securities not due at a single maturity, such as mortgage-backed securities, marketable equity securities and the CRA Investment Fund, are shown separately.

Maturing in:

(In thousands)	Amortized Cost	Fair Value
One year or less	\$ 9,483	\$ 9,487
After one year through five years	19,409	19,451

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After five years through ten years	20,359	19,873
After ten years	7,846	7,422
	57,097	56,233
Mortgage-backed securities-residential	238,271	237,617
SBA pool securities	6,778	6,713
CRA investment fund	5,000	4,825
Total	\$ 307,146	\$ 305,388

Securities available for sale with fair value of \$154.7 million and \$136.0 million as of December 31, 2016 and December 31, 2015, respectively, were pledged to secure public funds and for other purposes required or permitted by law.

70

Table of Contents

The following is a summary of the gross gains, gross losses and net tax expense related to proceeds on sales of securities available for sale for the years ended December 31,

(In thousands)	2016	2015	2014
Proceeds on sales	\$5,499	\$46,254	\$35,411
Gross gains	133	536	414
Gross losses	(14 )	(9 )	(154 )
Net tax expense	44	216	91

The following table presents the Company's available for sale securities with continuous unrealized losses and the approximate fair value of these investments as of December 31, 2016 and 2015.

	2016					
	Duration of Unrecognized Loss					
	Less Than 12 Months		12 Months or Longer		Total	
	Approximate		Approximate		Approximate	
(In thousands)	Fair Value	Unrecognized Losses	Fair Value	Unrecognized Losses	Fair Value	Unrecognized 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 )

	2015					
	Duration of Unrecognized Loss					
	Less Than 12 Months		12 Months or Longer		Total	
	Approximate		Approximate		Approximate	
(In thousands)	Fair Value	Unrecognized Losses	Fair Value	Unrecognized Losses	Fair Value	Unrecognized Losses
Mortgage-backed securities-residential	\$89,717	\$ (345 )	\$ 8,913	\$ (88 )	\$98,630	\$ (433 )
SBA pool securities	—	—	7,520	(81 )	7,520	(81 )
Single-issuer trust preferred security	—	—	2,535	(464 )	2,535	(464 )



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CRA investment fund	—	—	2,939	(61	)	2,939	(61	)
Total	\$89,717	\$ (345	) \$ 21,907	\$ (694	)	\$111,624	\$ (1,039	)

Management believes that the unrealized losses on investment securities available for sale are temporary and due to interest rate fluctuations and/or volatile market conditions rather than the credit worthiness of the issuers. 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.

At December 31, 2016, the unrealized loss of \$389 thousand is related to a single-issuer trust preferred security issued by a large bank holding company that has experienced declines in fair value on all its securities due to the turmoil in the financial markets and a merger. The investment continues to be rated below investment grade by at least two recognized rating agencies. 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. The fair value of this security at December 31, 2016, is higher than the fair value at December 31, 2015. Management believes the depressed valuation is a result of the nature of the bond, a trust preferred security, and the bond's very low yield and not due to credit. At December 31, 2016, Management does not intend to sell the security nor is it likely that it will be required to sell the security before its anticipated recovery.

No other-than-temporary impairment charges were recognized in 2016, 2015 or 2014.

Table of Contents**3. LOANS**

The following table presents loans outstanding, by type of loan, as of December 31:

(Dollars in thousands)	2016	% of Total Loans	2015	% of Total Loans
Residential mortgage	\$527,370	15.92%	\$470,869	16.16%
Multifamily mortgage	1,459,594	44.07	1,416,775	48.63
Commercial mortgage	551,233	16.65	413,118	14.18
Commercial loans	636,714	19.23	512,886	17.60
Construction loans	1,405	0.04	1,401	0.05
Home equity lines of credit	65,682	1.98	52,649	1.81
Consumer loans, including fixed rate home equity loans	69,654	2.10	45,044	1.55
Other loans	492	0.01	500	0.02
Total loans	\$3,312,144	100.00%	\$2,913,242	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 December 31:

(Dollars in thousands)	2016	% of Total Loans	2015	% of Total Loans
Primary residential mortgage	\$557,970	16.86%	\$483,085	16.59%
Home equity lines of credit	65,683	1.98	52,804	1.81
Junior lien loan on residence	9,206	0.28	11,503	0.39
Multifamily property	1,459,594	44.09	1,416,775	48.66
Owner-occupied commercial real estate	176,123	5.32	176,276	6.05
Investment commercial real estate	752,258	22.73	568,849	19.54
Commercial and industrial	213,983	6.47	154,295	5.30
Farmland/Agricultural production	169	0.01	179	0.01
Commercial construction	1,497	0.04	151	0.01
Consumer and other	73,621	2.22	47,635	1.64
Total loans	\$3,310,104	100.00%	\$2,911,552	100.00%
Net deferred costs	2,040		1,690	
Total loans including net deferred costs	\$3,312,144		\$2,913,242	

Loans are transferred from the loan portfolio to held for sale when the Company no longer has the intent to hold the loans for the foreseeable future.

Multifamily loans held for sale, at lower of cost or fair value, totaled \$82.2 million as of December 31, 2015. The Company did not have any multi-family loans held for sale as of December 31, 2016. The Company sold approximately \$234 million and \$204 million in multifamily loans during 2016 and 2015. The loans sold in 2016 include both loan participations and whole loan sales, compared to 2015, where the Company sold loan participations. Gain on sale of whole loans sold in 2016 totaled approximately \$1.2 million and none of the loans were sold at a loss.

During 2016, the Company transferred \$30.1 million of loans from held for sale back to the loan portfolio. These loans were transferred at lower of cost or fair value. No loss was recognized on the transfer.

In June of 2014, the Company sold \$67 million of longer-duration, lower-coupon residential first mortgage loans as part of its strategy to de-emphasize residential first mortgage lending, while benefitting its liquidity and interest rate risk positions. Income for the twelve months ended December 31, 2014, included the gain on sale of \$166 thousand.

The Company, through the Bank, may extend credit to officers, directors or their associates. These loans are subject to the Company's normal lending policy and Federal Reserve Bank Regulation O.

Table of Contents

The following table shows the changes in loans to officers, directors or their associates:

(In thousands)	2016	2015
Balance, beginning of year	\$4,280	\$4,518
New loans	1,329	1,747
Repayments	(697 )	(1,985)
Loans with individuals no longer considered related parties	(124 )	—
Balance, at end of year	\$4,788	\$4,280

The following tables present the loan balances by portfolio segment, based on impairment method, and the corresponding balances in the allowance for loan losses as of December 31, 2016 and 2015:

## 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	—	—	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

**December 31, 2015**

(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	\$ 9,752	\$ 291	\$ 473,333	\$ 2,006	\$ 483,085	\$ 2,297
Home equity lines of credit	254	—	52,550	86	52,804	86
Junior lien loan on residence	176	—	11,327	66	11,503	66
Multifamily property	—	—	1,416,775	11,813	1,416,775	11,813
Owner-occupied commercial real estate	1,272	—	175,004	1,679	176,276	1,679
Investment commercial real estate	11,482	61	557,367	7,529	568,849	7,590
Commercial and industrial	171	138	154,124	2,071	154,295	2,209
Secured by farmland and agricultural production	—	—	179	2	179	2
Commercial construction	—	—	151	2	151	2
Consumer and other	—	—	47,635	112	47,635	112
Total ALLL	\$ 23,107	\$ 490	\$ 2,888,445	\$ 25,366	\$ 2,911,552	\$ 25,856

Table of Contents

Impaired loans include nonaccrual loans of \$11.3 million at December 31, 2016 and \$6.7 million at December 31, 2015. Impaired loans also include performing troubled debt restructured loans of \$17.8 million at December 31, 2016 and \$16.2 million at December 31, 2015. At December 31, 2016, the allowance allocated to troubled debt restructured loans totaled \$550 thousand of which \$314 thousand was allocated to nonaccrual loans. At December 31, 2015, the allowance allocated to troubled debt restructured loans totaled \$441 thousand of which \$162 thousand was allocated to nonaccrual loans. All accruing troubled debt restructured loans were paying in accordance with restructured terms as of December 31, 2016. The Company has not committed to lend additional amounts as of December 31, 2016 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 December 31, 2016 and 2015:

(In thousands)	December 31, 2016			Average Impaired Loans
	Unpaid Principal Balance	Recorded Investment	Specific Reserves	
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

(In thousands)	December 31, 2015			Average Impaired Loans
	Unpaid Principal Balance	Recorded Investment	Specific Reserves	
With no related allowance recorded:				
Primary residential mortgage	\$ 8,998	\$ 7,782	\$ —	\$ 5,683
Owner-occupied commercial real estate	1,460	1,272	—	1,379
Investment commercial real estate	11,099	10,233	—	10,330
Commercial and industrial	63	33	—	112
Home equity lines of credit	258	254	—	229
Junior lien loan on residence	219	176	—	166
Consumer and other	—	—	—	1
Total loans with no related allowance	\$ 22,097	\$ 19,750	\$ —	\$ 17,900

With related allowance recorded:

Primary residential mortgage	\$2,090	\$ 1,970	\$ 291	\$ 1,894
Investment commercial real estate	1,249	1,249	61	1,266
Commercial and industrial	179	138	138	144
Total loans with related allowance	\$3,518	\$ 3,357	\$ 490	\$ 3,304
Total loans individually evaluated for impairment	\$25,615	\$ 23,107	\$ 490	\$ 21,204

Interest income recognized during 2016, 2015 and 2014 was not material.

Table of Contents

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 December 31, 2016 and 2015:

(In thousands)	December 31, 2016	
	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	—
Consumer and other	—	—
Total	\$ 11,264	\$ —

(In thousands)	December 31, 2015	
	Nonaccrual	Loans Past Due Over 90 Days and Still Accruing Interest
Primary residential mortgage	\$ 4,549	\$ —
Home equity lines of credit	229	—
Junior lien loan on residence	118	—
Owner-occupied commercial real estate	1,272	—
Investment commercial real estate	408	—
Commercial and industrial	171	—
Consumer and other	—	—
Total	\$ 6,747	\$ —

The following tables present the recorded investment in past due loans as of December 31, 2016 and 2015 by class of loans, excluding nonaccrual loans:

(In thousands)	December 31, 2016			
	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



	December 31, 2015			
	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days Past Due	Total Past Due
(In thousands)				
Primary residential mortgage	\$1,214	\$ 157	\$	— \$ 1,371
Investment commercial real estate	772	—		— 772
Total	\$1,986	\$ 157	\$	— \$ 2,143

Table of Contents

**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, 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 in quarterly installments. The sample methodology is shown below:

- All loans over \$5,000,000;
- All loans in a relationship will be covered at the same time;
- All loans with a risk rating of criticized or classified;
- All nonaccrual loans not criticized or classified;
- All loans that are 60 days or more past due as of the review date;
- A sample of loans over \$500,000 with weighting by exposure;
- On a random sampling basis for loans under \$500,000; and
- Whenever Management otherwise identifies a positive or negative trend or issue relating to a borrower.

