PEAPACK GLADSTONE FINANCIAL CORP
Form 10-Q
May 09, 2016

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

FORM 10-Q

(MARK ONE)

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

For the Quarter Ended March 31, 2016

OR

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

For the transition period from to

Commission File No. 001-16197

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

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

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

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

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

Yes x No o.

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

Yes x No o.

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

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

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

Number of shares of Common Stock outstanding as of April 30, 2016:

16,324,747

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PEAPACK-GLADSTONE FINANCIAL CORPORATION

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Item 1. Financial Statements (Unaudited)

PEAPACK-GLADSTONE FINANCIAL CORPORATION

CONSOLIDATED STATEMENTS OF CONDITION

(Dollars in thousands, except share data)

	(unaudited) March 31, 2016	(audited) December 31, 2015
ASSETS		
Cash and due from banks	$ 15,872	$ 11,550
Federal funds sold	101	101
Interest-earning deposits	61,946	58,509
Total cash and cash equivalents	77,919	70,160
Securities available for sale	214,050	195,630
FHLB and FRB stock, at cost	13,254	13,984
Residential mortgage loans held for sale, at fair value	3,537	1,558
Multifamily mortgage loans held for sale, at lower of cost or fair value	38,066	82,200
Loans	3,027,701	2,913,242
Less: Allowance for loan losses	27,321	25,856
Net loans	3,000,380	2,887,386
Premises and equipment	29,609	30,246
Other real estate owned	861	563
Accrued interest receivable	7,497	6,820
Bank owned life insurance	43,101	42,885
Deferred tax assets, net	17,952	15,582
Goodwill	1,573	1,573
Other intangible assets	1,691	1,708
Other assets	16,507	14,364
TOTAL ASSETS	$ 3,465,997	$ 3,364,659
LIABILITIES		
Deposits:		
Noninterest-bearing demand deposits	$ 457,730	$ 419,887
Interest-bearing deposits:		
Interest-bearing deposits checking	905,479	861,697
Savings	119,149	115,007
Money market accounts	820,757	810,709
Certificates of deposit - Retail	446,833	434,450
Subtotal deposits	2,749,948	2,641,750

Interest-bearing demand – Brokered	200,000	200,000
Certificates of deposit - Brokered	93,630	93,720
Total deposits	3,043,578	2,935,470
Overnight borrowings with Federal Home Loan Bank	21,100	40,700
Federal Home Loan Bank advances	83,692	83,692
Capital lease obligation	10,092	10,222
Accrued expenses and other liabilities	24,030	18,899
TOTAL LIABILITIES	3,182,492	3,088,983
SHAREHOLDERS' EQUITY		
Preferred stock (no par value; authorized 500,000 shares; liquidation preference of $1,000 per share)	—	—
Common stock (no par value; stated value $0.83 per share; authorized 21,000,000 shares; issued shares, 16,735,018 at March 31, 2016 and 16,476,297 at December 31, 2015; outstanding shares, 16,326,840 at March 31, 2016 and 16,068,119 at December 31, 2015	13,932	13,717
Surplus	217,766	213,203
Treasury stock at cost, 408,178 shares at March 31, 2016 and December 31, 2015	(8,988)	(8,988)
Retained earnings	62,809	58,123
Accumulated other comprehensive loss, net of income tax	(2,014)	(379)
TOTAL SHAREHOLDERS' EQUITY	283,505	275,676
TOTAL LIABILITIES & SHAREHOLDERS' EQUITY	$3,465,997	$ 3,364,659

See accompanying notes to consolidated financial statements

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PEAPACK-GLADSTONE FINANCIAL CORPORATION

CONSOLIDATED STATEMENTS OF INCOME

(Dollars in thousands, except share data)

(Unaudited)

	Three Months Ended March 31,	
	2016	2015
INTEREST INCOME		
Interest and fees on loans	$26,753	$20,986
Interest on securities available for sale:		
Taxable	926	1,182
Tax-exempt	121	140
Interest on loans held for sale	11	10
Interest on interest-earning deposits	87	43
Total interest income	27,898	22,361
INTEREST EXPENSE		
Interest on savings and interest-bearing deposit accounts	1,160	791
Interest on certificates of deposit	1,489	663
Interest on borrowed funds	479	392
Interest on capital lease obligation	122	128
Subtotal - interest expense	3,250	1,974
Interest on interest-bearing demand – brokered	741	280
Interest on certificates of deposits – brokered	497	524
Total Interest expense	4,488	2,778
NET INTEREST INCOME BEFORE PROVISION FOR LOAN LOSSES	23,410	19,583
Provision for loan losses	1,700	1,350
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	21,710	18,233
OTHER INCOME		
Wealth management fee income	4,295	4,031
Service charges and fees	807	805
Bank owned life insurance	342	537
Gain on loans held for sale at fair value (Mortgage banking)	121	148
Gain on loans held for sale at lower of cost or fair value	124	—
Other income	473	93
Securities gains, net	101	268
Total other income	6,263	5,882
OPERATING EXPENSES		
Salaries and employee benefits	10,908	9,425
Premises and equipment	2,864	2,616
Other operating expense	5,434	3,727

Total operating expenses	19,206	15,768
INCOME BEFORE INCOME TAX EXPENSE	8,767	8,347
Income tax expense	3,278	3,339
NET INCOME	$5,489	$5,008
EARNINGS PER SHARE		
Basic	$0.35	$0.34
Diluted	$0.34	$0.33
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING		
Basic	15,858,278	14,909,722
Diluted	16,016,972	15,070,352

See accompanying notes to consolidated financial statements

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PEAPACK-GLADSTONE FINANCIAL CORPORATION

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Dollars in thousands)

(Unaudited)

	Three Months Ended March 31,	
	2016	2015
Net income	$ 5,489	$ 5,008
Other comprehensive income:		
Unrealized gains on available for sale securities:		
Unrealized holding gains arising during the period	1,106	1,232
Less: Reclassification adjustment for net gains included in net income	101	268
	1,005	964
Tax effect	(380)	(359)
Net of tax	625	605
Unrealized loss on cash flow hedges:		
Unrealized holding loss	(3,820)	(992)
Reclassification adjustment for losses included in net income	—	—
	(3,820)	(992)
Tax effect	1,560	405
Net of tax	(2,260)	(587)
Total other comprehensive (loss)/income	(1,635)	18
Total comprehensive income	$ 3,854	$ 5,026

See accompanying notes to consolidated financial statements

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PEAPACK-GLADSTONE FINANCIAL CORPORATION

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(Dollars in thousands)

(Unaudited)

Three Months Ended March 31, 2016

(In thousands, except per share data)	Common Stock	Surplus	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Loss	Total
Balance at January 1, 2016 16,068,119 common shares outstanding	$ 13,717	$ 213,203	$ (8,988)	$ 58,123	$ (379)	$ 275,676
Net income	—	—	—	5,489	—	5,489
Net change in accumulated other comprehensive income	—	—	—	—	(1,635)	(1,635)
Issuance of restricted stock, net of forfeitures, (823) shares	(1)	1	—	—	—	—
Restricted stock repurchased on vesting to pay taxes, (21,739) shares	(18)	(434)	—	—	—	(452)
Amortization of restricted stock	—	589	—	—	—	589
Cash dividends declared on common stock ($0.05 per share)	—	—	—	(803)	—	(803)
Common stock option expense	—	20	—	—	—	20
Common stock options exercised and related tax benefits,4,615 shares	4	58	—	—	—	62
Sales of shares (Dividend Reinvestment Program), 267,124 shares	222	4,163	—	—	—	4,385
Issuance of shares for Employee Stock Purchase Plan, 9,544 shares	8	166	—	—	—	174
Balance at March 31, 2016 16,326,840 common shares outstanding	$ 13,932	$ 217,766	$ (8,988)	$ 62,809	$ (2,014)	$ 283,505

See accompanying notes to consolidated financial statements

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PEAPACK-GLADSTONE FINANCIAL CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in thousands)

(Unaudited)

	Three Months Ended March 31, 2016	2015
OPERATING ACTIVITIES:		
Net income	$ 5,489	$ 5,008
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	756	798
Amortization of premium and accretion of discount on securities, net	344	499
Amortization of restricted stock	589	476
Amortization of intangible	17	—
Provision of loan losses	1,700	1,350
(Benefit)/provision for deferred taxes	(1,190)	79
Stock-based compensation, including ESPP	55	92
Gains on securities, available for sale	(101)	(268)
Loans originated for sale at fair value	(8,062)	(13,183)
Proceeds from sales of loans at fair value	6,204	9,925
Gains on loans held for sale at fair value	(121)	(148)
Net gains on loans held for sale at lower of cost or fair value	(124)	—
Losses on sale of other real estate owned	—	45
Increase in cash surrender value of life insurance, net	(216)	(162)
Increase in accrued interest receivable	(677)	(572)
(Increase)/decrease in other assets	(1,168)	1,421
Increase/(decrease) in accrued expenses, capital lease obligations and other liabilities	169	(84)
NET CASH PROVIDED BY OPERATING ACTIVITIES	3,664	5,276
INVESTING ACTIVITIES:		
Maturities of securities available for sale	12,169	24,431
Redemptions for FHLB & FRB stock	17,338	9,509
Call of securities available for sale	1,540	11,000
Sales of securities available for sale	4,194	22,386
Purchase of securities available for sale	(35,559)	(551)
Purchase of FHLB & FRB stock	(16,608)	(8,514)
Proceeds from sales of loans held for sale at lower of cost or fair value	57,436	—
Net increase in loans	(128,170)	(192,047)
Sales of other real estate owned	—	176
Purchase of premises and equipment	(119)	(608)
NET CASH USED IN INVESTING ACTIVITIES	(87,779)	(134,218)
FINANCING ACTIVITIES:		

Net increase in deposits	108,108	223,639
Net decrease in overnight borrowings se in overnight borrowings	(19,600)	(54,600)
Cash dividends paid on common stock	(803)	(757)
Exercise of Stock Options, net of stock swap	62	27
Restricted stock tax expense	(452)	(23)
Sales of shares (DRIP Program)	4,385	2,121
Purchase of shares for Profit Sharing Plan	174	151
NET CASH PROVIDED BY FINANCING ACTIVITIES	91,874	170,558
Net increase in cash and cash equivalents	7,759	41,616
Cash and cash equivalents at beginning of period	70,160	31,207
Cash and cash equivalents at end of period	$ 77,919	$ 72,823
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the year for:		
Interest	4,304	2,463
Taxes	5,800	1,850
Transfer of loans to loans held for sale	$ 13,178	$ —
Transfer of loans to other real estate owned	298	—

See accompanying notes to consolidated financial statements

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PEAPACK-GLADSTONE FINANCIAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Certain information and footnote disclosures normally included in the audited consolidated financial statements prepared in accordance with U.S. generally accepted accounting principles have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission. These unaudited consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Annual Report on Form 10-K for the period ended December 31, 2015 for Peapack-Gladstone Financial Corporation (the "Corporation" or the "Company"). In the opinion of the Management of the Corporation, the accompanying unaudited Consolidated Interim Financial Statements contain all adjustments (consisting of normal recurring accruals) necessary to present fairly the financial position as of March 31, 2016 and the results of operations, comprehensive income, and cash flows statements for the three months ended March 31, 2016 and 2015, and shareholders' equity statement for the three months ended March 31, 2016.

