PEAPACK GLADSTONE FINANCIAL CORP
Form 10-K
March 13, 2015

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

Annual Report Pursuant to Section 13 or 15(d)

of the Securities Exchange Act of 1934

For the Fiscal Year Ended December 31, 2014 **Commission File No. 000-23537**

PEAPACK-GLADSTONE FINANCIAL CORPORATION

(Exact name of registrant as specified in its charter)

New Jersey	**22-2491488**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
500 Hills Drive, Suite 300	
Bedminster, NJ	**07921**
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number (908) 234-0700

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

Title of Each Class	**Name of Exchange on which Registered**
Common Stock, No par value	NASDAQ Global Select Market

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

NONE

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

Yes o No x.

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

Yes o No x.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No 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 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o.

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment of this Form 10-K 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 the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act (Check one):

Large accelerated filer o Accelerated filer x
Non-accelerated filer 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

The aggregate market value of the shares held by unaffiliated stockholders was approximately $240,402,535 on June 30, 2014.

As of March 4, 2015, 15,296,337 shares of no par value Common Stock were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Company's Definitive Proxy Statement for the Company's 2015 Annual Meeting of Shareholders (the "2015 Proxy Statement") are incorporated by reference into Part III. The Company will file the 2015 Proxy Statement within 120 days of December 31, 2014.

FORM 10-K

PEAPACK-GLADSTONE FINANCIAL CORPORATION

For the Year Ended December 31, 2014

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PART I

Item 1. BUSINESS

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

The Corporation

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

Our commercial loan customers are business people, including business owners, professionals, retailers, contractors and real estate investors. Most forms of commercial lending are offered, including working capital lines of credit, term loans for fixed asset acquisitions, commercial mortgages, multifamily mortgages and other forms of asset-based financing.

In addition to commercial lending activities, we offer a wide range of consumer banking services, including: checking and savings accounts, money market and interest-bearing checking accounts, certificates of deposit, and individual retirement accounts held in certificates of deposit. We also offer residential and construction mortgages, home equity lines of credit and other second mortgage loans. Automated teller machines are available at 23 locations. Internet banking, including an online bill payment option and mobile phone banking, is available to customers.

Employees

As of December 31, 2014, the Company employed 306 full-time equivalent persons. Management considers relations with employees to be satisfactory.

Peapack-Gladstone Bank's Private Wealth Management Division

The Bank's Private Wealth Management Division, is one of the largest New Jersey-based trust and investment businesses with $2.99 billion of assets under administration as of December 31, 2014. It is headquartered in Bedminster, with additional private banking locations in Morristown, Princeton and Teaneck, NJ, as well as at the Bank's subsidiary, PGB Trust & Investments of Delaware, in Greenville, DE. The Bank's Private Wealth Management Division is known for its integrity, client service and broad range of fiduciary, investment management and tax services, designed specifically to meet the needs of high net-worth individuals, families, foundations and endowments.

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

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Our Markets

Our current market is defined as the NY-NJ-PA metropolitan statistical area. Our primary market areas are located in New Jersey and New York City, among the most attractive banking markets in the United States, each with a total population exceeding 8.5 million and a median household income of $71,629 for New Jersey and $58,003 for New York City as of 2009-2013, above the U.S. median household income of $53,053 as of 2009-2013, according to estimates from the United States Census Bureau. Somerset County, where we are headquartered, is among one of the wealthiest in New Jersey, with a 2009-2013 median household income of $99,020 according to estimates from the United States Census Bureau. We believe that these markets have economic and competitive dynamics that are consistent with our objectives and favorable to executing our growth strategy.

Our Business Strategy

The key elements of our business strategy include:

- enhanced risk management;
- expansion of our Multifamily and Commercial Real Estate Lending business;
- expansion of our Commercial and Industrial (C&I) lending business through Private Banking teams, who will lead with deposit gathering and wealth management; and
- establishment of a sales force that supports our branches and will serve as a primary contact for clients.