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.

**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.

The table below presents, based on the most recent analysis performed, the risk category of loans by class of loans for December 31, 2016 and 2015.

**December 31, 2016**

(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	\$ —

Table of ContentsDecember 31, 2015

(In thousands)	Pass	Special Mention	Substandard	Doubtful
Primary residential mortgage	\$471,859	\$ 1,332	\$ 9,894	\$ —
Home equity lines of credit	52,550	—	254	—
Junior lien loan on residence	11,327	—	176	—
Multifamily property	1,407,856	7,718	1,201	—
Owner-occupied commercial real estate	170,420	928	4,928	—
Investment commercial real estate	536,479	6,217	26,153	—
Commercial and industrial	148,940	5,184	171	—
Secured by farmland and agricultural	179	—	—	—
Commercial construction	—	151	—	—
Consumer and other loans	47,635	—	—	—
Total	\$2,847,245	\$ 21,530	\$ 42,777	\$ —

At December 31, 2016, \$27.9 million of substandard loans were also considered impaired as compared to December 31, 2015, when \$21.8 million of the special mention and the substandard loans were also considered impaired.

The tables below present a roll forward of the allowance for loan losses for the years ended December 31, 2016, 2015 and 2014.

(In thousands)	January 1, 2016 Beginning ALLL	Charge-Offs	Recoveries	Provision (Credit)	December 31, 2016 Ending ALLL
Primary residential mortgage	\$ 2,297	\$ (1,047 )	\$ 28	\$ 2,388	\$ 3,666
Home equity lines of credit	86	(91 )	15	223	233
Junior lien loan on residence	66	—	140	(190 )	16
Multifamily property	11,813	—	—	(621 )	11,192
Owner-occupied commercial real estate	1,679	(11 )	72	34	1,774
Investment commercial real estate	7,590	(520 )	246	3,593	10,909
Commercial and industrial	2,209	(16 )	29	1,942	4,164
Secured by farmland and agricultural	2	—	—	—	2
Commercial construction	2	—	—	7	9
Consumer and other	112	(5 )	12	124	243
Total ALLL	\$ 25,856	\$ (1,690 )	\$ 542	\$ 7,500	\$ 32,208

January 1, 2015	December 31, 2015
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(In thousands)	Beginning			Provision (Credit)	Ending ALLL
	ALLL	Charge-Offs	Recoveries		
Primary residential mortgage	\$ 2,923	\$ (638 )	\$ 80	\$ (68 )	\$ 2,297
Home equity lines of credit	156	(210 )	2	138	86
Junior lien loan on residence	109	(13 )	62	(92 )	66
Multifamily property	8,983	—	—	2,830	11,813
Owner-occupied commercial real estate	1,547	—	11	121	1,679
Investment commercial real estate	4,751	(16 )	18	2,837	7,590
Commercial and industrial	880	(73 )	81	1,321	2,209
Secured by farmland and agricultural	4	—	—	(2 )	2
Commercial construction	31	—	—	(29 )	2
Consumer and other	96	(41 )	13	44	112
Total ALLL	\$ 19,480	\$ (991 )	\$ 267	\$ 7,100	\$ 25,856

Table of Contents

	January 1, 2014			December 31, 2014	
(In thousands)	Beginning	Charge-Offs	Recoveries	Provision	Ending
	ALLL			(Credit)	ALLL
Primary residential mortgage	\$ 2,361	\$ (273 )	\$ 1	\$ 834	\$ 2,923
Home equity lines of credit	181	—	—	(25 )	156
Junior lien loan on residence	156	(1 )	103	(149 )	109
Multifamily property	4,003	—	—	4,980	8,983
Owner-occupied commercial real estate	2,563	(669 )	106	(453 )	1,547
Investment commercial real estate	5,083	—	18	(350 )	4,751
Commercial and industrial	825	(123 )	85	93	880
Secured by farmland and agricultural	3	—	—	1	4
Commercial construction	120	—	—	(89 )	31
Consumer and other	78	(22 )	7	33	96
Total ALLL	\$ 15,373	\$ (1,088 )	\$ 320	\$ 4,875	\$ 19,480

**Troubled Debt Restructurings:** The Company has allocated \$550 thousand and \$441 thousand of specific reserves to customers whose loan terms have been modified in troubled debt restructurings as of December 31, 2016 and December 31, 2015, respectively. There were no unfunded commitments to lend additional amounts to customers with outstanding loans that are classified as troubled debt restructurings.

During the period ended December 31, 2016, 2015 and 2014, the terms of certain loans were modified as troubled debt restructurings. The modification of the terms of such loans included one or a combination of the following: a reduction of the stated interest rate of the loan; or an extension of the maturity date at a stated rate of interest lower than the current market rate for new debt with similar risk.

The following table presents loans by class modified as troubled debt restructurings that occurred during the year ended December 31, 2016:

	Number of	Pre-Modification	Post-Modification
(Dollars in thousands)	Contracts	Outstanding	Outstanding
		Recorded	Recorded
		Investment	Investment
Primary residential mortgage	<b>7</b>	<b>\$ 4,691</b>	<b>\$ 4,691</b>
Junior Lien loan on residence	<b>1</b>	<b>63</b>	<b>63</b>
Commercial and industrial	<b>1</b>	<b>26</b>	<b>26</b>
Total	<b>9</b>	<b>\$ 4,780</b>	<b>\$ 4,780</b>

The following table presents loans by class modified as troubled debt restructurings that occurred during the year ended December 31, 2015:

Pre-Modification Post-Modification

(Dollars in thousands)	Number of Contracts	Outstanding Recorded Investment	Outstanding Recorded Investment
Primary residential mortgage	11	\$ 3,296	\$ 3,296
Junior Lien loan on residence	1	58	58
Investment commercial real estate	1	750	750
Total	13	\$ 4,104	\$ 4,104

Table of Contents

The following table presents loans by class modified as troubled debt restructurings that occurred during the year ended December 31, 2014:

(Dollars in thousands)	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Primary residential mortgage	8	\$ 2,138	\$ 2,138
Investment commercial real estate	1	1,281	1,281
Total	9	\$ 3,419	\$ 3,419

The identification of the troubled debt restructured loans did not have a significant impact on the allowance for loan losses. In addition, there were no charge-offs as a result of the classification of these loans as troubled debt restructuring during the years ended December 31, 2016, 2015 and 2014.

The following table presents loans by class modified as troubled debt restructurings during the year ended December 31, 2016 for which there was a payment default during the same period:

(Dollars in thousands)	Number of Contracts	Recorded Investment
Primary residential mortgage	1	\$ 269
Total	1	\$ 269

There were no payment defaults on loans modified as troubled debt restructurings within twelve months of modification during the year ending December 31, 2015 and 2014.

The defaults described above did not have a material impact on the allowance for loan losses during 2016, 2015 and 2014.

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 troubled debt restructuring. 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. PREMISES AND EQUIPMENT**

The following table presents premises and equipment as of December 31,

(In thousands)	2016	2015
Land and land improvements	\$6,160	\$4,942
Buildings	11,982	11,970
Furniture and equipment	17,572	16,857
Leasehold improvements	11,138	10,423
Projects in progress	1,415	919
Capital lease asset	11,237	11,237
	59,504	56,348
Less: accumulated depreciation	29,133	26,102
Total	\$30,371	\$30,246

Table of Contents

The Company has included leases in premises and equipment as follows:

(In thousands)	2016	2015
Land and buildings	<b>\$11,237</b>	\$11,237
Less: accumulated depreciation	<b>3,915</b>	3,167
Total	<b>\$7,322</b>	\$8,070

Projects in progress represents costs associated with renovations to the Company's headquarters in addition to smaller renovation or equipment installation projects at other locations.

The Company recorded depreciation expense of \$3.1 million, \$3.9 million and \$3.0 million for the years ended December 31, 2016, 2015 and 2014, respectively.

The Company leases its corporate headquarters building under a capital lease and in 2014, leased additional space in the building. The lease arrangement requires monthly payments through 2025. Related depreciation expense and accumulated depreciation of \$607 thousand, \$607 thousand and \$531 thousand is included in the results of 2016, 2015 and 2014, respectively.

The Company also leases its Gladstone branch after completing a sale-leaseback transaction involving the property in 2011. The lease arrangement requires monthly payments through 2031. The gain on the sale of \$764 thousand was deferred and will be accreted to income over the life of the lease. Related depreciation expense and accumulated depreciation of \$141 thousand is included in each of the 2016, 2015 and 2014 results.

The following is a schedule by year of future minimum lease payments under capitalized leases, together with the present value of net minimum lease payments as of December 31, 2016:

(In thousands)	
2017	\$1,081
2018	1,127
2019	1,146
2020	1,195
2021	1,232
Thereafter	6,587
Total minimum lease payments	12,368
Less: amount representing interest	2,675
Present value of net minimum lease payments	\$9,693

In the fourth quarter of 2015, the Company closed two retail branch offices. As a result of the closures, the Company recorded additional expense of \$2.5 million, which includes accelerated depreciation of \$723 thousand. The acceleration of depreciation expense is included with premises and equipment expense and lease related expenses are included with other operating expense on the Consolidated Statements of Income.

**5. OTHER REAL ESTATE OWNED**

At December 31, 2016 and 2015, the Company had other real estate owned, net of valuation allowances, totaling \$534 thousand and \$563 thousand, respectively.

The following table shows the activity in other real estate owned, excluding the valuation allowance, for the years ended December 31,

(In thousands)	2016	2015
Balance, beginning of year	\$3,233	\$3,744
OREO properties added	534	233
Sales during year	(3,233)	(744 )
Balance, end of year	\$534	\$3,233

Table of Contents

The following table shows the activity in the valuation allowance for the years ended December 31,

(In thousands)	2016	2015	2014
Balance, beginning of year	\$2,670	\$2,420	\$2,020
Additions charged to expense	—	250	400
Direct writedowns	(2,670)	—	—
Balance, end of year	\$—	\$2,670	\$2,420

The following table shows expenses related to other real estate owned for the years ended December 31,

(In thousands)	2016	2015	2014
Net gain on sales	\$ (5 )	\$—	\$(139)
Provision for unrealized losses	—	250	400
Operating expenses, net of rental income	59	51	179
Total	\$ 54	\$301	\$440

**6. DEPOSITS**

Time deposits over \$250,000 totaled \$118.7 million and \$115.6 million at December 31, 2016 and 2015, respectively.