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

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

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

The Banking segment includes commercial, commercial real estate, multifamily, residential and consumer lending activities; deposit generation; operation of ATMs; telephone and internet banking services; merchant credit card services and customer support 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, PGB Trust & Investments of Delaware. Income is recognized as earned.

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

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.

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. Cash 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. Cash 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.

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.

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

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

Allowance for Loan Losses: The allowance for loan losses is a valuation allowance for expected 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.

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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. The multiple was 5.0 times for non-impaired substandard loans 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 events; and divorce or death. In addition, residential mortgage loans that have adjustable rates could expose the borrower to higher debt service requirements in a rising interest rate environment. Further, real estate value could drop significantly and cause the value of the property to fall below the loan amount, creating additional potential exposure for the Bank.

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

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

Multifamily and Commercial Real Estate Loans. The Bank provides mortgage loans for multifamily properties (i.e. buildings which have five or more residential units) and other commercial real estate that is either owner occupied or managed as an investment property (non-owner occupied) in the Tri-State area and Pennsylvania. Commercial real estate properties primarily include retail buildings/shopping centers, hotels, office/medical buildings and industrial/warehouse space. Some properties are considered "mixed use" as they are a combination of building types, such as a building with retail space on the ground floor and either residential apartments or office suites on the upper floors. Multifamily loans are expected to be repaid from the cash flow of the underlying property so the collective amount of rents must be sufficient to cover all operating expenses, property management and maintenance, taxes and debt service. Increases in vacancy rates, interest rates or other changes in general economic conditions can all have an impact on the borrower and its ability to repay the loan. Commercial real estate loans are generally considered to have a higher degree of credit risk than multifamily loans as they may be dependent on the ongoing success and operating viability of a fewer number of tenants who are occupying the property and who may have a greater degree of exposure to economic conditions.

Commercial and Industrial Loans. The Bank provides lines of credit and term loans to operating companies for business purposes. The loans are generally secured by business assets such as accounts receivable, inventory, business vehicles and equipment. In addition, these loans often include commercial real estate as collateral to strengthen the Bank's position and further mitigate risk. Commercial and industrial loans are typically repaid first by the cash flow generated by the borrower's business operation. The primary risk characteristics are specific to the underlying business and its ability to generate sustainable profitability and resulting positive cash flow. Factors that may influence a business's profitability include, but are not limited to, demand for its products or services, quality and depth of management, degree of competition, regulatory changes, and general economic conditions. Commercial and industrial loans are generally secured by business assets; however, the ability of the Bank to foreclose and realize sufficient value from the assets is often highly uncertain. To mitigate the risk characteristics of commercial and industrial loans, the Bank will often require more frequent reporting requirements from the borrower in order to better monitor its business performance.

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

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

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.

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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 ("stand-alone derivative"). 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 occur, gains or losses that were accumulated in other comprehensive income are amortized into earnings over the same periods which the hedged transactions will affect earnings.

Stock-Based Compensation: The Company's 2006 Long-Term Stock Incentive Plan and 2012 Long-Term Stock Incentive Plan allow the granting of shares of the Company's common stock as incentive stock options, nonqualified stock options, restricted stock awards and stock appreciation rights to directors, officers and employees of the Company and its subsidiaries. Restricted stock units are also available for grant under the 2012 Long-Term Incentive Plan. The options granted under these plans are, in general, exercisable not earlier than one year after the date of grant, at a price equal to the fair value of common stock on the date of grant, and expire not more than ten years after the date of grant. Stock options may vest during a period of up to five years after the date of grant. Some options granted

to officers at or above the senior vice president level were immediately exercisable at the date of grant. The Company has a policy of using new shares to satisfy option exercises.

For the three months ended March 31, 2016 and 2015, the Company recorded total compensation cost for stock options of $20 thousand and $65 thousand, respectively, with a recognized tax benefit of $2 thousand and $6 thousand for the quarters ended March 31, 2016 and 2015, respectively. There was approximately $166 thousand of unrecognized compensation cost related to non-vested share-based compensation arrangements granted under the Company’s stock incentive plans at March 31, 2016. That cost is expected to be recognized over a weighted average period of 0.62 years.

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For the Company's stock option plans, changes in options outstanding during the three months ended March 31, 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	(4,615)	13.39		
Expired during 2016	(12,529)	22.07		
Forfeited during 2016	(340)	15.18		
Balance, March 31, 2016	249,805	17.12	4.22 years	—
Vested and expected to vest (1)	246,030	17.20	4.22 years	—
Exercisable at March 31, 2016	235,823	17.30	4.08 years	31

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

The aggregate intrinsic value represents the total pre-tax intrinsic value (the difference between the Company's closing stock price on the last trading day of the first quarter of 2016 and the exercise price, multiplied by the number of in-the-money options). The Company's closing stock price on March 31, 2016 was $16.90.

There were no stock options granted in the three months ended March 31, 2016.

The Company has previously granted performance based and service based restricted stock awards. In the first quarter of 2016, the Company granted 185,609 restricted stock units, which are service based units that vest ratably over a one, three or five year period.

The performance based awards that were granted in previous periods, are dependent upon the Company meeting certain performance criteria and cliff vest at the end of the performance period. During the fourth quarter of 2015, the Company concluded that the performance targets would not be met and therefore, reversed approximately $592 thousand of previously recorded expense for the performance awards. Total unrecognized compensation expense for performance based awards is $1.7 million as of March 31, 2016. The Company does not expect the performance based awards to vest.

Changes in nonvested shares dependent on performance criteria for the three months ended March 31, 2016 were as follows:

Weighted

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

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Changes in service based restricted stock awards/units for the three months ended March 31, 2016 were as follows:

	Number of Shares	Weighted Average Grant Date Fair Value
Balance, January 1, 2016	321,421	$ 19.44
Granted during 2016	185,609	16.96
Vested during 2016	(91,785)	18.24
Forfeited during 2016	(823)	20.66
Balance, March 31, 2016	414,422	$ 18.59

As of March 31, 2016, there was $7.7 million of total unrecognized compensation cost related to service based awards/units. That cost is expected to be recognized over a weighted average period of 2.54 years. Stock compensation expense recorded for the first quarter of 2016 and 2015 totaled $589 thousand and $476 thousand, respectively.

Employee Stock Purchase Plan ("ESPP"): On April 22, 2014, the shareholders of the Company approved the 2014 Employee Stock Purchase Plan ("ESPP"). The ESPP provides for the granting of purchase rights of up to 150,000 shares of Peapack-Gladstone Financial Corporation common stock. Subject to certain eligibility requirements and restrictions, the ESPP allows employees to purchase shares during four three-month offering periods (each an "Offering Period"). 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 an 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 Offering Period without penalty. The fair value of each share purchase right is determined using the Black-Scholes option pricing model.

The Company recorded $35 thousand and $27 thousand of expense in salaries and employee benefits expense for the three months ended March 31, 2016 and 2015, respectively. Total shares issued under the ESPP during the first quarter of 2016 and 2015 were 9,544 and 7,888, respectively.

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

shares that would have been outstanding if all shares underlying potentially dilutive stock options were issued, and all restricted stock, stock warrants or restricted stock units were to vest during the reporting period utilizing the Treasury stock method.

	Three Months Ended March 31,	
(Dollars in thousands, except per share data)	2016	2015
Net income to shareholders	$5,489	$5,008
Basic weighted-average shares outstanding	15,858,278	14,909,722
Plus: common stock equivalents	158,694	160,630
Diluted weighted-average shares outstanding	16,016,972	15,070,352
Net income per share		
Basic	$0.35	$0.34
Diluted	0.34	0.33

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Stock options totaling 225,278 and 163,297 shares were not included in the computation of diluted earnings per share in the first quarters of 2016 and 2015, respectively, because they were considered antidilutive.

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

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

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

The Company is no longer subject to examination by the U.S. Federal tax authorities for years prior to 2012 or by New Jersey tax authorities for years prior to 2011.

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

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

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

Comprehensive Income: Comprehensive income consists of net income and the change during the period in the Company’s net unrealized gains or losses on securities available for sale and unrealized gains and losses on cash flow hedge, net of tax, less adjustments for realized gains and losses, net amortization of the unrealized loss on securities transferred to held to maturity from available for sale and accretion of the non-credit component on certain held to maturity securities with other-than-temporary impairment charges in previous periods.

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.

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

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

2. INVESTMENT SECURITIES AVAILABLE FOR SALE

A summary of amortized cost and approximate fair value of securities available for sale included in the consolidated statements of condition as of March 31, 2016 and December 31, 2015 follows:

	March 31, 2016			
(In thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. government-sponsored entities	$7,986	$ 17	$ —	$8,003
Mortgage-backed securities – residential	164,981	2,087	(81)	166,987
SBA pool securities	7,504	—	(95)	7,409
State and political subdivisions	25,904	424	(15)	26,313
Single-issuer trust preferred security	2,999	—	(641)	2,358
CRA investment	3,000	—	(20)	2,980
Total	$212,374	$ 2,528	$ (852)	$214,050

	December 31, 2015			
(In thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized 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	3,000	—	(61)	2,939
Total	$194,959	$ 1,710	$ (1,039)	$195,630

The following tables present the Corporation's available for sale securities with continuous unrealized losses and the approximate fair value of these investments as of March 31, 2016 and December 31, 2015.