In particular, we intend to focus on the following areas of our business:

· Commercial Lending. We have been helping businesses emerge, expand and evolve for many years. We plan to continue this by moving more aggressively and growing our multifamily and other commercial real estate lending businesses. We have introduced a more comprehensive C&I lending program designed to service individuals, professional service firms, foundations, and privately owned businesses. This C&I lending program, similar to our wealth management business, has been fully integrated into our private banking platform. Private bankers focus holistically on C&I lending, wealth advisory and deposit solutions to provide a high-touch, “white-glove” client service.

· Retail Banking – Deposits. We see a lot of opportunity for growth in our core markets. We continued with the concept of high-touch relationship-style banking, which we introduced in 2013, to support the affluent segment of our branch network. Much like the private banking service model, this team has intimate knowledge of all Bank products and services and serves as the primary contact for clients seeking wealth, lending and deposit solutions. The structure of this team enables our existing branch network to maintain its primary objective of providing unique and

unparalleled client service. Additionally, our private banking platform has and we believe it will continue to contribute significantly to our retail deposit growth, not only through stand-alone deposit relationships, but through comprehensive new relationships associated with C&I lending.

· Wealth Management. We have been in the wealth management business since 1972. The business adds significant value to our Company and differentiates us from many of our competitors. Conversations with all clients and potential clients across all lines of business include a wealth management discussion. The market value of the assets under administration of the wealth management division was $2.99 billion at December 31, 2014.

Governmental Policies and Legislation

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

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

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

Generally, the Dodd-Frank Act was effective the day after it was signed into law, but different effective dates apply to specific sections of the law. The Dodd-Frank Act, among other things:

- Directed the Federal Reserve to issue rules limiting debit-card interchange fees for banks with more than $10 billion in assets;
- Removed trust preferred securities as a permitted component of Tier 1 capital for bank holding companies with assets of $15 billion or more, however, bank holding companies with assets of less than $15 billion generally will be permitted to include trust preferred securities that were issued before May 19, 2010 as Tier 1 capital;
- Provided for increase in the minimum reserve ratio for the deposit insurance fund from 1.15 percent to 1.35 percent and changes the basis for determining FDIC premiums from deposits to assets;
- Created a new Consumer Financial Protection Bureau (“CFPB”) that has rulemaking authority for a wide range of consumer protection laws that apply to all banks and has broad powers to supervise and enforce consumer protection laws;
- Required public companies to give shareholders a non-binding vote on executive compensation and on “golden parachute” payments in connection with approvals of mergers and acquisitions unless previously voted on by shareholders;
- Directed federal banking regulators to promulgate rules prohibiting excessive compensation paid to executives of depository institutions and their holding companies with assets in excess of $1 billion;
- Provided mortgage reform provisions regarding a customer’s ability to repay, requiring the ability to repay for variable-rate loans to be determined by using the maximum rate that will apply during the first five years of the loan term, and making more loans subject to provisions for higher cost loans, new disclosures, and certain other revisions;
- Created a Financial Stability Oversight Council that will recommend to the Federal Reserve increasingly strict rules for capital, leverage, liquidity, risk management and other requirements as companies grow in size and complexity;
- Made permanent the $250 thousand limit for federal deposit insurance.

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

In January 2013, the CFPB issued a series of final rules related to mortgage loan origination and mortgage loan servicing. In particular, the CFPB issued a final rule amending Regulation Z to implement certain amendments to the Truth in Lending Act. The rule implements statutory changes that lengthen the time for which a mandatory escrow account established for a higher-priced mortgage loan must be maintained. The rule also exempts certain transactions from the statute's escrow requirement. The CFPB issued a final rule implementing amendments to the Truth in Lending Act and the Real Estate Settlement Procedures Act. The rule amends Regulation Z by expanding the types of mortgage loans that are subject to the protections of the Home Ownership and Equity Protections Act of 1994 ("HOEPA"), revising and expanding the tests for coverage under HOEPA, and imposing additional restrictions on mortgages that are covered by HOEPA, including a pre-loan counseling requirement. The rule also amends Regulation Z and Regulation X by imposing other requirements related to homeownership counseling.