The following table sets forth the details of total deposits as of December 31,

(Dollars in thousands)	2016		2015	
Noninterest-bearing demand deposits	\$489,485	14.35 %	\$419,887	14.30 %
Interest-bearing checking	1,023,081	29.99	861,697	29.36
Savings	120,056	3.52	115,007	3.92
Money market	1,048,494	30.73	810,709	27.62
Certificates of deposit	457,000	13.39	434,450	14.80
Interest-bearing demand - Brokered	180,000	5.27	200,000	6.81
Certificates of deposit - Brokered	93,721	2.75	93,720	3.19
Total deposits	\$3,411,837	100.00%	\$2,935,470	100.00%

The scheduled maturities of time deposits as of December 31, 2016 are as follows:

(In thousands)

2017	\$ 152,113
2018	203,630
2019	71,084
2020	34,420
2021	18,539
Over 5 Years	70,935
Total	\$550,721

## ***7. FEDERAL HOME LOAN BANK ADVANCES AND OTHER BORROWINGS***

Advances from FHLB totaled \$61.8 million at December 31, 2016, with a weighted average interest rate of 2.02 percent. Advances from FHLB totaled \$83.7 million at December 31, 2015, with a weighted average interest rate of 1.78 percent.

At December 31, 2016 advances totaling \$49.8 million with a weighted average rate of 1.78 percent, have fixed maturity dates. At December 31, 2015 advances totaling \$71.7 million with a weighted average rate of 1.57 percent, have fixed maturity dates. 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, while at December 31, 2015 the fixed rate advances are secured by blanket pledges of certain 1-4 family residential mortgages totaling \$428.2 million and multifamily totaling \$1.1 billion.

Table of Contents

At both December 31, 2016 and December 31, 2015, the Company had \$12.0 million in variable rate advances, with a weighted average 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 \$14.6 million at December 31, 2016 and \$13.2 million at December 31, 2015.

The advances have prepayment penalties.

The scheduled principal repayments and maturities of advances as of December 31, 2016 are as follows:

(In thousands)	
2017	\$23,897
2018	34,898
2019	3,000
2020	—
2021	—
Over 5 years	—
Total	\$61,795

At December 31, 2016 there were no overnight borrowings with the FHLB and at December 31, 2015 there were overnight borrowings with the FHLB of \$40.7 million with a weighted average rate of 0.52 percent. At December 31, 2016, unused short-term or overnight borrowing commitments totaled \$1.1 billion from the FHLB, \$22.0 million from correspondent banks and \$632.0 million at the Federal Reserve Bank.

**8. 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

Table of Contents

market inputs are actively quoted and can be validated through external sources, including brokers, market transactions and third-party pricing services.

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

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

Appraisals for both collateral-dependent impaired loans and other real estate owned are performed by certified general appraisers (for commercial properties) or certified residential appraisers (for residential properties) whose qualifications and licenses have been reviewed and verified by Management. Once received, a member of the Credit Department reviews the assumptions and approaches utilized in the appraisal, as well as the overall resulting fair value in comparison with independent data sources such as recent market data or industry-wide statistics. Appraisals on collateral dependent impaired loans and other real estate owned (consistent for all loan types) are obtained on an annual basis, unless a significant change in the market or other factors warrants a more frequent appraisal. On an annual basis, Management compares the actual selling price of any collateral that has been sold to the most recent appraised value to determine what additional adjustment should be made to the appraisal value to arrive at fair value for other properties. The most recent analysis performed indicated that a discount up to 15 percent should be applied to appraisals on properties. The discount is determined based on the nature of the underlying properties, aging of appraisal and other factors. For each collateral-dependent impaired 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 need for an adjustment to the specific reserve on the collateral dependent impaired loans. When the Bank applies an interim adjustment, it generally shows the adjustment as an incremental specific reserve against the loan until it has received the full updated appraisal. As of December 31, 2016, all collateral-dependent impaired loans and other real estate owned valuations were supported by an appraisal less than 12 months old.

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

Fair Value Measurements Using		
Quoted		
Prices In		
Active		
Markets	Significant	
For	Other	Significant
Identical	Observable	Unobservable



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(In thousands)	December 31, 2016	Assets (Level 1)	Inputs (Level 2)	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	<b>4,825</b>	—	—
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	<b>\$ 4,825</b>	\$ 303,429	\$ —
Liabilities:				
Derivatives:				
Cash flow hedges	(867	) —	(867	) —
Loan level swaps	(1,543	) —	(1,543	) —
Total	\$ (2,410	) \$ —	\$ (2,410	) \$ —

Table of Contents

(In thousands)	December 31, 2015			
Assets:				
Securities available for sale:				
Mortgage-backed securities-residential	\$ 160,607	\$—	\$160,607	\$—
SBA pool securities	7,520	—	7,520	—
State and political subdivisions	22,029	—	22,029	—
Single-issuer trust preferred security	2,535	—	2,535	—
CRA investment fund	2,939	2,939	—	—
Loans held for sale, at fair value	1,558	—	1,558	—
Derivatives:				
Cash flow hedges	104	—	104	—
Loan level swaps	1,106	—	1,106	—
Total	\$ 198,398	\$2,939	\$195,459	\$—
Liabilities:				
Derivatives:				
Cash flow hedges	(1,434	) —	(1,434 )	—
Loan level swaps	(1,106	) —	(1,106 )	—
Total	\$ (2,540	) \$—	\$(2,540 )	\$—

The Company has elected the fair value option for 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 or on nonaccrual as of December 31, 2016 and December 31, 2015.

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

	December 31, 2016	December 31, 2015
Residential loans contractual balance	\$ 1,181	\$ 1,536
Fair value adjustment	19	22
Total fair value of residential loans held for sale	\$ 1,200	\$ 1,558

There were no transfers between Level 1 and Level 2 during the year ended December 31, 2016.

Table of Contents

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

(In thousands)	December 31, 2016	Fair Value Measurements Using		
		Quoted Prices In Active Markets For Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Impaired loans:				
Investment commercial real estate	\$ 245	\$ —	\$ —	\$ 245

(In thousands)	December 31, 2015	
Assets:		
Impaired loans:		
Primary residential mortgage	\$ 251	\$—\$—\$251
OREO	330	— — 330

Impaired loans that are measured for impairment using the fair value of the collateral for collateral dependent loans, had a recorded investment of \$408 thousand, with a valuation allowance of \$163 thousand at December 31, 2016. Impaired loans that are measured for impairment using the fair value of the collateral for collateral dependent loans, had a recorded investment of \$299 thousand, with a valuation allowance of \$48 thousand at December 31, 2015.

At December 31, 2015, OREO at fair value represents one commercial property. The Company recorded a valuation allowance of \$250 thousand during 2015.

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

(In thousands)	Carrying Amount	Fair Value Measurements at December 31, 2016 Using			Total
		Level 1	Level 2	Level 3	
Financial assets					
Cash and cash equivalents	\$ 162,691	\$ 162,691	\$ —	\$ —	\$ 162,691
Securities available for sale	305,388	4,825	300,563	—	305,388

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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

Table of Contents

The carrying amounts and estimated fair values of financial instruments at December 31, 2015 are as follows:

(In thousands)	Carrying Amount	Fair Value Measurements at December 31, 2015 Using			
		Level 1	Level 2	Level 3	Total
<b>Financial assets</b>					
Cash and cash equivalents	\$70,160	\$70,160	\$—	\$—	\$70,160
Securities available for sale	195,630	2,939	192,691	—	195,630
FHLB and FRB stock	13,984	—	—	—	N/A
Loans held for sale, at fair value	1,558	—	1,558	—	1,558
Loans held for sale, at lower of cost or fair value	82,200	—	82,200	—	82,200
Loans, net of allowance for loan losses	2,887,386	—	—	2,865,601	2,865,601
Accrued interest receivable	6,820	—	562	6,258	6,820
Cash flow hedges	104	—	104	—	104
Loan level swaps	1,106	—	1,106	—	1,106
<b>Financial liabilities</b>					
Deposits	\$2,935,470	\$2,407,300	\$526,226	\$—	\$2,933,526
Overnight borrowings	40,700	—	40,700	—	40,700
Federal Home Loan Bank advances	83,692	—	84,409	—	84,409
Accrued interest payable	957	128	829	—	957
Cash flow hedges	1,434	—	1,434	—	1,434
Loan level swaps	1,106	—	1,106	—	1,106

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:** It is not practicable to determine the fair value of FHLB or FRB stock 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 variable-rate 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.

Federal Home Loan Bank advances: The fair values of the Company'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 Company'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 are included in Level 3.

Table of Contents

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.