	March 31, 2016					
	Duration of Unrealized Loss					
	Less Than 12 Months		12 Months or Longer		Total	
(In thousands)	Approximate Fair Value	Unrealized Losses	Approximate Fair Value	Unrealized Losses	Approximate Fair Value	Unrealized Losses
Mortgage-backed securities-residential	$10,956	$ (38)	$ 7,211	$ (43)	$18,167	$ (81)
SBA pool securities	—	—	7,409	(95)	7,409	(95)
State and political subdivisions	2,890	(15)	—	—	2,890	(15)
Single-issuer trust preferred security	—	—	2,358	(641)	2,358	(641)
CRA investment fund	—	—	2,980	(20)	2,980	(20)
Total	$13,846	$ (53)	$ 19,958	$ (799)	$33,804	$ (852)

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	December 31, 2015					
	Duration of Unrealized Loss					
	Less Than 12 Months		12 Months or Longer		Total	
	Approximate		Approximate		Approximate	
(In thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized 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)
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 are due to interest rate fluctuations and/or volatile market conditions rather than the creditworthiness of the issuers. As of March 31, 2016, the Company does not intend to sell these securities nor is it likely that it will be required to sell the securities before their anticipated recovery; therefore, none of the securities in unrealized loss position were determined to be other-than-temporarily impaired.

At March 31, 2016, the unrealized loss on the single-issuer trust preferred security of $641 thousand was related to a debt security issued by a large bank holding company that has experienced declines in all its securities due to the turmoil in the financial markets and a merger. The security was downgraded to below investment grade by Moody's and is currently rated Ba1. Management monitors the performance of the issuer on a quarterly basis to determine if there are any credit events that could result in deferral or default of the security. Management believes the depressed valuation is a result of the nature of the security, a trust preferred bond, and the bond's very low yield. As Management does not intend to sell this security nor is it likely that it will be required to sell the security before its anticipated recovery, the security is not considered other-than-temporarily impaired at March 31, 2016.

3. LOANS

Loans outstanding, excluding those held for sale, by general ledger classification, as of March 31, 2016 and December 31, 2015, consisted of the following:

(In thousands)	March 31, 2016	% of Totals Loans	December 31, 2015	% of Total Loans
Residential mortgage	$469,084	15.49%	$ 470,869	16.16%
Multifamily mortgage	1,489,708	49.20	1,416,775	48.63

Commercial mortgage	414,677	13.70	413,118	14.18
Commercial loans	554,871	18.33	512,886	17.60
Construction loans	1,392	0.05	1,401	0.05
Home equity lines of credit	53,328	1.76	52,649	1.81
Consumer loans, including fixed rate home equity loans	44,198	1.46	45,044	1.55
Other loans	443	0.01	500	0.02
Total loans	$3,027,701	100.00%	$ 2,913,242	100.00%

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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 March 31, 2016 and December 31, 2015:

(In thousands)	March 31, 2016	% of Totals Loans	December 31, 2015	% of Total Loans
Primary residential mortgage	$499,734	16.52%	$ 483,085	16.59%
Home equity lines of credit	53,481	1.77	52,804	1.81
Junior lien loan on residence	10,686	0.35	11,503	0.39
Multifamily property	1,489,708	49.22	1,416,775	48.66
Owner-occupied commercial real estate	163,495	5.40	176,276	6.05
Investment commercial real estate	587,213	19.41	568,849	19.54
Commercial and industrial	173,299	5.73	154,295	5.30
Secured by farmland/agricultural production	177	0.01	179	0.01
Commercial construction loans	150	0.01	151	0.01
Consumer and other loans	47,894	1.58	47,635	1.64
Total loans	$3,025,837	100.00%	$ 2,911,552	100.00%
Net deferred costs	1,864		1,690	
Total loans including net deferred costs	$3,027,701		$ 2,913,242	

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

	March 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 ALL
Primary residential mortgage	$10,165	$ 297	$489,569	$ 2,206	$499,734	$2,503
Home equity lines of credit	153	—	53,328	133	53,481	133
Junior lien loan on residence	171	—	10,515	13	10,686	13
Multifamily property	—	—	1,489,708	11,631	1,489,708	11,631
Owner-occupied commercial						

real estate	1,264	—	162,231	1,683	163,495	1,683
Investment commercial real estate	11,446	58	575,767	8,469	587,213	8,527
Commercial and industrial	136	136	173,163	2,555	173,299	2,691
Secured by farmland and agricultural production	—	—	177	2	177	2
Commercial construction	—	—	150	2	150	2
Consumer and Other	—	—	47,894	136	47,894	136
Total ALLL	$23,335	$ 491	$3,002,502	$ 26,830	$3,025,837	$27,321

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(In thousands)	December 31, 2015 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 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

Impaired loans include nonaccrual loans of $7.3 million at March 31, 2016 and $6.7 million at December 31, 2015. Impaired loans also include performing TDR loans of $15.8 million at March 31, 2016 and $16.2 million at December 31, 2015. At March 31, 2016, the allowance allocated to TDR loans totaled $491 thousand of which $160 thousand was allocated to nonaccrual loans. At December 31, 2015, the allowance allocated to TDR loans totaled $441 thousand of which $162 thousand was allocated to nonaccrual loans. All accruing TDR loans were paying in accordance with restructured terms as of March 31, 2016. The Company has not committed to lend additional amounts as of March 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 March 31, 2016 and December 31, 2015 (The average impaired loans on the following tables represent year to date impaired loans.):

(In thousands)	March 31, 2016 Unpaid Principal Balance	Recorded Investment	Specific Reserves	Average Impaired Loans
With no related allowance recorded:				
Primary residential mortgage	$9,766	$ 8,160	$ —	$7,217
Owner-occupied commercial real estate	1,460	1,264	—	1,270
Investment commercial real estate	10,812	10,205	—	10,224
Home equity lines of credit	354	153	—	186
Junior lien loan on residence	622	171	—	320
Total loans with no related allowance	$23,014	$ 19,953	$ —	$19,217
With related allowance recorded:				
Primary residential mortgage	$2,040	$ 2,005	$ 297	$1,671
Investment commercial real estate	1,241	1,241	58	1,246
Commercial and industrial	179	136	136	148
Total loans with related allowance	$3,460	$ 3,382	$ 491	$3,065
Total loans individually evaluated for impairment	$26,474	$ 23,335	$ 491	$22,282

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	December 31, 2015			
(In thousands)	Unpaid Principal Balance	Recorded Investment	Specific Reserves	Average Impaired Loans
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 on impaired loans for the three months ended March 31, 2016 and 2015, was not material. The Company did not recognize any income on nonaccruing impaired loans for the three months ended March 31, 2016 and 2015.

Loans held for sale, at lower of cost or fair value at March 31, 2016, represents loans (including loan participations) that the Company has the intent to sell. The Company expects sale price to approximate recorded investment. During the quarter, proceeds for sale of loans held for sale, at lower of cost or fair value totaled $57.4 million. The sale included whole loans and participations. The Company recorded gain on sale of whole loans of $124 thousand. No loans were sold at a loss.

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 March 31, 2016 and December 31, 2015:

	March 31, 2016	
(In thousands)	Nonaccrual	Loans Past Due Over 90 Days And Still Accruing Interest
Primary residential mortgage	$ 5,226	$ —
Home equity lines of credit	129	—
Junior lien loan on residence	114	—
Owner-occupied commercial real estate	1,265	—
Investment commercial real estate	408	—
Commercial and industrial	136	—
Total	$ 7,278	$ —

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(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 aging of the recorded investment in past due loans as of March 31, 2016 and December 31, 2015 by class of loans, excluding nonaccrual loans:

	March 31, 2016			
(In thousands)	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days Past Due	Total Past Due
Primary residential mortgage	$1,240	$ —	$ —	$ 1,240
Home equity lines of credit	—	145	—	145
Consumer and other	—	8	—	8
Total	$1,240	$ 153	$ —	$ 1,393

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

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 is subsequently re-evaluated annually, as follows:

- By credit underwriters for all loans $1,000,000 and over;
- Through a limited review by Portfolio Managers with the Chief Credit Officer for loans between $500,000 and $1,000,000;
- By an external independent loan review firm for all new loans over $500,000 and for existing loans of $3,500,000 and over;
- On a proportional basis by an external independent loan review firm for loans from $500,000 up to $3,499,999;
- By an external independent loan review firm for all loans with a risk rating of criticized;

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- On a random sampling basis by an external independent loan review firm for loans under $500,000;
- Whenever Management otherwise identifies a positive or negative trend or issue relating to a borrower.

The Company uses the following definitions for risk ratings:

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

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

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

Loans that are considered to be impaired are individually evaluated for potential loss and allowance adequacy. Loans not deemed impaired are collectively evaluated for potential loss and allowance adequacy. As of March 31, 2016, and based on the most recent analysis performed, the risk category of loans by class of loans is as follows:

(In thousands)	Pass	Special Mention	Substandard	Doubtful
Primary residential mortgage	$488,749	$679	$ 10,306	$ —
Home equity lines of credit	53,328	—	153	—
Junior lien loan on residence	10,515	—	171	—
Multifamily property	1,480,843	7,677	1,188	—
Owner-occupied commercial real estate	157,713	917	4,865	—
Investment commercial real estate	549,068	6,147	31,998	—
Commercial and industrial	168,128	5,035	136	—
Farmland	177	—	—	—
Commercial construction	—	150	—	—
Consumer and other loans	47,894	—	—	—
Total	$2,956,415	$20,605	$ 48,817	$ —

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As of December 31, 2015, and based on the most recent analysis performed, the risk category of loans by class of loans is as follows:

(In thousands)	Pass	Special Mention	Substandard	Doubtful
Primary residential mortgage	$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	—
Farmland	179	—	—	—
Agricultural production	—	—	—	—
Commercial construction	—	151	—	—
Consumer and other loans	47,635	—	—	—
Total	$2,847,245	$21,530	$ 42,777	$ —

At March 31, 2016, $22.1 million of substandard and special mention loans were also considered impaired compared to December 31, 2015, when $21.8 million were also impaired.