In addition, the CFPB amended Regulation B to implement changes to the Equal Credit Opportunity Act. The revisions to Regulation B require creditors to provide applicants with free copies of all appraisals and other written valuations developed in connection with an application for a loan to be secured by a first lien on a dwelling, and require creditors to notify applicants in writing that copies of appraisals will be provided to them promptly. The CFPB also amended Regulation Z to implement requirements and restrictions to the Truth in Lending Act concerning loan originator

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compensation, qualifications of, and registration or licensing of loan originators, compliance procedures for depository institutions, mandatory arbitration, and the financing of single-premium credit insurance. These amendments revise or provide additional commentary on Regulation Z's restrictions on loan originator compensation, including application of these restrictions to prohibitions on dual compensation and compensation based on a term of a transaction or a proxy for a term of a transaction, and to recordkeeping requirements. This rule also establishes tests for when loan originators can be compensated through certain profits-based compensation arrangements. The amendments to § 1026.36(h) and (i) became effective on June 1, 2013, while the other provisions of the rule became effective on January 10, 2014.

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

The CFPB may issue additional final rules regarding mortgages in the future. We cannot assure you that existing or future regulations will not have a material adverse impact on our residential mortgage loan business.

On December 10, 2013, the FRB, the Office of the Comptroller of the Currency (the "OCC"), the Federal Deposit Insurance Corporation (the "FDIC"), the Commodity Futures Trading Commission (the "CFTC") and the SEC issued final rules to implement the Volcker Rule contained in section 619 of the Dodd-Frank Act, generally to become effective on July 21, 2015. The Volcker Rule prohibits an insured depository institution and its affiliates (referred to as "banking entities") from: (i) engaging in "proprietary trading" and (ii) investing in or sponsoring certain types of funds ("covered funds") subject to certain limited exceptions. The rule also effectively prohibits short-term trading strategies by any U.S. banking entity if those strategies involve instruments other than those specifically permitted for trading and prohibits the use of some hedging strategies.

The Dodd-Frank Act contains numerous other provisions affecting financial institutions of all types, many of which may have an impact on our operating environment in substantial and unpredictable ways. Consequently, the Dodd-Frank Act is likely to continue to increase our cost of doing business, it may limit or expand our permissible activities, and it may affect the competitive balance within our industry and market areas. The nature and extent of future legislative and regulatory changes affecting financial institutions, including as a result of the Dodd-Frank Act, remains very unpredictable at this time.

Capital Requirements

Pursuant to the Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA), each federal banking agency has promulgated regulations, specifying the levels at which a financial institution would be considered "well capitalized," "adequately capitalized," "undercapitalized," "significantly undercapitalized," or "critically undercapitalized," and to take certain mandatory and discretionary supervisory actions based on the capital level of the institution. To qualify to engage in financial activities under the Gramm-Leach-Bliley Act, all depository institutions must be "well capitalized." The financial holding company of a national bank will be put under directives to raise its capital levels or divest its activities if the depository institution falls from that level.

In July 2013, the FRB published final rules establishing a new comprehensive capital framework for U.S. banking organizations, referred to herein as the Basel Rules. The FDIC and the OCC have adopted substantially identical rules (in the case of the FDIC, as interim final rules). The Basel Rules implement the Basel Committee's December 2010 framework, commonly referred to as Basel III, for strengthening international capital standards as well as certain provisions of the Dodd-Frank Act, as discussed below. The Basel Rules substantially revise the risk-based capital requirements applicable to bank holding companies and depository institutions, including Corporation and the Bank, compared to the current U.S. risk-based capital rules. The Basel Rules define the components of capital and address other issues affecting the numerator in banking institutions' regulatory capital ratios. The Basel Rules also address risk weights and other issues affecting the denominator in banking institutions' regulatory capital ratios and replace the existing risk-weighting approach,

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which was derived from Basel I capital accords of the Basel Committee, with a more risk-sensitive approach based, in part, on the standardized approach in the Basel Committee's 2004 Basel II capital accords. The Basel Rules also implement the requirements of Section 939A of the Dodd-Frank Act to remove references to credit ratings from the federal banking agencies' rules. The Basel Rules became effective for us on January 1, 2015 (subject to phase-in periods for certain components).