**9. OTHER OPERATING EXPENSES**

The following table presents the major components of other operating expenses for the years ended December 31,

(In thousands)	2016	2015	2014
Professional and legal fees	\$3,459	\$2,747	\$1,873
FDIC insurance	4,758	2,154	1,381
Wealth Division other expense	2,029	2,147	1,896
Branch Restructure (Note 4)	—	1,735	—
Telephone	976	942	914
Advertising	824	637	594
Loan expense	715	426	532
Provision for ORE losses	—	250	400
Intangible amortization	123	82	—
Other operating expenses	5,980	5,959	5,746
Total other operating expenses	\$18,864	\$17,079	\$13,336

**10. INCOME TAXES**

The income tax expense included in the consolidated financial statements for the years ended December 31, is allocated as follows:

(In thousands)	2016	2015	2014
Federal:			
Current expense/(benefit)	\$13,207	\$13,035	\$10,251
Deferred expense/(benefit)	486	(3,210)	(2,626)
State:			
Current expense/(benefit)	2,105	3,176	625
Deferred expense/(benefit)	466	(833)	1,146
Total income tax expense	\$16,264	\$12,168	\$9,396

Total income tax expense differed from the amounts computed by applying the U.S. Federal income tax rate of 35 percent to income before taxes as a result of the following:

(In thousands)	2016	2015	2014
Computed "expected" tax expense	\$14,959	\$11,249	\$8,500
(Decrease)/increase in taxes resulting from:			
Tax-exempt income	(496 )	(316 )	(152 )
State income taxes	1,671	1,523	1,102
Bank owned life insurance income	(195 )	(279 )	(152 )
Interest disallowance	95	40	9
Meals and entertainment expense	77	69	69
Stock-based compensation	15	86	60
Rate adjustment	—	(70 )	—
Other	138	(134 )	(40 )
Total income tax expense	\$16,264	\$12,168	\$9,396



Table of Contents

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities as of December 31 are as follows:

(In thousands)	2016	2015
Deferred tax assets:		
Allowance for loan losses	\$12,969	\$10,437
Valuation allowance for OREO losses	—	1,084
Federal and state net operating loss carryforward	—	6
Lease adjustment	89	122
Post-retirement benefits	443	445
Prepaid alternative minimum assessment	283	283
Contribution limitation	235	237
Charitable contribution carryforward	—	32
Organization costs	22	24
Cash flow hedge	304	544
Unrealized loss on securities available for sale	668	—
Stock option expense	387	414
Nonaccrual interest	25	127
Accrued compensation	1,993	3,349
Capital leases	1,075	1,407
Total gross deferred tax assets	\$18,493	\$18,511
Deferred tax liabilities:		
Bank premises and equipment, principally due to differences in depreciation	\$800	\$767
Unrealized gain on securities available for sale	—	262
Deferred loan origination costs and fees	1,535	1,114
Deferred income	790	721
Investment securities, principally due to the accretion of bond discount	4	29
Other	44	36
Total gross deferred tax liabilities	3,173	2,929
Net deferred tax asset	\$15,320	\$15,582

Based upon taxes paid and projected future taxable income, Management believes that it is more likely than not that the gross deferred tax assets will be realized.

At December 31, 2016 and 2015, the Company had no unrecognized tax benefits. The Company does not expect the amount of unrecognized tax benefits to significantly increase or decrease in the next twelve months.

The Company is subject to U.S. Federal income tax as well as income tax of various state jurisdictions. The Company is no longer subject to federal examination for tax years prior to 2013. The tax years of 2013, 2014 and 2015 remains open to federal examination. The Company is no longer subject to state and local examinations by tax authorities for

tax years prior to 2012. The tax years of 2012, 2013, 2014 and 2015 remain open for state examination.

## ***11. BENEFIT PLANS***

The Company sponsors a profit sharing plan and a savings plan under Section 401(K) of the Internal Revenue Code, covering substantially all salaried employees over the age of 21 with at least 12 months of service. Under the savings plan, the Company contributes three percent of salary for each employee regardless of the employees' contributions as well as partially matching employee contributions. Expense for the savings plan totaled approximately \$1.6 million, \$1.6 million and \$1.4 million in 2016, 2015 and 2014, respectively.

Contributions to the profit sharing plan are made at the discretion of the Board of Directors and all funds are invested solely in Peapack-Gladstone Financial Corporation common stock. The Company did not contribute to the profit sharing plan in 2016, 2015 or 2014.

Table of Contents**12. 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. As of December 31, 2016 the total number of shares available for grant in all active plans was 1,442,381. There are no shares remaining for issuance with respect to stock option plans approved in 1995, 1998 and 2002; however, options granted under those plans are still included in the numbers below.

Options granted under the long-term stock incentive plans are, in general, exercisable not earlier than one year after the date of grant, at a price equal to the fair value of the 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.

Changes in options outstanding during 2016 were as follows:

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value (In Thousands)
Balance, January 1, 2016	267,289	\$ 17.28		
Granted during 2016	—	—		
Exercised during 2016	(70,527 )	18.94		
Expired during 2016	(16,729 )	21.31		
Forfeited during 2016	(874 )	13.51		
Balance, December 31, 2016	179,159	\$ 16.27	3.77 years	\$ 2,618
Vested and expected to vest (1)	178,663	\$ 16.31	3.77 years	\$ 2,603
Exercisable at December 31, 2016	170,896	\$ 16.41	3.68 years	\$ 2,472

(1) The difference between the shares which are exercisable (fully vested) and those which are expected to vest is due to anticipated forfeitures.

The aggregate intrinsic value in the table above represents the total pre-tax intrinsic value (the difference between the Company's closing stock price on the last trading day of 2016 and the exercise price, multiplied by the number of in-the-money options). The Company's closing stock price on December 31, 2016 was \$30.88.

There were no stock options granted during 2016. The per share weighted average fair value of stock options granted during 2014 was \$7.50, on the date of grant using the Black-Scholes Option-Pricing Model with the following weighted average assumptions:

	2014
Dividend yield	1.02 %
Expected volatility	40 %
Expected life	7 Years
Risk-free interest rate	2.18 %

As of December 31, 2016, there was approximately \$5 thousand of unrecognized compensation cost related to non-vested share-based compensation arrangements granted under the Company's stock incentive plans. That cost is expected to be recognized over a weighted average period of 0.34 years.

The Company issued stock awards/units in 2016, 2015 and 2014. The stock awards were either service based awards or performance based awards. The service based awards vest ratably over a three or five year period. The performance based awards that were granted in prior periods, are dependent upon the Company meeting certain performance criteria and cliff vest at the end of the performance period. During the fourth quarter of 2015, the Company concluded that the performance targets for the 2014 and 2015 grants will no longer be met and therefore, reversed approximately \$592 thousand of previously recorded expense for the performance awards. Total unrecognized compensation expense for performance based

Table of Contents

awards is \$1.7 million as of December 31, 2016. The Company does not expect the performance based awards to vest. As of December 31, 2016, there was \$4.6 million of total unrecognized compensation cost related to nonvested shares, which is expected to vest over 1.5 years. Total stock-based compensation expense recognized for stock awards totaled \$2.8 million, \$1.5 million and \$1.5 million in 2016, 2015 and 2014, respectively, while total stock-based compensation expense recognized for stock options was \$56 thousand, \$219 thousand and \$234 thousand for 2016, 2015 and 2014, respectively.

Changes in nonvested shares dependent on performance criteria for 2016 were as follows:

	Number of Shares	Weighted Average Grant Date Fair Value
Balance, January 1, 2016	92,767	\$ 18.12
Granted during 2016	—	—
Vested during 2016	—	—
Forfeited during 2016	—	—
Balance, December 31, 2016	92,767	\$ 18.12

Changes in nonvested shares/units not dependent on performance criteria for 2016 were as follows:

	Number of Shares	Weighted Average Grant Date Fair Value
Balance, January 1, 2016	321,421	\$ 19.44
Granted during 2016	188,397	16.99
Vested during 2016	(118,343 )	19.05
Forfeited during 2016	(23,345 )	18.75
Balance, December 31, 2016	368,130	\$ 19.26

**13. COMMITMENTS AND CONTINGENCIES**

The Company, in the ordinary course of business, is a party to litigation arising from the conduct of its business. Management does not consider that these actions depart from routine legal proceedings and believes that such actions will not affect its financial position or results of its operations in any material manner. There are various outstanding commitments and contingencies, such as guarantees and credit extensions, including mostly variable-rate loan commitments of \$434.4 million and \$282.1 million at December 31, 2016 and 2015, respectively, which are not included in the accompanying consolidated financial statements. These commitments include unused commercial and

home equity lines of credit.

The Company issues financial standby letters of credit that are irrevocable undertakings by the Company to guarantee payment of a specified financial obligation. Most of the Company's financial standby letters of credit arise in connection with lending relations and have terms of one year or less. The maximum potential future payments the Company could be required to make equals the contract amount of the standby letters of credit and amounted to \$12.8 million and \$10.4 million at December 31, 2016 and 2015, respectively. The fair value of the Company's liability for financial standby letters of credit was insignificant at December 31, 2016.

For commitments to originate loans, the Company's maximum exposure to credit risk is represented by the contractual amount of those instruments. Those commitments represent ultimate exposure to credit risk only to the extent that they are subsequently drawn upon by customers. The Company uses the same credit policies and underwriting standards in making loan commitments as it does for on-balance-sheet instruments. For loan commitments, the Company would generally be exposed to interest rate risk from the time a commitment is issued with a defined contractual interest rate.

At December 31, 2016, the Company was obligated under non-cancelable operating leases for certain premises. Rental expense aggregated \$2.4 million, \$2.6 million and \$2.5 million for the years ended December 31, 2016, 2015 and 2014 respectively, which is included in premises and equipment expense in the consolidated statements of income.

Table of Contents

The minimum annual lease payments under the terms of the operating lease agreements, as of December 31, 2016, were as follows:

(In thousands)	
2017	\$ 1,821
2018	1,670
2019	1,364
2020	1,358
2021	1,155
Thereafter	1,953
Total	\$9,321

The Company is also obligated under legally binding and enforceable agreements to purchase goods and services from third parties, including data processing service agreements.

**14. REGULATORY CAPITAL**

Banks and bank holding companies are subject to regulatory capital requirements administered by federal banking agencies. Capital adequacy guidelines and, additionally for banks, prompt corrective action regulations, involve quantitative measures of assets, liabilities, and certain off-balance-sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators. Failure to meet minimum capital requirements can initiate certain mandatory – and possibly additional discretionary – actions by regulators that, if undertaken, could have a direct material effect on the Company’s and the Bank’s financial statements and results of operations. The final rules implementing Basel Committee on Banking Supervision’s capital guidelines for U.S. banks (Basel III rules) became effective for the Company on January 1, 2015 with full compliance with all of the requirements being phased in over a multi-year schedule, and fully phased in by January 1, 2019. The Company has chosen to exclude net unrealized gain or loss on available for sale securities in computing regulatory capital. Management believes that as of December 31, 2016, the Company and Bank meet all capital adequacy requirements to which they are subject.