The activity in the allowance for loan losses for the three months ended March 31, 2016 is summarized below:

(In thousands)	January 1, 2016 Beginning ALLL	Charge-offs	Recoveries	Provision (Credit)	March 31, 2016 Ending ALLL
Primary residential mortgage	$ 2,297	$ (13)	$ 14	$ 205	$ 2,503
Home equity lines of credit	86	—	2	45	133
Junior lien loan on residence	66	—	17	(70)	13
Multifamily property	11,813	—	—	(182)	11,631
Owner-occupied commercial real estate	1,679	—	—	4	1,683
Investment commercial real estate	7,590	(258)	2	1,193	8,527
Commercial and industrial	2,209	(3)	4	481	2,691
Secured by farmland and agricultural production	2	—	—	—	2
Commercial construction	2	—	—	—	2
Consumer and other loans	112	(1)	1	24	136
Total ALLL	$ 25,856	$ (275)	$ 40	$ 1,700	$ 27,321

The activity in the allowance for loan losses for the three months ended March 31, 2015 is summarized below:

(In thousands)	January 1, 2015 Beginning ALLL	Charge-offs	Recoveries	Provision (Credit)	March 31, 2015 Ending ALLL
Primary residential mortgage	$ 2,923	$ (43)	$ 66	$ (632)	$ 2,314

Home equity lines of credit	156	(100)	—	41	97
Junior lien loan on residence	109	—	28	(66)	71
Multifamily property	8,983	—	—	(245)	8,738
Owner-occupied commercial real estate	1,547	—	11	789	2,347
Investment commercial real estate	4,751	—	6	1,378	6,135
Commercial and industrial	880	—	25	106	1,011
Secured by farmland and agricultural production	4	—	—	(1)	3
Commercial construction	31	—	—	(8)	23
Consumer and other loans	96	(17)	10	(12)	77
Total ALLL	$ 19,480	$ (160)	$ 146	$ 1,350	$ 20,816

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Troubled Debt Restructurings:

The Company has allocated $491 thousand and $441 thousand of specific reserves on TDRs to customers whose loan terms have been modified in TDRs as of March 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 TDRs.

During the three month period ended March 31, 2016, the terms of certain loans were modified as TDRs. The modification of the terms of such loans included one or a combination of the following: a reduction of the stated interest rate of the loan; a deferral of scheduled payments with an extension of the maturity date; or some other modification or extension which would not be readily available in the market.

The following table presents loans by class modified as TDRs that occurred during the three month period ended March 31, 2016:

(Dollars in thousands)	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Primary residential mortgage	2	$ 1,133	$ 1,133
Total	2	$ 1,133	$ 1,133

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

There were no new TDRs that occurred during the three month period ending March 31, 2015.

There were no loans that were modified as TDRs for which there was a payment default, within twelve months of modification, during the three months ended March 31, 2016 and March 31, 2015.

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. At the time a loan is restructured, the Bank performs a full re-underwriting analysis, which includes, at a minimum, obtaining current financial statements and tax returns, copies of all leases, if applicable, and an updated independent appraisal of any property. A loan will continue to accrue interest if it can be reasonably determined that the borrower should be able to perform under the modified terms, that the loan has not been chronically delinquent (both to debt service and real estate taxes) or in nonaccrual status since its inception, and that there have been no charge-offs on the loan. Restructured loans with previous charge-offs would not accrue interest at the time of the TDR. At a minimum, six months of contractual payments would need to be made on a restructured loan before a loan may be considered for return to accrual status.

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4. DEPOSITS

Certificates of deposit, excluding brokered certificates of deposit over $250,000 totaled $120.1 million and $47.4 million at March 31, 2016 and 2015, respectively.

The following table sets forth the details of total deposits as of March 31, 2016 and December 31, 2015:

	March 31, 2016		December 31, 2015	
(In thousands)	$	%	$	%
Noninterest-bearing demand deposits	$457,730	15.04 %	$419,887	14.30 %
Interest-bearing checking	905,479	29.75	861,697	29.36
Savings	119,149	3.91	115,007	3.92
Money market	820,757	26.97	810,709	27.62
Certificates of deposit	446,833	14.68	434,450	14.80
Subtotal deposits	2,749,948	90.35	2,641,750	90.00
Interest-bearing demand - Brokered	200,000	6.57	200,000	6.81
Certificates of deposit - Brokered	93,630	3.08	93,720	3.19
Total deposits	$3,043,578	100.00%	$2,935,470	100.00%

The scheduled maturities of certificates of deposit, including brokered deposits, as of March 31, 2016 are as follows:

(In thousands)	
2016	$77,568
2017	102,202
2018	181,386
2019	65,310
2020	34,426
Over 5 Years	79,571
Total	$540,463

5. FEDERAL HOME LOAN BANK ADVANCES AND OTHER BORROWINGS

Advances from the Federal Home Loan Bank of New York (“FHLB”) totaled $83.7 million at March 31, 2016 and December 31, 2015, with a weighted average interest rate of 1.78 percent.

At March 31, 2016, advances totaling $71.7 million with a weighted average interest rate of 1.57 percent have fixed maturity dates. The fixed rate advances are secured by blanket pledges of certain 1-4 family residential mortgages totaling $382.4 million and multifamily mortgages totaling $961.3 million at March 31, 2016.

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Also at March 31, 2016, the Corporation had $12.0 million in variable rate advances, with a weighted average interest rate of 3.01 percent, that are noncallable for two or three years and then callable quarterly with final maturities of ten years from the original date of the advance. All of these advances are beyond their initial noncallable periods. These advances are secured by pledges of investment securities totaling $17.6 million at March 31, 2016.

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

(In thousands)	
2016	$21,897
2017	23,897
2018	34,898
2019	3,000
2020	—
Over 5 years	—
Total	$83,692

Overnight borrowings with the Federal Home Loan Bank totaled $21.1 million with a weighted average interest rate of 0.49 percent and $40.7 million with a weighted average interest rate of 0.52 percent at March 31, 2016 and December 31, 2015, respectively.

6. BUSINESS SEGMENTS

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

Banking

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

Private Wealth Management Division

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

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The following tables present the statements of income and total assets for the Corporation's reportable segments for the three months ended March 31, 2016 and 2015.

	Three Months Ended March 31, 2016		
(In thousands)	Banking	Wealth Management Division	Total
Net interest income	$21,990	$ 1,420	$23,410
Noninterest income	1,880	4,383	6,263
Total income	23,870	5,803	29,673
Provision for loan losses	1,700	—	1,700
Salaries and benefits	8,813	2,095	10,908
Premises and equipment expense	2,637	227	2,864
Other noninterest expense	3,917	1,517	5,434
Total noninterest expense	17,067	3,839	20,906
Income before income tax expense	6,803	1,964	8,767
Income tax expense	2,514	764	3,278
Net income	$4,289	$ 1,200	$5,489
Total assets for period end	$3,415,432	$ 53,252	$3,465,997

	Three Months Ended March 31, 2015		
(In thousands)	Banking	Wealth Management Division	Total
Net interest income	$ 18,570	$ 1,013	$ 19,583
Noninterest income	1,777	4,105	5,882
Total income	20,347	5,118	25,465
Provision for loan losses	1,350	—	1,350
Salaries and benefits	7,540	1,885	9,425
Premises and equipment expense	2,385	231	2,616
Other noninterest expense	2,495	1,232	3,727
Total noninterest expense	13,770	3,348	17,118
Income before income tax expense	6,577	1,770	8,347
Income tax expense	2,651	688	3,339
Net income	$ 3,926	$ 1,082	$ 5,008
Total assets for period end	$ 2,853,133	$ 26,324	$ 2,879,457

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7. FAIR VALUE

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

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

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

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

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

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

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.

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

Assets Measured on a Recurring Basis

		Fair Value Measurements Using		
(In thousands)	March 31, 2016	Quoted Prices in Active Markets For Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Available for sale:				
U.S. government-sponsored entities	$ 8,003	$ —	$ 8,003	$ —
Mortgage-backed securities-residential	166,987	—	166,987	—
SBA pool securities	7,409	—	7,409	—
State and political subdivisions	26,313	—	26,313	—
Single-Issuer Trust Preferred	2,358	—	2,358	—
CRA investment fund	2,980	2,980	—	—
Loans held for sale, at fair value	3,537	—	3,537	—
Derivatives:				

Loan level swaps	2,185	—	2,185	—
Total	$ 219,772	$ 2,980	$ 216,792	$ —
Liabilities:				
Derivatives:				
Cash flow hedges	$ (5,151)	$ —	$ (5,151)	$ —
Loan level swaps	(2,185)	—	(2,185)	—
Total	$ (7,336)	$ —	$ (7,336)	$ —

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Assets Measured on a Recurring Basis

		Fair Value Measurements Using		
(In thousands)	December 31, 2015	Quoted Prices in Active Markets For Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Available for sale:				
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	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 Corporation has elected the fair value option for certain loans held for sale. These loans are intended for sale and the Corporation believes that the fair value is the best indicator of the resolution of these loans. Interest income is recorded based on the contractual terms of the loan and in accordance with the Corporation's policy on loans held for investment. None of these loans are 90 days or more past due nor on nonaccrual as of March 31, 2016 and December 31, 2015.

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

(In thousands)	March 31, 2016	December 31, 2015
Residential loans contractual balance	$ 3,483	$ 1,536
Fair value adjustment	54	22

Total fair value of residential loans held for sale	$ 3,537	$ 1,558

There were no transfers between Level 1 and Level 2 during the three months ended March 31, 2016.

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

Assets Measured on a Non-Recurring Basis

		Fair Value Measurements Using		
(In thousands)	March 31, 2016	Quoted Prices in Active Markets For Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant observable Unobservable Inputs (Level 3)
Assets:				
Impaired loans:				
Primary residential mortgage	$ 285	$ —	$ —	$ 285
OREO	330	—	—	330
(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 $346 thousand, with a valuation allowance of $61 thousand at March 31, 2016 and $299 thousand, with a valuation allowance of $48 thousand, at December 31, 2015.

At both March 31, 2016 and December 31, 2015, OREO at fair value represents one commercial property. The Company did not record a valuation allowance during either of the three months ended March 31, 2016 and March 31, 2015.