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

Under the Basel Rules, the minimum capital ratios for the Company and the Bank as of January 1, 2015 are as follows:

- 4.5% CET1 to risk-weighted assets.
- 6.0% Tier 1 capital (i.e., CET1 plus Additional Tier 1) to risk-weighted assets.
- 8.0% Total capital (i.e., Tier 1 plus Tier 2) to risk-weighted assets.
- 4.0% Tier 1 capital to average consolidated assets as reported on consolidated financial statements (known as the "leverage ratio").

When fully phased in on January 1, 2019, the Basel Rules will also require the Company and the Bank to maintain a 2.5% "capital conservation buffer", composed entirely of CET1, on top of the minimum risk-weighted asset ratios, effectively resulting in minimum ratios of (i) CET1 to risk-weighted assets of at least 7.0%, (ii) Tier 1 capital to risk-weighted assets of at least 8.5%, and (iii) total capital to risk-weighted assets of at least 10.5%. The capital conservation buffer is designed to absorb losses during periods of economic stress. Banking institutions with a ratio of (i) CET1 to risk-weighted assets, (ii) Tier 1 capital to risk-weighted assets or (iii) total capital to risk-weighted assets above the respective minimum but below the capital conservation buffer will face constraints on dividends, equity repurchases and discretionary bonus payments to executive officers based on the amount of the shortfall. The implementation of the capital conservation buffer will begin on January 1, 2016 at the 0.625% level and increase by 0.625% on each subsequent January 1, until it reaches 2.5% on January 1, 2019.

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

Under current capital standards, the effects of accumulated other comprehensive income items included in capital are excluded for the purposes of determining regulatory capital ratios. Under the Basel Rules, the effects of certain

accumulated other comprehensive items are not excluded; however, non-advanced approaches banking organizations, including the Company and the Bank, may make a one-time permanent election to continue to exclude these items effective as of January 1, 2015.

The deductions and other adjustments to CET1 will be phased in incrementally between January 1, 2015 and January 1, 2018.

With respect to the Bank, the Basel Rules also revise the "prompt corrective action" regulations pursuant to Section 38 of the Federal Deposit Insurance Act, by (i) introducing a CET1 ratio requirement at each capital quality level (other than critically undercapitalized); (ii) increasing the minimum Tier 1 capital ratio requirement for each category; and (iii) requiring a leverage ratio of 5% to be well-capitalized. Effective as of January 1, 2015, an institution will be classified as "well capitalized" if it (i) has a total risk-based capital ratio of at least 10.0 percent, (ii) has a Tier 1 risk-based capital ratio of at least 8.0 percent, (iii) has a CET1 ratio of at least 6.5 percent, (iv) has a Tier 1 leverage ratio of at least 5.0 percent, and (v) meets certain other requirements. An institution will be classified as "adequately capitalized" if it (i) has a total risk-based capital ratio of at least 8.0 percent, (ii) has a Tier 1 risk-based capital ratio of at least 6.0 percent, (iii) has a CET1 ratio of at least 4.5 percent, (iv) has a Tier 1 leverage ratio of at least 4.0 percent, and (v) does not meet the definition of "well capitalized." An institution will be classified as "undercapitalized" if it (i) has a total risk-based capital ratio of less than 8.0 percent, (ii) has a Tier 1 risk-based capital ratio of less than 6.0 percent, (iii) has a CETI ratio of less than 4.5 percent or (iv) has a Tier I leverage ratio of less than 4.0 percent. An institution will be classified as "significantly undercapitalized" if it (i) has a total risk-based capital ratio of less than 6.0 percent, (ii) has a Tier 1 risk-based capital ratio of less than 4.0 percent, (iii) has a CET1 ratio of less than 3.0 percent or (iv) has a Tier 1 leverage ratio of less than 3.0 percent. An institution will be classified as "critically undercapitalized" if it has a tangible equity to total assets ratio that is equal to or less than 2.0 percent. An insured depository institution may be deemed to be in

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a lower capitalization category if it receives an unsatisfactory examination rating. Similar categories apply to bank holding companies. When the capital conservation buffer is fully phased in, the capital ratios applicable to depository institutions under the Basel Rules will exceed the ratios to be considered well-capitalized under the prompt corrective action regulations.