Prompt corrective action regulations provide five classifications: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized, although these terms are not used to represent overall financial condition. Adequately capitalized institutions must obtain prior regulatory approval to accept brokered deposits. The federal banking agencies are required to take certain supervisory actions (and may take additional discretionary actions) with respect to an undercapitalized institution or its holding company. If an institution is classified as undercapitalized, it is required to submit a capital restoration plan to its federal banking regulators and is prohibited from increasing its assets, engaging in a new line of business, acquiring any interest in any company or insured depository institution, or opening or acquiring a new branch office, except under certain

circumstances, including the acceptance by the federal banking regulators of a capital restoration plan for the institution. Furthermore, if an institution is classified as undercapitalized, the federal banking regulators may take certain actions to correct the capital position of the institution. If an institution is classified as significantly undercapitalized or critically undercapitalized, the federal banking regulators would be required to take one or more prompt corrective actions. These actions would include, among other things, requiring sales of new securities to bolster capital, improvements in management, limits on interest rates paid, prohibitions on transactions with affiliates, termination of certain risky activities and restrictions on compensation paid to executive officers. If a bank is classified as critically undercapitalized, the bank must be placed into conservatorship or receivership within 90 days, unless the federal banking regulators determined that other action would better achieve the purposes of the prompt corrective action regime. Any of the foregoing regulatory actions could have a direct material effect on an institution's or its holding company's financial statements. At December 31, 2016 and 2015, the most recent regulatory notifications categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that Management believes have changed the Company's category.



Table of Contents

To be categorized as well capitalized, the Bank must maintain minimum total risk-based, Tier I risk-based, common equity Tier 1 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)	
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
(Dollars in thousands)								
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
As of December 31, 2015:								
Total capital (to risk-weighted assets)	\$297,497	11.32%	\$262,719	10.00%	\$210,176	8.00%	N/A	N/A
Tier I capital (to risk-weighted assets)	271,641	10.34	210,176	8.00	157,632	6.00	N/A	N/A
Common equity tier I (to risk-weighted assets)	271,641	10.34	170,768	6.50	118,224	4.50	N/A	N/A
Tier I capital (to average assets)	271,641	8.04	169,027	5.00	135,221	4.00	N/A	N/A

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

To Be Well

For Capital

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(Dollars in thousands)	Actual		Capitalized Under Prompt Corrective Action Provisions		For Capital Adequacy Purposes		Adequacy Purposes Including Capital Conservation Buffer (A)	
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
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
As of December 31, 2015:								
Total capital (to risk-weighted assets)	\$299,593	11.40%	N/A	N/A	\$210,209	8.00%	N/A	N/A
Tier I capital (to risk-weighted assets)	273,738	10.42	N/A	N/A	157,657	6.00	N/A	N/A
Common equity tier I (to risk-weighted assets)	273,738	10.42	N/A	N/A	118,242	4.50	N/A	N/A
Tier I capital (to average assets)	273,738	8.10	N/A	N/A	135,237	4.00	N/A	N/A

Table of Contents

(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.

**15. 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 Swap Designated as Cash Flow Hedge: Interest rate swaps with a notional amount of \$180 million at December 31, 2016 and 2015 were designated as a cash flow hedges of certain interest-bearing demand brokered deposits and were determined to be fully effective during 2016 and 2015. As such, no amount of ineffectiveness has been included in net income. Therefore, the aggregate fair value of these 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.

Information about the interest rate swaps designated as cash flow hedges as of December 31, 2016 and 2015 is presented in the following table:

(Dollars in thousands)	<b>2016</b>		2015	
Notional amount	<b>\$180,000</b>		\$180,000	
Weighted average pay rate	<b>1.64</b>	%	1.64	%
Weighted average receive rate	<b>0.58</b>	%	0.29	%
Weighted average maturity	<b>3.25</b>	years	4.25	years
Unrealized loss, net	<b>\$(744)</b>	)	\$(1,330)	)

Net Interest expense recorded on these swap transactions totaled approximately \$2.0 million and \$1.6 million for the twelve months ended December 31, 2016 and 2015, respectively, and is reported as a component of interest expense.

**Cash Flow Hedge**

The following table presents the net gains/(losses) recorded in accumulated other comprehensive income and the consolidated financial statements relating to the cash flow derivative instruments for the year ended December 31:

2016

	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)
(In thousands)			
Interest rate contracts	\$ 587	\$ —	\$ —

2015

	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)
(In thousands)			
Interest rate contracts	\$ (1,162 )	\$ —	\$ —

93

Table of Contents

The following tables reflect the cash flow hedges included in the financial statements as of December 31, 2016 and 2015:

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

(In thousands)	December 31, 2015	
	Notional	Fair
	Amount	Value
Interest rate swaps related to interest-bearing demand brokered deposits	\$ 180,000	\$(1,330 )
Total included in other assets	15,000	104
Total included in other liabilities	\$ 165,000	\$(1,434 )

Derivatives Not Designated as Accounting Hedges: Beginning in 2015, the Company offered facility specific/loan level swaps to its customers and offset 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. 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.

Information about these swaps is as follows:

(Dollars in thousands)	<b>December 31, 2016</b>		December 31, 2015	
Notional amount	<b>\$ 126,810</b>		\$ 27,259	
Fair value	<b>\$ 1,543</b>		\$ 1,106	
Weighted average pay rates	<b>3.75</b>	<b>%</b>	3.06	<b>%</b>
Weighted average receive rates	<b>2.65</b>	<b>%</b>	1.44	<b>%</b>
Weighted average maturity	<b>9.4</b>	<b>years</b>	15.8	<b>years</b>

**16. SHAREHOLDERS EQUITY**

In December 2014, the Company successfully completed the sale of 2,776,215 common shares in its “at-the-market” equity offering program announced on October 23, 2014. The common shares in the offering were sold at a weighted average price of \$18.01 per share, representing proceeds to the Company of \$48.4 million, net of offering costs of \$216 thousand. The Board of Directors authorized the Company to contribute \$48.2 million of the proceeds received from the equity offering to the Bank as equity. The Company contributed the cash prior to year-end 2014.

In addition, the Dividend Reinvestment Plan of Peapack-Gladstone Financial Corporation, or the 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 \$200,000 per quarter to purchase additional shares of common stock. The Plan provides that shares may be purchased directly from the Company out of its authorized but unissued or treasury shares, or in the open market. During 2016 and 2015 the shares purchased under the Plan were from authorized but unissued shares. The price of shares purchased under the Plan will be the average price paid for such shares by the Plan’s administrator, Computershare Investor Services. The price to the Plan administrator of shares purchased directly from Peapack-Gladstone with reinvested dividends or voluntary cash payments will be 97 percent of their “fair market value,” as that term is herein defined in the Plan. The three percent discount will continue until terminated or modified by action of the Board of Directors. Total shares issued through the Plan in 2016 totaled 1,137,998 and resulted in additional capital of \$22.5 million, of which 1,134,068 shares were issued through the voluntary purchase portion of the Plan. Total shares issued through the Plan in 2015 totaled 665,654 and resulted in additional capital of \$13.6 million, of which 661,857 shares were issued through the voluntary purchase portion of the Plan.

Table of Contents**17. BUSINESS SEGMENTS**

The Company 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; corporate trust services including services as trustee for pension and profit sharing plans; and other financial planning and advisory services.

The following table presents the statements of income and total assets for the Company's reportable segments for the twelve months ended December 31, 2016, 2015 and 2014:

(In thousands)	Twelve Months Ended December 31, 2016		
	Banking	Wealth Management	Total
Net interest income	\$ 91,334	\$ 5,101	\$ 96,435
Noninterest income	10,217	18,701	28,918
Total income	101,551	23,802	125,353
Provision for loan losses	7,500	—	7,500
Compensation and benefits	36,463	8,540	45,003

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Premises and equipment expense	10,300	945	11,245
Other noninterest expense	13,523	5,341	18,864
Total noninterest expense	67,786	14,826	82,612
Income before income tax expense	33,765	8,976	42,741
Income tax expense	12,772	3,492	16,264
Net income	\$ 20,993	\$ 5,484	\$ 26,477
Total assets at period end	\$ 3,832,765	\$ 45,868	\$ 3,878,633



Table of Contents

(In thousands)	Twelve Months Ended December 31, 2015		
	Banking	Wealth Management	Total
Net interest income	\$ 80,190	\$ 4,262	\$ 84,452
Noninterest income	6,434	17,280	23,714
Total income	86,624	21,542	108,166
Provision for loan losses	7,100	—	7,100
Compensation and benefits	32,133	8,145	40,278
Premises and equipment expense	10,634	935	11,569
Other noninterest expense	12,203	4,876	17,079
Total noninterest expense	62,070	13,956	76,026
Income before income tax expense	24,554	7,586	32,140
Income tax expense	9,217	2,951	12,168
Net income	\$ 15,337	\$ 4,635	\$ 19,972
Total assets at period end	\$ 3,326,219	\$ 38,440	\$ 3,364,659

(In thousands)	Twelve Months Ended December 31, 2014		
	Banking	Wealth Management	Total
Net interest income	\$ 64,148	\$ 3,746	\$ 67,894
Noninterest income	5,336	15,471	20,807
Total income	69,484	19,217	88,701
Provision for loan losses	4,875	—	4,875
Compensation and benefits	28,679	7,562	36,241
Premises and equipment expense	9,207	756	9,963
Other noninterest expense	8,922	4,414	13,336
Total noninterest expense	51,683	12,732	64,415
Income before income tax expense	17,801	6,485	24,286
Income tax expense	6,873	2,523	9,396
Net income	\$ 10,928	\$ 3,962	\$ 14,890
Total assets at period end	\$ 2,676,103	\$ 26,294	\$ 2,702,397

**18. 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 \$10 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.

### *19. ACQUISITION*

On May 1, 2015, the Company acquired Wealth Management Consultants. The acquisition is consistent with the Company's strategy to grow its wealth management business with a focus on high net worth clients. The purchase price was \$2.8 million and included cash, common stock and common stock warrants. Acquisition related costs were not

Table of Contents

material. In accordance with FASB ASC 805-10 (Subtopic 25-15), the Company has up to one year from date of acquisition to complete this assessment.

The fair value of the common shares and warrants issued as part of the consideration was determined based on the closing price of the Company's common shares on the acquisition date.

The acquisition resulted in goodwill of \$1.0 million and customer relationship and other intangibles of \$1.8 million. The following table summarizes the consideration paid and the amounts of the assets acquired. No liabilities were assumed at the acquisition date:

Consideration (in thousands)	
Cash	\$ 800
Equity Instruments	2,000
Fair value of total consideration transferred	\$2,800
Recognized amounts of identifiable assets acquired	
Customer relationship intangible	\$ 1,685
Other intangibles	105
Goodwill	1,010
Total assets acquired	\$2,800

Equity instruments paid as a part of consideration included common stock shares of 47,916 and common stock warrants of 139,860 worth \$1 thousand. The per share weighted average fair value of the stock warrants on acquisition date was \$7.15. The Company calculated the value using the Black-Scholes Option-Pricing model with the following weighted average assumptions.