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

		Fair Value Measurements at March 31, 2016 using			
(In thousands)	Carrying Amount	Level 1	Level 2	Level 3	Total
Financial assets					
Cash and cash equivalents	$77,919	$77,919	$—	$—	$77,919
Securities available for sale	214,050	2,980	211,070	—	214,050
FHLB and FRB stock	13,254	—	—	—	N/A
Loans held for sale, at fair value	3,537	—	3,537	—	3,537
Loans held for sale, at lower of cost					

or fair value	38,066	—	38,066	—	38,066
Loans, net of allowance for loan losses	3,000,380	—	—	3,001,458	3,001,458
Accrued interest receivable	7,497	—	636	6,861	7,497
Loan level swap derivatives	2,185	—	2,185	—	2,185
Financial liabilities					
Deposits	$3,043,578	$2,503,115	$545,024	$—	$3,048,139
Overnight borrowings	21,100	—	21,100	—	21,100
Federal home loan bank advances	83,692	—	84,862	—	84,862
Accrued interest payable	1,019	128	891	—	1,019
Cash flow hedge derivatives	5,151	—	5,151	—	5,151
Loan level swap derivatives	2,185	—	2,185	—	2,185

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

		Fair Value Measurements at December 31, 2015 using			
(In thousands)	Carrying Amount	Level 1	Level 2	Level 3	Total
Financial assets					
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
Financial liabilities					
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 certificates of deposit approximate the fair values at the reporting date resulting in Level 2 classification. Fair values for fixed rate certificates of deposit are estimated using a discounted cash flow calculation that applies interest rates currently being offered on certificates to a schedule of aggregated expected monthly maturities on time deposits resulting in a Level 2 classification.

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

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

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

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

8. OTHER OPERATING EXPENSES

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

	Three Months Ended March 31,	
(In thousands)	2016	2015
FDIC assessment	$ 1,559	$ 482
Wealth management division other expense	622	621
Professional and legal fees	986	768
Other operating expenses	2,267	1,856
Total other operating expenses	$ 5,434	$ 3,727

9. ACCUMULATED OTHER COMPREHENSIVE (LOSS)/INCOME

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

(In thousands)	Balance at January 1, 2016	Other Comprehensive Income/(Loss) Before Reclassifications	Amount Reclassified From Accumulated Other Comprehensive (Income)	Other Comprehensive Income/(Loss) Three Months Ended March 31, 2016	Balance at March 31, 2016
Net unrealized holding gain					

on securities available for sale, net of tax	$ 408	$ 688	$ (63)	$ 625	$ 1,033
Losses on cash flow hedges	(787)	(2,260)	—	(2,260)	(3,047)
Accumulated other comprehensive income/(loss), net of tax	$ (379)	$ (1,572)	$ (63)	$ (1,635)	$ (2,014)

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(In thousands)	Balance at January 1, 2015	Other Comprehensive Income/(Loss) Before Reclassifications	Amount Reclassified From Accumulated Other Comprehensive (Income)	Other Comprehensive Income/(Loss) Three Months Ended March 31, 2015	Balance at March 31, 2015
Net unrealized holding gain on securities available for sale, net of tax	$ 1,321	$ 779	$ (174)	$ 605	$ 1,926
Losses on cash flow hedges	(100)	(587)	—	(587)	(687)
Accumulated other comprehensive income, net of tax	$ 1,221	$ 192	$ (174)	$ 18	$ 1,239

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

	Three Months Ended March 31,		
(In thousands)	2016	2015	Affected Line Item in Income
Unrealized gains on securities available for sale:			
Realized net gain on securities sales	$ 101	$ 268	Securities gains, net
Income tax expense	(38)	(94)	Income tax expense
Total reclassifications, net of tax	$ 63	$ 174	

10. DERIVATIVES

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

Interest Rate Swaps Designated as Cash Flow Hedges: Interest rate swaps with a notional amount of $180 million as of March 31, 2016 and December 31, 2015, were designated as cash flow hedges of certain interest-bearing demand brokered deposits and were determined to be fully effective during the quarter ended March 31, 2016. As such, no amount of ineffectiveness has been included in net income. Therefore, the aggregate fair value of the swaps is recorded in other assets/liabilities with changes in fair value recorded in other comprehensive income. The amount included in accumulated other comprehensive income would be reclassified to current earnings should the hedges no longer be considered effective. The Company expects the hedges to remain fully effective during the remaining terms of the swaps.

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

(Dollars in thousands)	March 31, 2016		December 31, 2015	
Notional amount	$ 180,000		$ 180,000	
Weighted average pay rate	1.64	%	1.64	%
Weighted average receive rate	0.51	%	0.29	%
Weighted average maturity	4.00	years	4.25	years
Unrealized loss	$ (5,151	)	$ (1,331	)
Number of contracts	9		9	

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Net interest expense recorded on these swap transactions totaled $504 thousand and $95 thousand for the three months ended March 31, 2016 and 2015, respectively, and is reported as a component of interest expense.

Cash Flow Hedges

The following table presents the net losses recorded in accumulated other comprehensive (loss)/income and the consolidated financial statements relating to the cash flow derivative instruments for the three months ended March 31, 2016 (after tax):

(In thousands)	Amount of Gain/(Loss) Recognized In OCI (Effective Portion)	Amount of Gain/(Loss) Reclassified From OCI to Interest Expense	Amount of Gain/(Loss) Recognized in Other Non-Interest Expense (Ineffective Portion)
Interest rate contracts	$ (2,260)	$ —	$ —

The following table presents the net losses recorded in accumulated other comprehensive (loss)/income and the consolidated financial statements relating to the cash flow derivative instruments for the three months ended March 31, 2015:

(In thousands)	Amount of Gain/(Loss) Recognized In OCI (Effective Portion)	Amount of Gain/(Loss) Reclassified From OCI to Interest Expense	Amount of Gain/(Loss) Recognized in Other Non-Interest Expense (Ineffective Portion)
Interest rate contracts	$ (587)	$ —	$ —

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

	March 31, 2016	
(In thousands)	Notional Amount	Fair Value
Interest rate swaps related to interest-bearing demand brokered deposits	$180,000	$(5,151)
Total included in other assets	$—	$—
Total included in other liabilities	$180,000	$(5,151)

	December 31, 2015	
	Notional	Fair

(In thousands)	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)

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Derivatives Not Designated as Accounting Hedges: Beginning in 2015, the Company offered facility specific/loan level swaps to its customers and offsets its exposure from such contracts by entering into mirror image swaps with a financial institution / swap counterparty (loan level / back to back swap program). The customer accommodations and any offsetting swaps are treated as non-hedging derivative instruments which do not qualify for hedge accounting ("standalone derivatives"). The notional amount of the swaps does not represent amounts exchanged by the parties. The amount exchanged is determined by reference to the notional amount and the other terms of the individual contracts. The fair value of the swaps is recorded as both an asset and a liability, in other assets and other liabilities, respectively, in equal amounts for these transactions.

Information about these swaps is as follows:

(Dollars in thousands)	March 31, 2016		December 31, 2015	
Notional amount	$ 34,696		$ 27,259	
Fair value	$ 2,185		$ 1,106	
Weighted average pay rates	3.25	%	3.06	%
Weighted average receive rates	1.84	%	1.44	%
Weighted average maturity	14.4	years	15.8	years

11. RECENT ACCOUNTING PRONOUNCEMENTS

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

In January 2016, the FASB amended 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 amended existing guidance to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information

about leasing arrangements. These amendments are effective for public business entities for annual periods and interim periods within those annual periods beginning after December 15, 2018. The Company is evaluating the impact of these amendments on its consolidated financial statements.

In March 2016, the FASB amended existing guidance to simplify aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. These amendments are effective for public business entities for annual periods and interim periods within those annual periods beginning after December 15, 2016. The Company is evaluating the impact of these amendments on its consolidated financial statements.

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Item 2

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

AND RESULTS OF OPERATIONS

GENERAL: This Quarterly Report on Form 10-Q, both in the following discussion and analysis and elsewhere contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements are not historical facts and include expressions about Management's view of future interest income and net loans, Management's confidence and strategies and Management's expectations about new and existing programs and products, relationships, opportunities and market conditions. These statements may be identified by such forward-looking terminology as "expect", "look", "believe", "anticipate", "may", "will", or similar statements or variations of s terms. Actual results may differ materially from such forward-looking statements. Factors that may cause actual results to differ materially from those contemplated by such forward-looking statements include, among others, those risk factors identified in the Company's Form 10-K for the year ended December 31, 2015, in addition to/which include the following:

- inability to successfully grow our business and implement our strategic plan, including an inability to generate revenues to offset the increased personnel and other costs related to the strategic plan;
- the impact of anticipated higher operating expenses in 2016 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;
- 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.

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

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, 2015, contains a summary of the Company's significant accounting policies.

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

The provision for loan losses is based upon Management's evaluation of the adequacy of the allowance, including an assessment of known and inherent risks in the portfolio, giving consideration to the size and composition of the loan portfolio, actual loan loss experience, level of delinquencies, detailed analysis of individual loans for which full collectability may not be assured, the existence and estimated fair value of any underlying collateral and guarantees securing the loans, and current economic and market conditions. Although Management uses the best information available, the level of the allowance for loan losses remains an estimate, which is subject to significant judgment and short-term change. Various regulatory agencies, as an integral part of their examination process, periodically review the Company's allowance for loan losses. Such agencies may require the Company to make additional provisions for loan losses based upon information available to them at the time of their examination. Furthermore, the majority of the Company's loans are secured by real estate in the State of New Jersey and to a lesser extent New York City. Accordingly, the collectability of a substantial portion of the carrying value of the Company's loan portfolio is susceptible to changes in local market conditions and any adverse economic conditions. Future adjustments to the provision for loan losses and allowance for loan losses may be necessary due to economic, operating, regulatory and other conditions beyond the Company's control.

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

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

factors, which is recognized in other comprehensive income. The credit loss is defined as the difference between the present value of the cash flows expected to be collected and the amortized cost basis. No impairment charges were recognized in the three months ended March 31, 2016 and 2015. For equity securities, the entire amount of impairment is recognized through earnings.

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EXECUTIVE SUMMARY: The following table presents certain key aspects of our performance for the three months ended March 31, 2016 and 2015.