The Basel Rules prescribe a standardized approach for calculating risk-weighted assets that expand the risk-weighting categories from the current four Basel I-derived categories (0%, 20%, 50% and 100%) to a much larger and more risk-sensitive number of categories, depending on the nature of the assets, generally ranging from 0% for U.S. Government and agency securities, to 600% for certain equity exposures, and resulting in higher risk weights for a variety of asset categories. In addition, the Basel Rules also provide more advantageous risk weights for derivatives and repurchase-style transactions cleared through a qualifying central counterparty and increase the scope of eligible guarantors and eligible collateral for purposes of credit risk mitigation.

The Bank's capital ratios were all above the minimum levels required for it to be considered a "well capitalized" financial institution at December 31, 2014 under the "prompt corrective action" regulations in effect as of such date. We believe that, as of December 31, 2014, the Company and the Bank would meet all capital adequacy requirements under the Basel Rules on a fully phased-in basis if such requirements were currently effective including after giving effect to the deductions described above.

Insurance Funds Legislation

The Bank's deposits are insured up to applicable limits by the Deposit Insurance Fund of the Federal Deposit Insurance Corporation (the "FDIC"). The Deposit Insurance Fund is the successor to the Bank Insurance Fund and the Savings Association Insurance Fund, which were merged in 2006. Under the FDIC's risk-based system, insured institutions are assigned to one of four risk categories based on supervisory evaluations, regulatory capital levels and certain other factors with less risky institutions paying lower assessments on their deposits.

In February 2011, as required by the Dodd Frank Act, the FDIC approved a final rule that revised the assessment base to consist of average consolidated total assets during the assessment period minus the average tangible equity during the assessment period. In addition, the final revisions eliminated the adjustment for secured borrowings, including Federal Home Loan Bank advances, and made certain other changes to the impact of unsecured borrowings and brokered deposits on an institution's deposit insurance assessment. The final rule also revised the assessment rate schedule to provide initial base assessment rates ranging from 5 to 35 basis points and total base assessment rates ranging from 2.5 to 45 basis points after adjustment.

As previously noted above, the Dodd-Frank Act makes permanent the $250 thousand limit for federal deposit insurance. The FDIC has authority to further increase insurance assessments. A significant increase in insurance premiums may have an adverse effect on the operating expenses and results of operations of the Bank. Management

cannot predict what insurance assessment rates will be in the future.

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Restrictions on the Payment of Dividends

The holders of the Company's common stock are entitled to receive dividends, when, as and if declared by the Board of Directors of the Company out of funds legally available. The only statutory limitation is that such dividends may not be paid when the Company is insolvent. Since the principal source of income for the Company will be dividends on Bank common stock paid to the Company by the Bank, the Company's ability to pay dividends to its shareholders will depend on whether the Bank pays dividends to it. As a practical matter, restrictions on the ability of the Bank to pay dividends act as restrictions on the amount of funds available for the payment of dividends by the Company. As a New Jersey chartered commercial bank, the Bank is subject to the restrictions on the payment of dividends contained in the New Jersey Banking Act of 1948, as amended (the "Banking Act"). Under the Banking Act, the Bank may pay dividends only out of retained earnings, and out of surplus to the extent that surplus exceeds 50% of stated capital. Under the Financial Institutions Supervisory Act, the FDIC has the authority to prohibit a state-chartered bank from engaging in conduct that, in the FDIC's opinion, constitutes an unsafe or unsound banking practice. Under certain circumstances, the FDIC could claim that the payment of a dividend or other distribution by the Bank to the Company constitutes an unsafe or unsound practice. The Company is also subject to FRB policies, which may, in certain circumstances, limit its ability to pay dividends. The FRB policies require, among other things, that a bank holding company maintain a minimum capital base and serve as a source of strength to its subsidiary bank. The FRB by supervisory letters has advised holding corporations that it is has supervisory concerns when the level of dividends is too high and would seek to prevent dividends if the dividends paid by the holding company exceeded its earnings. The FRB would most likely seek to prohibit any dividend payment that would reduce a holding company's capital below these minimum amounts.