Dividend yield	0.93 %
Expected volatility	33.73 %
Expected life	7 Years
Risk-free interest rate	1.84 %

Goodwill totaled \$1.6 million as of December 31, 2016 and 2015. Of the \$1.6 million of goodwill, \$563 thousand relates to the Banking segment and \$1.0 million relates to the Wealth Management segment. Outside of goodwill, the only other intangible with an indefinite life was the assembled workforce intangible asset totaling \$49 thousand.

The Company conducted its annual impairment analysis and concluded that there is no impairment of goodwill.

Acquired intangible assets that have a definite life were as follows at December 31, 2016.

(In thousands)	Gross Carrying Amount	Gross Accumulated Amount	Net
Amortized intangible assets:			
Customer relationships	\$ 1,685	\$ 187	\$ 1,498
Non-compete agreement	56	19	37
Total	\$ 1,741	\$ 206	\$ 1,535

Acquired intangible assets that have a definite life were as follows at December 31, 2015.

(In thousands)	Gross Carrying Amount	Gross Accumulated Amount	Net
Amortized intangible assets:			
Customer relationships	\$ 1,685	\$ 75	\$ 1,610
Non-compete agreement	56	7	49
Total	\$ 1,741	\$ 82	\$ 1,659

Table of Contents

Aggregate amortization expense was \$124 thousand and \$82 thousand for 2016 and 2015, respectively.

Estimated amortization expense for each of the next five years is shown in the table below.

(In thousands)	
2017	\$ 123
2018	123
2019	123
2020	116
2021	112
Total	\$ 597

**20. ACCUMULATED OTHER COMPREHENSIVE INCOME/(LOSS)**

The following is a summary of the accumulated other comprehensive income/(loss) balances, net of tax, for the years ended December 31, 2016, 2015 and 2014:

(In thousands)	Balance at December 31, 2015	Other Comprehensive Loss/(Gain) Before Reclassifications	Amount Reclassified From Other Comprehensive Loss	Other Comprehensive Loss/(Gain) Twelve Months Ended December 31, 2016	Balance at December 31, 2016
Net unrealized holding gain/(loss) on securities available for sale, net of tax	\$ 408	\$ (1,424 )	\$ (75 )	\$ (1,499 )	\$ (1,091 )
Losses on cash flow hedge	\$ (787 )	\$ 347	\$ —	\$ 347	\$ (440 )
Accumulated other comprehensive loss, net of tax	\$ (379 )	\$ (1,077 )	\$ (75 )	\$ (1,152 )	\$ (1,531 )

Other Comprehensive	Amount Reclassified from Accumulated	Other Comprehensive (Loss) Twelve Months
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(In thousands)	Balance at December 31, 2014	(Loss) Before Reclassifications	Other Comprehensive Income	Ended December 31, 2015	Balance at December 31, 2015
Net unrealized holding gain/(loss) on securities available for sale, net of tax	\$ 1,321	\$ (602	) \$ (311	) \$ (913	) \$ 408
Losses on cash flow hedge	(100	) \$ (687	) \$ —	\$ (687	) \$ (787 )
Accumulated other comprehensive income/(loss), net of tax	\$ 1,221	\$ (1,289	) \$ (311	) \$ (1,600	) \$ (379 )

98

Table of Contents

(In thousands)	Balance at December 31, 2013	Other Comprehensive Income Before Reclassifications	Amount Reclassified from Accumulated Other Comprehensive Income	Other Comprehensive Income Twelve Months Ended December 31, 2014	Balance at December 31, 2014
Net unrealized holding gain/(loss) on securities available for sale, net of tax	\$ 23	\$ 1,467	\$ (169 )	\$ 1,298	\$ 1,321
Losses on cash flow hedge	\$ —	\$ (100 )	\$ —	\$ (100 )	\$ (100 )
Accumulated other comprehensive income/(loss), net of tax	\$ 23	\$ 1,367	\$ (169 )	\$ 1,198	\$ 1,221

The following represents the reclassifications out of accumulated other comprehensive income for the twelve months ended December 31, 2016, 2015 and 2014:

(In thousands)	Twelve Months Ended December 31,			Affected Line Item in Statements of Income
	2016	2015	2014	
Unrealized gains/(losses) on				
Realized gain on securities sales, AFS	\$ 119	\$ 527	\$ 260	Securities gains, net
Income tax expense	(44 )	(216 )	(91 )	Income tax expense
Total reclassifications, net of tax	\$ 75	\$ 311	\$ 169	

**21. CONDENSED FINANCIAL STATEMENTS OF PEAPACK-GLADSTONE FINANCIAL CORPORATION  
(PARENT COMPANY ONLY)**

**STATEMENTS OF CONDITION**

(In thousands)	December 31,	
	2016	2015
Assets		
Cash	\$ 10,330	\$ 1,489
Interest-earning deposits	515	515
Total cash and cash equivalents	10,845	2,004

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Investment in subsidiary	361,262	273,580
Other assets	1,303	414
Total assets	\$373,410	\$275,998
Liabilities		
Subordinated debt	\$48,764	\$—
Other liabilities	436	322
Total liabilities	49,200	322
Shareholders' equity		
Common stock	14,717	13,717
Surplus	238,708	213,203
Treasury stock	(8,988 )	(8,988 )
Retained earnings	81,304	58,123
Accumulated other comprehensive loss	(1,531 )	(379 )
Total shareholders' equity	324,210	275,676
Total liabilities and shareholders' equity	\$373,410	\$275,998



Table of Contents**STATEMENTS OF INCOME AND COMPREHENSIVE INCOME**

(In thousands)	Years Ended December 31,		
	2016	2015	2014
Income			
Dividend from Bank	\$—	\$—	\$—
Other income	1	1	1
Total income	1	1	1
Expenses			
Interest expenses	1,696	—	—
Other expenses	699	525	637
Total expenses	2,395	525	637
Loss before income tax benefit and equity in undistributed earnings of Bank	(2,394 )	(524 )	(636 )
Income tax benefit	(835 )	(180 )	(216 )
Net loss before equity in undistributed earnings of Bank	(1,559 )	(344 )	(420 )
Equity in undistributed earnings of Bank/(dividends in excess of earnings)	28,036	20,316	15,310
Net income	\$26,477	\$19,972	\$14,890
Other comprehensive (loss)/income	(1,152 )	(1,600 )	1,198
Comprehensive income	\$25,325	\$18,372	\$16,088

**STATEMENTS OF CASH FLOWS**

(In thousands)	Years Ended December 31,		
	2016	2015	2014
Cash flows from operating activities:			
Net income	\$26,477	\$19,972	\$14,890
Undistributed earnings of Bank	(28,036)	(20,316)	(15,310)
Amortization of subordinated debt costs	71	—	—
(Increase)/decrease in other assets	(889 )	(194 )	427
Increase/(decrease) in other liabilities	114	81	(63 )
Net cash used in operating activities	(2,263 )	(457 )	(56 )
Cash flows from investing activities:			
Capital contribution to subsidiary	(57,823)	(18,000)	(88,674)
Net cash used in investing activities	(57,823)	(18,000)	(88,674)
Cash flows from financing activities:			
Cash dividends paid on common stock	(3,296 )	(3,100 )	(2,414 )
Exercise of stock options, net of stock swaps	1,069	86	174
Proceeds from issuance of subordinated debt	48,693	—	—
Net proceeds, rights offering	—	—	48,358
Issuance of common shares (DRIP program)	22,461	13,648	7,429

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Purchase of shares for Profit Sharing Plan	—	—	70
Net cash provided by financing activities	68,927	10,634	53,617
Net (decrease)/increase in cash and cash equivalents	8,841	(7,823 )	(35,113)
Cash and cash equivalents at beginning of period	2,004	9,827	44,940
Cash and cash equivalents at end of period	\$10,845	\$2,004	\$9,827

100

Table of Contents**21. SUPPLEMENTAL DATA (unaudited)**

The following table sets forth certain unaudited quarterly financial data for the periods indicated:

## Selected 2016 Quarterly Data:

(In thousands, except per share data)	March 31	June 30	September 30	December 31
Interest income	\$ 27,898	\$29,035	\$ 29,844	\$ 30,271
Interest expense	4,488	4,859	5,575	5,691
Net interest income	23,410	24,176	24,269	24,580
Provision for loan losses	1,700	2,200	2,100	1,500
Trust fees	4,295	4,899	4,436	4,610
Securities gains/(losses), net	101	18	—	—
Other income	1,867	2,531	3,099	3,062
Operating expenses	19,206	18,775	18,166	18,965
Income before income tax expense	8,767	10,649	11,538	11,787
Income tax expense	3,278	4,085	4,422	4,479
Net income	\$ 5,489	\$6,564	\$ 7,116	\$ 7,308
Earnings per share-basic	\$ 0.35	\$0.41	\$ 0.43	\$ 0.44
Earnings per share-diluted	0.34	0.40	0.43	0.43

## Selected 2015 Quarterly Data:

(In thousands, except per share data)	March 31	June 30	September 30	December 31
Interest income	\$ 22,361	\$23,852	\$ 25,806	\$ 27,123
Interest expense	2,778	3,508	4,100	4,304
Net interest income	19,583	20,344	21,706	22,819
Provision for loan losses	1,350	2,200	1,600	1,950
Wealth management fee income	4,031	4,532	4,169	4,307
Securities gains/(losses), net	268	176	83	—
Other income	1,583	1,791	1,358	1,416
Operating expenses	15,768	16,266	16,899	19,993
Income before income tax expense	8,347	8,377	8,817	6,599
Income tax expense	3,339	3,139	3,434	2,256
Net income	\$ 5,008	\$5,238	\$ 5,383	\$ 4,343
Earnings per share-basic	\$ 0.34	\$0.34	\$ 0.35	\$ 0.28
Earnings per share-diluted	0.33	0.34	0.35	0.28

## Selected 2014 Quarterly Data:

(In thousands, except per share data)	March 31	June 30	September 30	December 31
Interest income	\$ 16,949	\$18,630	\$ 19,210	\$ 20,786

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Interest expense	1,378	1,707	2,162	2,434
Net interest income	15,571	16,923	17,048	18,352
Provision for loan losses	1,325	1,150	1,150	1,250
Wealth management fee income	3,754	4,005	3,661	3,822
Securities gains/(losses), net	98	79	39	44
Other income	1,143	1,389	1,352	1,421
Operating expenses	14,339	14,930	14,693	15,578
Income before income tax expense	4,902	6,316	6,257	6,811
Income tax expense	1,871	2,533	2,393	2,599
Net income	\$ 3,031	\$3,783	\$ 3,864	\$ 4,212
Earnings per share-basic	\$ 0.26	\$0.32	\$ 0.33	\$ 0.32
Earnings per share-diluted	0.26	0.32	0.32	0.32

101

Table of Contents

**Item CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND  
9. FINANCIAL DISCLOSURE**

None.