	Three Months Ended March 31,		Change
(Dollars in thousands, except per share data)	2016(A)	2015	2016 vs 2015
Results of Operations:			
Net interest income	$ 23,410	$ 19,583	$ 3,827
Provision for loan losses	1,700	1,350	350
Net interest income after provision for loan losses	21,710	18,233	3,477
Other income	6,263	5,882	381
Operating expense	19,206	15,768	3,438
Income before income tax expense	8,767	8,347	420
Income tax expense	3,278	3,339	(61)
Net income	$ 5,489	$ 5,008	$ 481
Total revenue (Net interest income plus other income)	$ 29,673	$ 25,465	$ 4,208
Diluted earnings per share	$ 0.34	$ 0.33	$ 0.01
Diluted average shares outstanding	16,016,972	15,070,352	946,620
Return on average assets annualized (ROAA)	0.64 %	0.71 %	(0.07)
Return on average equity annualized (ROAE)	7.83	8.13	(0.30)

(A) The quarter ended March 31, 2016 included $1.30 million of pre-tax charges related to increased FDIC premiums and increased investment in risk management related analytics and practices. These charges reduced pretax income by $1.30 million, net income by $814 thousand, diluted earnings per share by $0.05 per share, ROAA by 0.09%, and ROAE by 1.16%.

	March 31, 2016	December 31, 2015	Change 2016 vs 2015
Selected Balance Sheet Ratios:			
Total capital (Tier I + II) to risk-weighted assets	11.57 %	11.40 %	0.17 %
Tier I leverage ratio	8.19	8.10	0.09
Loans to deposits	99.48	99.24	0.24
Allowance for loan losses to total loans	0.90	0.86	0.04
Allowance for loan losses to nonperforming loans	375.39	383.22	(7.83)

Nonperforming loans to total loans	0.24	0.23	0.01

For the first quarter of 2016, the Company recorded net income of $5.5 million compared to $5.0 million for the same quarter of 2015. For the three months ended March 31, 2016 and 2015, diluted earnings per share were $0.34 and $0.33, respectively. Annualized return on average assets was 0.64 percent and annualized return on average equity was 7.83 percent for the first quarter of 2016, compared to 0.71 percent and 8.13 percent, respectively, for the first quarter of 2015.

CONTRACTUAL OBLIGATIONS: For a discussion of our contractual obligations, see the information set forth in the Corporation's Annual Report on Form 10-K for the year ended December 31, 2015 under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations – Contractual Obligations" which is incorporated herein by reference.

OFF-BALANCE SHEET ARRANGEMENTS: For a discussion of our off-balance sheet arrangements, see the information set forth in the Corporation's Annual Report on Form 10-K for the year ended December 31, 2015 under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations – Off-Balance Sheet Arrangements" which is incorporated herein by reference.

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EARNINGS ANALYSIS

NET INTEREST INCOME/AVERAGE BALANCE SHEET:

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

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

	Three Months Ended March 31,			
(Dollars in thousands)	2016		2015	
Net interest income	$ 23,410		$ 19,583	
Interest rate spread	2.69	%	2.78	%
Net interest margin	2.82		2.88	

Net interest income, on a fully tax-equivalent basis, for the three months ended March 31, 2016, grew $3.9 million, or 20 percent from the three months ended March 31, 2015, due to increased earning assets. Net interest spread and margin for the three months ended March 31, 2016 declined when compared to the same 2015 periods partially due to the continuing effect of low market yields, as well as competitive pressures in attracting new loans and deposits. Net interest income for the three months ended March 31, 2016 was benefitted by significant loan growth during 2015. The Company expects continued loan growth in this lower market rate and competitive environment.

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

	For the Three Months Ended	
	March 31,	March 31,
(In thousands)	2016	2015
Residential mortgage loans retained	$ 17,747	$ 16,986
Residential mortgage loans sold	8,062	8,938
Total residential mortgage loans	25,809	25,924
Commercial real estate loans	9,339	57,787
Multifamily properties	108,035	209,034
Commercial loans (A)	67,488	40,696
SBA	1,055	—
Wealth Lines of Credit (A)	1,800	10,260
Total commercial loans	187,717	317,777
Installment loans	486	344
Home equity lines of credit (A)	3,604	3,377
Total loans closed	$ 217,616	$ 347,442

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

As the Company explained over the last several quarters, the Company anticipated multifamily loan originations (and growth) would be less than past quarters, as it manages its balance sheet such that multifamily loans decline as a percentage of the overall loan portfolio and commercial loans become a larger percentage of the overall loan portfolio. This balance sheet management, however, will likely not be linear each quarter, but will rather be apparent over periods of time.

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

Average Balance Sheet

Unaudited

Three Months Ended

(Dollars in thousands)	March 31, 2016 Average Balance	Income/ Expense	Yield	March 31, 2015 Average Balance	Income/ Expense	Yield
ASSETS:						
Interest-earning assets:						
Investments:						
Taxable (1)	$199,579	$926	1.86 %	$273,946	$1,182	1.73 %
Tax-exempt (1) (2)	24,044	200	3.33	37,631	231	2.46
Loans held for sale	1,042	11	4.22	774	10	5.10
Loans (2) (3):						
Mortgages	465,860	3,807	3.27	465,722	3,785	3.25
Commercial mortgages	1,959,721	17,170	3.50	1,459,872	13,589	3.72
Commercial	525,896	5,100	3.88	316,109	2,897	3.67
Commercial construction	1,395	14	4.01	5,930	62	4.18
Installment	44,906	335	2.98	27,791	252	3.63
Home equity	53,056	440	3.32	50,660	405	3.20
Other	486	12	9.88	530	12	9.06
Total loans	3,051,320	26,878	3.52	2,326,614	21,002	3.61
Federal funds sold	101	—	0.23	101	—	0.10
Interest-earning deposits	77,903	87	0.45	91,657	43	0.18
Total interest-earning assets	3,353,989	28,102	3.35 %	2,730,723	22,468	3.29 %
Noninterest-earning assets:						
Cash and due from banks	15,603			6,804		
Allowance for loan losses	(26,582)			(20,056)		
Premises and equipment	30,000			32,256		
Other assets	83,632			63,868		
Total noninterest-earning assets	102,653			82,872		
Total assets	$3,456,642			$2,813,595		
LIABILITIES:						
Interest-bearing deposits:						
Checking	$882,497	$571	0.26 %	$630,557	$314	0.20 %
Money markets	819,818	573	0.28	710,590	463	0.26
Savings	116,560	16	0.05	113,435	14	0.05
Certificates of deposit - retail	442,563	1,489	1.35	247,860	663	1.07
Subtotal interest-bearing deposits	2,261,438	2,649	0.47	1,702,442	1,454	0.34
Interest-bearing demand - brokered	200,000	741	1.48	240,500	280	0.47
Certificates of deposit - brokered	93,674	497	2.12	126,404	524	1.66
Total interest-bearing deposits	2,555,112	3,887	0.61	2,069,346	2,258	0.44

Borrowings	155,274	479	1.23	109,639	392	1.43
Capital lease obligation	10,140	122	4.81	10,635	128	4.81
Total interest-bearing liabilities	2,720,526	4,488	0.66 %	2,189,620	2,778	0.51 %
Noninterest-bearing liabilities:						
Demand deposits	435,770			366,919		
Accrued expenses and other liabilities	19,898			10,752		
Total noninterest-bearing liabilities	455,668			377,671		
Shareholders' equity	280,448			246,304		
Total liabilities and shareholders' equity	$3,456,642			$2,813,595		
Net interest income (tax-equivalent basis)		23,614			19,690	
Net interest spread			2.69 %			2.78 %
Net interest margin (4)			2.82 %			2.88 %
Tax equivalent adjustment		(204)			(107)	
Net interest income		$23,410			$19,583	

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

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

	Three Months Ended March 31, 2016 Difference due to Change In:		Three Months Ended March 31, 2015 Change In Income/
(In Thousands):	Volume	Rate	Expense
ASSETS:			
Investments	$ (386)	$ 99	$ (287)
Loans	6,560	(684)	5,876
Loans held for sale	3	(2)	1
Federal funds sold	—	—	—
Interest-earning deposits	(7)	51	44
Total interest income	$ 6,170	$ (536)	$ 5,634
LIABILITIES:			
Interest-bearing checking	$ 174	$ (12)	$ 162
Money market	89	21	110
Savings	—	2	2
Certificates of deposit - retail	627	199	826
Certificates of deposit - brokered	(154)	127	(27)
Interest bearing demand brokered	(31)	587	556
Borrowed funds	67	20	87
Capital lease obligation	(6)	—	(6)
Total interest expense	$ 766	$ 944	$ 1,710
Net interest income	$ 5,404	$ (1,480)	$ 3,924

Interest income on earning assets, on a fully tax-equivalent basis, totaled $28.1 million for the first quarter of 2016 compared to $22.5 million for the same quarter of 2015, reflecting an increase of $5.6 million or 25 percent from the first quarter in 2015. Average earning assets totaled $3.35 billion for the first quarter of 2016, an increase of $623.3 million or 23 percent from the same period of 2015. The average commercial loan portfolio increased $209.8 million or 66 percent from the first quarter of 2015, averaging $525.9 million for the first quarter of 2016. The average commercial mortgage portfolio (which includes multifamily mortgage loans) increased $499.8 million to $1.96 billion for the first quarter of 2016 when compared to the same period in 2015. The increase was attributable to the addition of seasoned banking professionals over the course of 2015; a more concerted focus on the client service aspect of the lending process; and more of a focus on New York City markets. The increase was also due to demand from borrowers looking to refinance multifamily mortgages held by other institutions. Multifamily lending will remain a focus of the Company, however, it is anticipated that multifamily loan growth will be less robust than in 2015.

For the quarters ended March 31, 2016 and 2015, the average rates earned on earning assets was 3.35 percent and 3.29 percent, respectively, an increase of 6 basis points. The increased overall yield was due to growth in commercial loans at higher yields than the existing portfolio, as well as certain cash flows from the investment portfolio and interest-earning deposits being invested in higher yielding loans.

For the first quarter of 2016, total interest-bearing deposits averaged $2.56 billion, increasing $486 million or 23 percent from the average balance for the same period of 2015. The growth in customer deposits (excluding brokered CDs and brokered interest-bearing demand, but including reciprocal funds discussed in Footnote 4 and below) has come from the addition of seasoned banking professionals over the course of 2015 and into 2016; an intense focus on providing high-touch client service; and a full array of treasury management products that support core deposit growth.

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Average rates paid on total interest-bearing deposits were 61 basis points and 44 basis points for the first quarters of 2016 and 2015, respectively. The increase in the average rate paid on deposits was principally due to growth in higher costing certificates of deposit partially to help manage the Company's interest rate risk position, as well as competitive pressures in attracting new deposits in volumes sufficient to appropriately fund asset growth.