Item 9A. CONTROLS AND PROCEDURES

**Management's Evaluation of Disclosure Controls and Procedures**

The Company maintains "disclosure controls and procedures" which, consistent with Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended, is defined to mean controls and other procedures that are designed to ensure that information required to be disclosed in the reports that the Company files or submits under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and to ensure that such information is accumulated and communicated to the Company's Management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

The Company's Management, with the participation of its Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures. Based on such evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures are effective as of the end of the period covered by this Annual Report on Form 10-K.

The Company's Management, including the CEO and CFO, does not expect that our disclosure controls and procedures or our internal controls will prevent all error 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 Company 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.

## **Changes in Internal Control over Financial Reporting**

There have been no changes in the Company's internal control over financial reporting during the quarter ended December 31, 2016, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

### *Management's Report on Internal Control Over Financial Reporting*

The Company's Management is responsible for establishing and maintaining adequate internal control over financial reporting. The Company's internal control over financial reporting is a process designed to provide reasonable assurance to the Company's Management and board of Directors regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. In addition, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

As of December 31, 2016 Management assessed the effectiveness of the Company's internal control over financial reporting based on the criteria for effective internal control over financial reporting established in 2013 *Internal Control-Integrated Framework*, issued by the Committee of Sponsoring Organizations ("COSO") of the Treadway Commission.

Table of Contents

Management’s assessment included an evaluation of the design of the Company’s internal control over financial reporting and testing of the operating effectiveness of its internal control over financial reporting. Management reviewed the results of its assessment with the Audit and Risk Committees.

Based on this assessment, Management determined that, as of December 31, 2016, the Company’s internal control over financial reporting was effective to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles.

**Report of the Independent Registered Public Accounting Firm**

Crowe Horwath LLP, the independent registered public accounting firm that audited the Company’s December 31, 2016 consolidated financial statements included in this Annual Report on Form 10-K, has issued an audit report expressing an opinion on the effectiveness of the Company’s internal control over financial reporting as of December 31, 2016. The report is included in Item 8 under the heading “Report of Independent Registered Public Accounting Firm.”

**Item 9B. OTHER INFORMATION**

None.

**PART III**

**Item 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE**

The information set forth under the captions “Director Information,” “Corporate Governance” and “Section 16(a) Beneficial Ownership Reporting Compliance” in the 2017 Proxy Statement is incorporated herein by reference.

Executive Officer	Age	Date Became an Executive Officer	Current Position and Business Experience
Douglas L. Kennedy	60	October 9, 2012	Chief Executive Officer
Finn M.W. Caspersen, Jr.	47	January 1, 2008	Chief Strategy Officer, General Counsel
Jeffrey J. Carfora	58	March 30, 2009	Chief Financial Officer
Vincent A. Spero	51	November 19, 2009	Head of Commercial Real Estate

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Anthony B. Bilotta, Jr.	56	September 16, 2013	Director of Retail Banking and Marketing
John P. Babcock	59	March 10, 2014	President of Private Wealth Management
Eric H. Waser	56	February 17, 2015	Head of Commercial Banking
Lisa P. Chalkan	52	April 21, 2016	Chief Credit Officer
Robert A. Plante	57	March 20, 2017	Chief Operating Officer

Mr. Kennedy joined the Bank in October 2012 as Chief Executive Officer. He is a career banker with over 39 years of commercial banking experience. Previously, Mr. Kennedy served as Executive Vice President and Market President at Capital One Bank/North Fork Bank and held key executive level positions with Summit Bank and Bank of American/Fleet Bank. Mr. Kennedy has a Bachelor's Degree in Economics and a MBA from Sacred Heart University in Fairfield, Connecticut.

Mr. Caspersen has nearly 22 years of experience, including 13 years in the Banking industry. Mr. Caspersen joined the Bank as Chief Risk Officer in March 2004 and was promoted to General Counsel in May 2006. He was elected to the Board of Directors in April 2012. Mr. Caspersen was named Senior Executive Vice President, Chief Operating Officer and General Counsel in 2013. Prior to joining the Bank, Mr. Caspersen worked in the fields of venture capital, investment banking and corporate law. Mr. Caspersen is a graduate of Harvard Law School and Harvard College.

Mr. Carfora joined the Bank in April 2009 as Chief Financial Officer having previously served as a Transitional Officer with New York Community Bank from April 2007 until January 2008 as a result of a merger with PennFed Financial Services Inc. and Penn Federal Savings Bank (collectively referred to as "PennFed"). Previous to the merger, Mr. Carfora served as Chief Operating Officer of PennFed from October 2001 until April 2007 and Chief Financial Officer from December 1993 to October 2001. Mr. Carfora has nearly 37 years of experience, including 34 years in the Banking industry. Mr. Carfora has a Bachelor's degree in Accounting and a MBA in Finance, both from Fairleigh Dickinson University and is a Certified Public Accountant.



Table of Contents

Mr. Spero joined the Bank in June 2008 as Senior Vice President and Senior Commercial Lender and was named Head of Commercial Real Estate for the Bank in 2016. Mr. Spero has over 28 years of banking experience and previously served as Senior Vice President and Commercial Loan Team Leader at Lakeland Bank, a subsidiary of Lakeland Bancorp from May 2000 to May 2008. Mr. Spero is a graduate of Wagner College and attended Fairleigh Dickinson University in their MBA program.

Mr. Bilotta joined the Bank in September 2013 as director of retail banking and marketing. Mr. Bilotta has over 33 years of banking experience, most recently with Oritani Bank where he was responsible for the retail banking and marketing functions. Mr. Bilotta is a graduate of Thomas Edison State College and the Bank Administration Institute at the University of Wisconsin.

Mr. Babcock joined the Bank in March 2014 as Senior Executive Vice President and President of Private Wealth Management of Peapack-Gladstone Bank. Mr. Babcock has more than 36 years of experience in wealth management and private banking, most recently serving as managing director and the regional head of the Northeast Mid-Atlantic region for the HSBC Private Bank. Prior to HSBC, Mr. Babcock held senior level positions at U.S. Trust/Bank of America, The Bank of New York and Summit/Fleet Bank. He has a Bachelor's degree from the A. B. Freeman School of Business at Tulane University and an MBA from Fairleigh Dickinson University.

Eric H. Waser joined the bank in February 2015 as Executive Vice President and Head of Commercial Banking at Peapack-Gladstone Bank. Mr. Waser has more than 26 years of experience in financial services and private banking, most recently serving as managing director for Citibank's East Business Banking Division. Prior to Citibank, Mr. Waser held senior level positions at Mid Atlantic Corporate Banking, Sovereign Bank and Fleet Boston Financial/Nat West Bank. Mr. Waser holds a Bachelor of Science degree from Indiana University, Kelly School of Business and has taught extensively on advanced credit, sales and leadership training topics and programs.

Lisa P. Chalkan joined the bank in April 2015. Ms. Chalkan has more than 30 years of financial services experience with a concentration in risk management, credit administration, underwriting and managing of policies and procedures. Ms. Chalkan was promoted to Executive Vice President and Chief Credit Officer in April 2016. Prior to joining Peapack-Gladstone Bank in 2015, Ms. Chalkan served key roles at Capital One N.A. as Senior Vice President, Head of Commercial Policy; Director of Loan Administration/Commercial Banking; and Manager of Middle Market Underwriting/New Jersey where she was responsible for defining the credit parameters and authorities for commercial business and the build-out of a centralized credit administration team. Prior to her tenure at Capital One, Lisa held key positions at Fleet Boston Financial/Bank of America, and HSBC Bank USA/HSBC Securities, Inc. as Vice President, Underwriting Manager, in Small Business Services and Risk Review Field Manager, respectively. Ms. Chalkan holds a Bachelor of Arts Degree in Economics from Rutgers University.

Mr. Plante will be joining the bank in March 2017 as Executive Vice President and Chief Operating Officer. Mr. Plante is a seasoned executive, proficient in tactical and operational leadership within the financial services industry. From 2012 to the present, Mr. Plante served as Executive Vice President and Chief Operating Officer of Israel

Discount Bank of New York. From 2008 to 2011, Mr. Plante served as Chief Information Officer at IDB of NY. Prior to IDB of NY, Mr. Plante was Chief Information Officer for The CIT Group, a global commercial and consumer finance company. Prior to CIT, he also held senior positions with GE Capital Global Consumer Finance and with the Geary Corporation, a privately held IT consulting Company.

**Item 11.**

**EXECUTIVE COMPENSATION**

The information set forth under the captions “Executive Compensation,” “Director Compensation,” “Compensation Committee Report” and “Compensation Committee Interlocks and Insider Participation” in the 2017 Proxy Statement is incorporated herein by reference.

Table of Contents**Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS**

The following table shows information at December 31, 2016 for all equity compensation plans under which shares of our common stock may be issued:

Plan Category	Number of Securities To be Issued Upon Exercise of Outstanding Options	Weighted-Average Exercise Price of Outstanding Options	Number of Securities Remaining Available For Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column
Equity Compensation Plans Approved By Security Holders	179,159	\$16.27	1,442,381
Equity Compensation Plans Not Approved By Security Holders	N/A	N/A	N/A
Total	179,159	\$16.27	1,442,381

The information set forth under the captions “Beneficial Ownership of Common Stock” in the 2017 Proxy Statement is incorporated herein by reference.

**Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE**

The information set forth under the captions “Transactions with Related Persons, Promoters and Certain Control Persons” and “Corporate Governance” in the 2017 Proxy Statement is incorporated herein by reference.

**Item 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES**

The information set forth under the captions “Independent Registered Public Accounting Firm” and “Audit Committee Pre-approval Procedures” in the 2017 Proxy Statement is incorporated herein by reference.

Table of Contents

**PART IV**

**Item 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES**

(a) Financial Statements and Schedules:

- (1) Consolidated Financial Statements of Peapack-Gladstone Financial Corporation.
  - Report of Independent Registered Public Accounting Firm.
  - Consolidated Statements of Condition as of December 31, 2016 and 2015.
  - Consolidated Statements of Income for the years ended December 31, 2016, 2015 and 2014.
  - Consolidated Statements of Comprehensive Income for the years ended December 31, 2016, 2015 and 2014.
  - Consolidated Statements of Changes in Shareholders' Equity for the years ended December 31, 2016, 2015 and 2014.
  - Consolidated Statements of Cash Flows for the years ended December 31, 2016, 2015 and 2014.
  - Notes to Consolidated Financial Statements.