For the first quarters of 2016 and 2015, average borrowings totaled $155.3 million and $109.6 million, respectively, increasing $45.6 million when compared to the same period of 2015. The increase was due to periodic increased short-term borrowings to fund loan growth ahead of deposit growth.

The Company is a participant in the Reich & Tang Demand Deposit Marketplace ("DDM") program. The Company uses these deposit sweep services to place customer funds into interest-bearing demand (checking) accounts issued by other participating banks. Customer funds are placed at one or more participating banks to ensure that each deposit customer is eligible for the full amount of FDIC insurance. As a program participant, the Company receives reciprocal amounts of deposits from other participating banks. The DDM program is considered to be a source of brokered deposits for bank regulatory purposes. However, the Company considers these reciprocal deposit balances to be in-market customer deposits as distinguished from traditional out-of-market brokered deposits. Such reciprocal deposit balances are included in the Company's interest-bearing checking balances. Reciprocal balances averaged $441.3 million for the March 31, 2016 quarter and $220.3 million for March 31, 2015 quarter.

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

	Three Months Ended March 31,		Change
(In thousands)	2016	2015	2016 vs 2015
Service charges and fees	$ 807	$ 805	$ 2
Gain on sale of loans (mortgage banking)	121	148	(27)
Gain on sale of loans, at lower of cost or fair value	124	—	124
Bank owned life insurance	342	537	(195)
Securities gains	101	268	(167)
Other income	473	93	380
Total other income	$ 1,968	$ 1,851	$ 117

Service charges and fees for the three months ended March 31, 2016 were basically flat compared to the same period last year, partially due to increases in income from debit card usage, as well as account analysis fees, offset by declines in overdraft/NSF.

For the three months ended March 31, 2016, income from the sale of newly originated residential mortgage loans was $121 thousand compared to $148 thousand the same prior year period. The volume of loans originated for sale in the first quarter of 2016 was lower compared to the same period in 2015.

For the three months ended March 31, 2016, the Company recorded $342 thousand of bank owned life insurance (BOLI) income as compared to $537 thousand for the same three months in 2015. The three months ended March 31, 2015 included $285 thousand additional income related to a net life insurance death benefit under its BOLI policies. BOLI income in the first quarter of 2016 benefitted from the increase of the BOLI policy by $10 million which occurred in the fourth quarter of 2015.

Securities gains were $101 thousand for the March 2016 quarter compared to $268 thousand for the same 2015 quarter. 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.

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Gain on sale of multifamily loans held for sale at lower of cost or fair value was $124 thousand. During the first quarter of 2016, the Company began selling whole multifamily loans. The Company will continue to employ this strategy to manage the Company's balance sheet.

Other income was $473 thousand for the March 2016 quarter compared to $93 thousand for the March 2015 quarter. The three months ended March 2016 included $94 thousand of fee income related to the Company's loan level / back-to-back swap program, which was implemented during mid-2015. The program utilizes mirror interest rate swaps, one directly with the 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, these programs are a part of ongoing operations. Other improvements in other income in the March 2016 quarter included greater loan servicing fees due principally to continued multifamily loan participations, and higher unused line of credit fees associated with the Commercial & Industrial lending business.

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

	Three Months Ended March 31,		Change
(In thousands)	2016	2015	2016 vs 2015
Salaries and employee benefits	$ 10,908	$ 9,425	$ 1,483
Premises and equipment	2,864	2,616	248
Other Operating Expenses:			
FDIC assessment	1,559	482	1,077
Wealth management division other expense	622	621	1
Professional and legal fees	986	768	218
Loan expense	112	113	(1)
Telephone	238	223	15
Advertising	144	148	(4)
Postage	107	104	3
Amortization of intangibles	31	—	31
Other	1,635	1,268	367
Total operating expenses	$ 19,206	$ 15,768	$ 3,438

The Company's total operating expenses were $19.2 million for the quarter ended March 31, 2016 compared to $15.8 million in the same 2015 quarter, reflecting a net increase of $3.4 million or 22 percent. Salary and benefits expense increased to $10.9 million in the first quarter of 2016 from $9.4 million in the same period in 2015, an increase of $1.5 million or 16 percent. Strategic hiring that was in line with the Company's Plan, the acquisition of Wealth Management Consultants in the second quarter of 2015, normal salary increases and increased bonus/incentive accruals associated with the Company's growth, all contributed to the increase from the March 2015 quarter to the March 2016 quarter.

Premises and equipment expense totaled $2.9 million for the quarter ended March 31, 2016 compared to $2.6 million in the same quarter of 2015, increasing $248 million or 10 percent. The increases were consistent with the Company’s continued growth, as well as certain investment in risk management related analytics and practices.

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During the first quarter of 2016, other operating expenses included increased FDIC premiums and increased investment in risk management related analytics and practices, as was expected and previously disclosed. For the three months ended March 31, 2016, FDIC insurance expense was $1.56 million compared to $482 thousand for the three months ended March 31, 2015, increasing $1.1 million. The Company incurred an increased FDIC premium accrual of approximately $950 thousand in the first quarter of 2016. The quarter ended March 31, 2016 included approximately $675 thousand of additional risk management related expenses, of which approximately $350 thousand are one time charges.

Expense increases were generally planned and expected. Last quarter the Company disclosed that given its significant growth and high concentration in multifamily lending, Management had decided to accelerate approximately $2.0 million of costs over 2016 to ensure it adhered to best in class risk management practices. The Company had originally planned for such expenditures over the next 24 to 30 months, but felt it prudent to pull them forward. The Company had also previously disclosed the additional FDIC premiums. The first quarter of 2016 expenses related to these were in line with that guidance.

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

The following table presents certain key aspects of the Bank’s Private Wealth Management Division performance for the quarters ended March 31, 2016 and 2015.

	Three Months Ended March 31,		Change
(In thousands)	2016 (2)	2015	2016 v 2015
Total fee income	$ 4,295	$ 4,031	$ 264
Salaries and benefits (1)	2,095	1,885	210
Other operating expense (1)	1,744	1,463	281
Assets under administration (market value)	$ 3,307,799	$ 3,053,110	$ 254,689

(1) Expenses are included in the Operating Expenses discussion above.

(2) 2016 results include the income and expenses of the Wealth Management Consultants Division, which was acquired in May 2015.

In the March 2016 quarter, the Private Wealth Management Division generated $4.3 million in fee income compared to $4.0 million for the March 2015 quarter, reflecting a 7 percent increase. The market value of the assets under administration (AUA) of the wealth management division was $3.31 billion at March 31, 2016, up approximately 8 percent from $3.05 billion at March 31, 2015. The growth in fee income and AUA was due to the combination of the acquisition of a wealth management company in early May 2015, continued healthy new business results, higher yields on new business as compared to lost/closed business and the conversion of lower fee custody relationships to higher fee advisory relationships. These increases were partially offset by the effect of the broader market declines in the second half of 2015, as well as the first quarter of 2016, which negatively impacted investment fee revenue.

The Company continues to incorporate wealth into every conversation it has with all of the Company’s clients, across all 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.

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While the “Operating Expenses” section above offers an overall discussion of the Corporation’s expenses including the Private Wealth Management Division, operating expenses relative to the Private Wealth Management Division totaled $3.8 million and $3.3 million for the first quarters of 2016 and 2015, respectively, an increase of $491 thousand, or 15 percent. Increased expenses in 2016 include the expenses of the Wealth Management Consultants Division, 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.

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

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

	As of March 31, 2016	December 31, 2015	September 30, 2015	June 30, 2015	March 31, 2015
Loans past due over 90 days and still accruing	$—	$ —	$ —	$—	$ —
Nonaccrual loans	7,278	6,747	7,615	7,111	6,335
Other real estate owned	861	563	330	956	1,103
Total nonperforming assets	$8,139	$ 7,310	$ 7,945	$8,067	$ 7,438
Performing TDRs	$16,033	$ 16,045	$ 14,609	$13,695	$ 13,561
Loans past due 30 through 89 days and still accruing	$1,393	$ 2,143	$ 2,748	$1,744	$ 2,481
Classified loans	$48,817	$ 42,777	$ 41,985	$38,676	$ 38,450
Impaired loans	$23,335	$ 23,107	$ 22,224	$20,806	$ 19,896
Nonperforming loans as a % of total loans	0.24 %	0.23 %	0.27 %	0.26 %	0.26 %
Nonperforming assets as a % of total assets	0.23 %	0.22 %	0.24 %	0.26 %	0.26 %
Nonperforming assets as a % of total loans plus other real estate owned	0.27 %	0.25 %	0.28 %	0.29 %	0.30 %

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

PROVISION FOR LOAN LOSSES: The provision for loan losses was $1.7 million for the first quarter of 2016 and $1.35 million for the same quarter of 2015. The amount of the loan loss provision and the level of the allowance for loan losses are based upon a number of factors including Management’s evaluation of probable losses inherent in the portfolio, after consideration of appraised collateral values, financial condition and past credit history of the borrowers as well as prevailing economic conditions. Commercial credits carry a higher risk profile, which is reflected in Management’s determination of the proper level of the allowance for loan losses.

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The provision for loan losses of $1.7 million in the first quarter of 2016 was primarily related to loan growth experienced by the Company, as well as greater qualitative factor allocations of the allowance to commercial and commercial real estate loans. Originations of commercial and commercial real estate loans have increased and these loans have historically carried a higher general reserve allocation than multifamily loans. In the first quarter of 2016, Management reevaluated the qualitative factors for these loan types and as a result of the evaluation, increased the allocations. In addition, the multifamily portfolio is more seasoned and the Company has reduced concentration risk by participating out more multifamily loans.

The overall allowance for loan losses was $27.3 million as of March 31, 2016 compared to $25.9 million at December 31, 2015. As a percentage of loans, the allowance for loan losses was 0.90 percent as of March 31, 2016 and 0.89 percent as of December 31, 2015. The specific reserves on impaired loans have increased very slightly to $491 thousand at March 31, 2016 compared to $489 thousand as of December 31, 2015. Total impaired loans were $23.3 million and $23.1 million as of March 31, 2016 and December 31, 2015, respectively. The general component of the allowance increased from $25.4 million at December 31, 2015 to $26.8 million at March 31, 2016, due principally to the loan growth and the greater qualitative factor allocations referenced previously.