The Consolidated Financial Statements of Peapack-Gladstone Financial Corporation as set forth in Item 8 of Part II of this Form 10-K for the year ended December 31, 2016 are incorporated by reference herein.

All financial statement schedules are omitted because they are either inapplicable or not required, or because the required information is included in the Consolidated Financial Statements or notes thereto contained in this 2016 Annual Report.

(b) Exhibits

(3) Articles of Incorporation and By-Laws:

- A. Certificate of Incorporation as incorporated herein by reference to Exhibit 3 of the Registrant's Form 10-Q Quarterly Report filed on November 9, 2009 (SEC File No. 001-16197).
- B. By-Laws of the Registrant as in effect on the date of this filing are incorporated herein by reference to Exhibit 3.1 of the Registrant's Form 8-K Current Report filed on January 26, 2015.

(4) Instruments Defining the Rights of Security Holders

- A. Indenture, dated June 15, 2016, by and between the Company and U.S. Bank National Association, as Trustee, incorporated by reference to Exhibit 4.1 to the Registrant's Form 8-K Current Report filed on June 15, 2016.

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First Supplemental Indenture, dated as of June 15, 2016, by and between the Company and U.S. Bank National B. Association, as Trustee, incorporated by reference to Exhibit 4.2 to the Registrant's Form 8-K Current Report filed on June 15, 2016.

(10)Material Contracts:

A. "Directors' Retirement Plan" dated as of March 31, 2001, incorporated by reference to Exhibit 10 (J) of the Registrant's Form 10-K Annual Report for the year ended December 31, 2003 (SEC File No. 001-16197). +

B. "Directors' Deferral Plan" dated as of March 31, 2001, incorporated by reference to Exhibit 10 (K) of the Registrant's Form 10-K Annual Report for the year ended December 31, 2003 (SEC File No. 001-16197). +

C. Peapack-Gladstone Financial Corporation 1998 Stock Option Plan for Outside Directors and Peapack-Gladstone Financial Corporation 2002 Stock Option Plan for Outside Directors, each as amended and restated through December 8, 2005, are incorporated by reference to Exhibit 10.1 and Exhibit 10.2 of the Registrant's Form 8-K Current Report filed on December 14, 2005 (SEC File No. 001-16197). +

106

Table of Contents

D. Peapack-Gladstone Financial Corporation Amended and Restated 1998 Stock Option Plan and Peapack-Gladstone Financial Corporation Amended and Restated 2002 Stock Option Plan are incorporated by reference to Exhibit 10.1 and Exhibit 10.2 of the Registrant's Form 8-K Current Report filed on January 13, 2006 (SEC File No. 001-16197). +

E. Peapack-Gladstone Financial Corporation 2006 Long-Term Stock Incentive Plan is incorporated by reference to Exhibit 10 of the Registrant's Form 10-Q Quarterly Report filed on May 10, 2006 (SEC File No. 001-16197). +

F. (1) Form of Restricted Stock Agreement, (2) Form of Restricted Stock Agreement for Outside Directors, (3) Form of Time-Based/Performance-Based Restricted Stock Agreement (4) Form of Non-qualified Stock Option Agreement, (5) Form of Incentive Stock Option Agreement and (6) Form of Non-qualified Stock Option Agreement for Outside Directors under the Peapack-Gladstone Financial Corporation 2012 Long-Term Stock Incentive Plan, incorporated by reference to Exhibits 10(H)(1), 10(H)(2), 10(H)(3), 10(H)(4), 10(H)(5) and 10(H)(6) of the Registrant's Form 10-K Annual Report for the year ended December 31, 2013. +

G. (1) Form of Non-qualified Stock Option Agreement, (2) Form of Incentive Stock Option Agreement, (3) Form of Non-qualified Stock Option Agreement for Outside Directors under the Peapack-Gladstone Financial Corporation 2006 Long-Term Stock Incentive Plan incorporated by reference to Exhibit 10(I)(2), 10(I)(3) and 10(I)(4) of the Registrant's Form 10-K for the year ended December 31, 2012. +

H. Peapack-Gladstone Financial Corporation 2012 Long-Term Stock Incentive Plan, as amended and restated, incorporated by reference to Exhibit 10 of the Registrant's Form 10-Q Quarterly Report filed on November 7, 2016.+

I. "Employment Agreement" dated as of December 4, 2013, by and among the Company, the Bank and Douglas L. Kennedy incorporated by reference to Exhibit 10(L) of the Registrant's Form 10-K Annual Report for the year ended December 31, 2013. +

J. "Amended and Restated Employment Agreement" dated as of December 4, 2013, by and among the Company, the Bank and Finn M.W. Caspersen, Jr. incorporated by reference to Exhibit 10(N) of the Registrant's Form 10-K Annual Report for the year ended December 31, 2013 +

K. "Amended and Restated Employment Agreement" dated as of December 4, 2013, by and among the Company, the Bank and Jeffrey J. Carfora incorporated by reference to Exhibit 10(O) of the Registrant's Form 10-K Annual Report for the year ended December 31, 2013. +

L. "Amended and Restated Employment Agreement" dated as of December 4, 2013, by and among the Company, the Bank and Vincent A. Spero incorporated by reference to Exhibit 10(P) of the Registrant's Form 10-K Annual Report for the year ended December 31, 2013. +

M. "Employment Agreement" dated as of December 4, 2013, by and among the Company, the Bank and Anthony V. Bilotta, Jr. +\*

N. "Employment Agreement" dated as of March 10, 2014, by and among the Company, the Bank and John P. Babcock. +\*

O. "Employment Agreement" dated as of February 17, 2015, by and among the Company, the Bank and Eric H. Waser. +\*



Table of Contents

“Change in Control Agreement” dated as of December 4, 2013, by and among the Company, the Bank and Douglas L. P. Kennedy incorporated by reference to Exhibit 10(Q) of the Registrant’s Form 10-K Annual Report for the year ended December 31, 2013. +

“Amended and Restated Change in Control Agreement” dated as of December 4, 2013, by and among the Company, Q.the Bank and Finn M. W. Caspersen, Jr. incorporated by reference to Exhibit 10(R) of the Registrant’s Form 10-K Annual Report for the year ended December 31, 2013+.

“Amended and Restated Change in Control Agreement” dated as of December 4, 2013, by and among the Company, R.the Bank and Jeffrey J. Carfora incorporated by reference to Exhibit 10(S) of the Registrant’s Form 10-K Annual Report for the year ended December 31, 2013. +

“Amended and Restated Change in Control Agreement” dated as of December 4, 2013, by and among the Company, S.the Bank and Vincent A. Spero incorporated by reference to Exhibit 10(T) of the Registrant’s Form 10-K Annual Report for the year ended December 31, 2013.+

(21) List of Subsidiaries:

(a) Subsidiaries of the Company:

Name	Jurisdiction of Incorporation	Percentage of Voting
		Securities Owned by the Parent
Peapack-Gladstone Bank	New Jersey	100%

(b) Subsidiaries of the Bank:

**Name**

PGB Trust and Investments of Delaware	Delaware	100%
Peapack-Gladstone Mortgage Group	New Jersey	100%
BGP RRE Holdings, LLC	New Jersey	100%
BGP CRE Painter Farm, LLC	New Jersey	100%
BGP CRE Heritage, LLC	New Jersey	100%
BGP CRE K&P Holdings, LLC	New Jersey	100%
BGP CRE Office Property, LLC	New Jersey	100%
PG Investment Company of Delaware	Delaware	100%
Peapack-Gladstone Realty, Inc.	New Jersey	100%
Peapack-Gladstone Financial Services, Inc. (Inactive)		

(23) Consent of Independent Registered Public Accounting Firm:

(23.1) Consent of Crowe Horwath LLP\*

(24) Power of Attorney\*

(31.1) Certification of Douglas L. Kennedy, Chief Executive Officer of Peapack-Gladstone, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.\*

(31.2) Certification of Jeffrey J. Carfora, Chief Financial Officer of Peapack-Gladstone, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.\*

Certification of Douglas L. Kennedy, Chief Executive Officer of Peapack-Gladstone and Jeffrey J. Carfora, Chief  
(32) Financial Officer of Peapack-Gladstone pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906  
of the Sarbanes-Oxley Act of 2002.\*

(100) Interactive Data File\*

Table of Contents

+ Management contract and compensatory plan or arrangement.

\* Filed herewith

109

Table of Contents

**SIGNATURES**

Pursuant to the requirements of section 13 or 15(d) 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

By: /s/ Douglas L. Kennedy  
Douglas L. Kennedy

*Chief Executive Officer*

By: /s/ Jeffrey J. Carfora  
Jeffrey J. Carfora

*Senior Executive Vice President and Chief Financial Officer*

By: /s/ Francesco S. Rossi  
Francesco S. Rossi

*Senior Vice President and Chief Accounting Officer*

Dated: March 14, 2017

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

<b>Signature</b>	<b>Title</b>	<b>Date</b>
/s/ Douglas L. Kennedy Douglas L. Kennedy	Chief Executive Officer and Director	March 14, 2017
/s/ Jeffrey J. Carfora Jeffrey J. Carfora	Senior Executive Vice President and Chief Financial Officer	March 14, 2017
/s/ F. Duffield Meyercord F. Duffield Meyercord	Chairman of the Board	March 14, 2017
/s/ Finn M.W. Caspersen, Jr. Finn M. W. Caspersen, Jr.	Director, Senior Executive Vice President, General Counsel, Chief Strategy Officer	March 14, 2017
/s/ Susan A. Cole Susan A. Cole	Director	March 14, 2017

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/s/ Anthony J. Consi II Anthony J. Consi II	Director	March 14, 2017
/s/ Richard Daingerfield Richard Daingerfield	Director	March 14, 2017
/s/ Edward A. Gramigna Edward A. Gramigna	Director	March 14, 2017
/s/ John D. Kissel John D. Kissel	Director	March 14, 2017
/s/ James R. Lamb James R. Lamb	Director	March 14, 2017
/s/ Philip W. Smith III Philip W. Smith III	Director	March 14, 2017
/s/ Beth Welsh Beth Welsh	Director	March 14, 2017

110