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

(In thousands)	March 31, 2016	December 31, 2015	September 30, 2015	June 30, 2015	March 31, 2015
Allowance for loan losses:					
Beginning of period	$ 25,856	$ 24,374	$ 22,969	$ 20,816	$ 19,480
Provision for loan losses	1,700	1,950	1,600	2,200	1,350
Charge-offs, net	(235)	(468)	(195)	(47)	(14)
End of period	$ 27,321	$ 25,856	$ 24,374	$ 22,969	$ 20,816
Allowance for loan losses as a % of total loans	0.90 %	0.89 %	0.85 %	0.84 %	0.85 %
Allowance for loan losses as a % of nonperforming loans	375.39 %	383.22 %	320.08 %	323.01 %	328.59 %

INCOME TAXES: For the first quarter of 2016 and 2015 income tax expense as a percentage of pre-tax income was 37.4 and 40.0 percent, respectively. The lower effective tax for the quarter ended March 31, 2016 was a result of higher tax exempt income along with the Company implementing a state tax planning strategy during the fourth quarter of 2015.

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. The Company strives to maintain capital levels in excess of those considered to be well capitalized under regulatory guidelines

applicable to banks. Maintaining an adequate capital position supports the Company's goal of providing shareholders an attractive and stable long-term return on investment.

Capital for the quarter ended March 31, 2016 was benefitted by net income of $5.5 million and by $4.4 million of voluntary share purchases by our shareholder under the Dividend Reinvestment Plan.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios of Total, Common Equity Tier 1 and Tier 1 capital (each as defined in the regulations) to risk-weighted assets (as defined), and of Tier I capital (as defined) to average assets (as defined). At March 31, 2016 and 2015, all of the Bank's capital ratios remain above the levels required to be considered "well capitalized" and the Company's capital ratios remain above regulatory requirements.

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

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

	Actual		To Be Well Capitalized Under Prompt Corrective Action Provisions		For Capital Adequacy Purposes		For Capital Adequacy Purposes Including Capital Conservation Buffer (A)	
(Dollars in thousands)	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of March 31, 2016:								
Total capital (to risk-weighted assets)	$308,292	11.50%	$267,988	10.00%	$214,391	8.00%	$ 231,140	8.625 %
Tier I capital (to risk-weighted assets)	280,971	10.48	214,391	8.00	160,793	6.00	177,542	6.625
Common equity tier I (to risk-weighted assets)	280,968	10.48	174,192	6.50	120,595	4.50	137,344	5.125
Tier I capital (to average assets)	280,971	8.14	172,682	5.00	138,146	4.00	138,146	4.000
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:

	Actual		To Be Well Capitalized Under Prompt Corrective Action Provisions		For Capital Adequacy Purposes		For Capital Adequacy Purposes Including Capital Conservation Buffer (A)	
(Dollars in thousands)	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio

As of March 31, 2016:												
Total capital (to risk-weighted assets)	$	310,236	11.57 %	$	N/A	N/A %	$	214,427	8.00 %	$	231,179	8.625 %
Tier I capital (to risk-weighted assets)		282,915	10.56		N/A	N/A		160,820	6.00		177,572	6.625
Common equity tier I (to risk-weighted assets)		282,912	10.56		N/A	N/A		120,615	4.50		137,367	5.125
Tier I capital (to average assets)		282,915	8.19		N/A	N/A		138,162	4.00		138,162	4.000
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

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

The 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. Beginning with the August 19, 2015 dividend payment, shareholders may also make voluntary cash payments of up to $200 thousand per quarter to purchase additional shares of common stock. The Reinvestment Plan provided $4.4 million of capital to the Company in the first quarter of 2016. The Plan provides a continuing source of capital.

As previously announced, on April 21, 2016, the Board of Directors declared a regular cash dividend of $0.05 per share payable on May 16, 2016 to shareholders of record on May 5, 2015.

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 continues to assess other potential sources of capital, such as subordinated debt, 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 $77.9 million at March 31, 2016. In addition, the Company had $214.1 million in securities designated as available for sale at March 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 March 31, 2016, unused borrowing commitments totaled $935.0 million from the FHLB, $112.2 million from the Federal Reserve Bank and $22.0 million from correspondent banks.

Asset growth of $101.3 million in the first three months of 2016 was funded by customer deposit growth of $108.2 million, capital growth of $7.8 million, and reduced other borrowings.

Brokered interest-bearing demand (“overnight”) deposits stayed flat at $200 million at March 31, 2016. The interest rate paid on these deposits allows the Bank to fund at attractive rates and engage in interest rate swaps to hedge its asset-liability interest rate risk. The Company ensures ample available collateralized liquidity as a backup to these short term brokered deposits.

From a liquidity/funding perspective, such brokered deposits, at a cost of approximately 50 to 60 basis points (excluding cost of hedging), are generally a more cost effective alternative than other borrowings and do not require use of pledged collateral, as secured wholesale borrowings do. From a balance sheet management perspective, the rate paid on these short term brokered deposits is used as the basis to transact longer term interest rate swaps, basically extending repricing generally to five years for asset matching / interest rate risk management purposes. As of March 31, 2016, the Company has transacted pay fixed, receive floating interest rate swaps totaling $180.0 million notional amount.

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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.

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

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

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

- Actively market commercial and industrial (C&I) loan originations, which tend to have adjustable rate features, and which generate customer relationships that can result in higher core deposit accounts;
- Actively market commercial mortgage loan originations, which tend to have shorter terms and higher interest rates than residential mortgage loans, and which generate customer relationships that can result in higher core deposit accounts;
- Manage growth in the residential mortgage portfolio to adjustable-rate and/or shorter-term and/or "relationship" loans that result in core deposit relationships;
- Actively market core deposit relationships, which are generally longer duration liabilities;
- Utilize medium to longer term certificates of deposit and/or wholesale borrowings to extend liability duration;
- Utilize interest rate swaps to extend liability duration;
- Utilize a loan level / back to back interest rate swap program, which converts a borrower's fixed rate loan to adjustable rate for the Company;
- Closely monitor and actively manage the investment portfolio, including management of duration, prepayment and interest rate risk;
- Maintain adequate levels of capital; and
- Utilize loan sales and/or loan participations.

The 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 and correlation analysis, daily mark-to-market 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.

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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 a swap, the terms of which fully offset the fixed exposure and result in a final floating rate exposure for the Company. As of March 31, 2016, $34.7 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 March 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 remains static as of March 31, 2016.

In an immediate and sustained 200 basis point increase in market rates at March 31, 2016, net interest income for year 1 would increase approximately 3.1 percent, when compared to a flat interest rate scenario. In year 2 this sensitivity improves to an increase of 8.0 percent, when compared to a flat interest rate scenario.

In an immediate and sustained 100 basis point decrease in market rates at March 31, 2016, net interest income would decline approximately 4.1 percent for year 1 and 6.6 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 March 31, 2016.

(Dollars in thousands)	Estimated Increase/ Decrease in EVPE			EVPE as a Percentage of Present Value of Assets (2)	
Change In Interest Rates (Basis Points)	Estimated EVPE (1)	Amount	Percent	EVPE Ratio (3)	Increase/(Decrease) (basis points)
+200	$372,543	$(5,429)	(1.44)%	11.33 %	42
+100	381,027	3,055	0.81	11.29	38
Flat interest rates	377,972	—	—	10.91	—
-100	362,208	(15,764)	(4.17)	10.27	(64)

(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.

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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.

ITEM 3. Quantitative and Qualitative Disclosures about Market Risk

There have been no material changes to information regarding quantitative and qualitative disclosures about market risk from the end of the preceding fiscal year to the date of the most recent interim financial statements (March 31, 2016).

ITEM 4. Controls and Procedures

The Corporation's Management, with the participation of its Chief Executive Officer and Chief Financial Officer, have evaluated the effectiveness of the Corporation's disclosure controls and procedures (as defined in Rule 13a-15(e) or Rule 15d-15(e) under the Securities Exchange Act of 1934, as amended) as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on such evaluation, the Corporation's Chief Executive Officer and Chief Financial Officer have concluded that the Corporation's disclosure controls and procedures are effective as of the end of the period covered by this Quarterly Report on Form 10-Q.

The Corporation's Chief Executive Officer and Chief Financial Officer have also concluded that there have not been any changes in the Corporation's internal control over financial reporting during the quarter ended March 31, 2016 that have materially affected, or are reasonable likely to materially affect, the Corporation's internal control over financial reporting.

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

PART II. OTHER INFORMATION

ITEM 1. Legal Proceedings

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

ITEM 1A. Risk Factors

There were no material changes in the Corporation's risk factors during the three months ended March 31, 2016 from the risk factors disclosed in Part I, Item 1A of the Corporation's Annual Report on Form 10-K for the year ended December 31, 2015.

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

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

ITEM 3. Defaults Upon Senior Securities

None.

ITEM 4. Mine Safety Disclosures

Not applicable.

ITEM 5. Other Information

None.

ITEM 6. Exhibits

3 Articles of Incorporation and By-Laws:

	A. Certificate of Incorporation of the Registrant, as amended, incorporated herein by reference to Exhibit 3 of the Registrant's Quarterly Report on Form 10-Q filed on November 9, 2009 (File No. 001-16197).
	B. By-Laws of the Registrant, incorporated herein by reference to Exhibit 3.1 of the Registrant's Current Report on Form 8-K filed on January 26, 2015 (File No. 001-16197).
10	Peapack-Gladstone Financial Corporation 2012 Long-Term Stock Incentive Plan, as amended, incorporated herein by reference to Exhibit 10.1of the Registrant's Form 8-K filed on April 29, 2016.
31.1	Certification of Douglas L. Kennedy, Chief Executive Officer of the Corporation, pursuant to Securities Exchange Act Rule 13a-14(a).
31.2	Certification of Jeffrey J. Carfora, Chief Financial Officer of the Corporation, pursuant to Securities Exchange Act Rule 13a-14(a).
32	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, signed by Douglas L. Kennedy, Chief Executive Officer of the Corporation, and Jeffrey J. Carfora, Chief Financial Officer of the Corporation.
101	Interactive Data File

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SIGNATURES

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

PEAPACK-GLADSTONE FINANCIAL CORPORATION
(Registrant)

DATE: May 9, 2016	By: /s/ Douglas L. Kennedy Douglas L. Kennedy President and Chief Executive Officer
DATE: May 9, 2016	By: /s/ Jeffrey J. Carfora Jeffrey J. Carfora Senior Executive Vice President, Chief Financial Officer and Chief Accounting Officer