Incentive Compensation

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

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

governance, including active and effective oversight by the organization's board of directors. These three principles are incorporated into the proposed joint compensation regulations under the Dodd-Frank Act, discussed in the immediately preceding paragraph.

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

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Consumer Protection Regulations

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

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

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

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

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

Holding Company Supervision

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

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

Sarbanes-Oxley Act of 2002

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

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

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

Each of the national stock exchanges, including the National Association of Securities Dealers Automated Quotations (NASDAQ) Global Select Market where the Company's securities are listed, have implemented corporate governance listing standards, including rules strengthening director independence requirements for boards, and requiring the adoption of charters for the nominating and audit committees. As noted above, in 2012, the SEC adopted rules under the Dodd-Frank Act requiring the stock exchanges to adopt rules addressing the independence of Compensation Committee members and consideration of the independence of compensation advisers, and each of the exchanges, including the NASDAQ Global Select Market, have adopted such rules.

USA PATRIOT Act

As part of the USA PATRIOT Act, Congress adopted the International Money Laundering Abatement and Financial Anti-Terrorism Act of 2001 (the "Anti Money Laundering Act"). The Anti Money Laundering Act authorizes the Secretary of the Treasury, in consultation with the heads of other government agencies, to adopt special measures applicable to financial institutions such as banks, bank holding companies, broker-dealers and insurance companies. Among its other provisions, the Anti Money Laundering Act requires each financial institution: (i) to establish an anti-money laundering program; (ii) to establish due diligence policies, procedures and controls that are reasonably designed to detect and report instances of money laundering in United States private banking accounts and correspondent accounts maintained for non-United States persons or their representatives; and (iii) to avoid establishing, maintaining, administering, or managing correspondent accounts in the United States for, or on behalf of,

a foreign shell bank that does not have a physical presence in any country. In addition, the Anti Money Laundering Act expands the circumstances under which funds in a bank account may be forfeited and requires covered financial institutions to respond under certain circumstances to requests for information from federal banking agencies within 120 hours.

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

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

Gramm-Leach-Bliley Act

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

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

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

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

Item 1A. RISK FACTORS

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

Risks Relating to Ownership of Our Common Stock

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

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

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

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

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

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

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

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

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

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

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

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

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

Our businesses and operations, which primarily consist of lending money to customers in the form of loans, borrowing money from customers in the form of deposits and investing in securities, are sensitive to general business and economic conditions in the United States. If the U.S. economy weakens, our growth and profitability from our lending, deposit and investment operations could be constrained. Uncertainty about the federal fiscal policymaking process, the medium and long-term fiscal outlook of the federal government and future tax rates is a concern for businesses, consumers and investors in the United States. In addition, economic conditions in foreign countries could affect the stability of global financial markets, which could hinder U.S. economic growth. Weak economic conditions are often characterized by deflation,

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fluctuations in debt and equity capital markets, a lack of liquidity and/or depressed prices in the secondary market for mortgage loans, increased delinquencies on mortgage, consumer and commercial loans, residential and commercial real estate price declines and lower home sales and commercial activity.

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

Uncertainty in the financial markets in general continued during 2014. Loan portfolio performances have deteriorated at many institutions resulting from, amongst other factors, a weak economy and a decline in the value of the collateral supporting their loans. The competition for our deposits has increased significantly due to liquidity concerns at many of these same institutions. Stock prices of bank holding companies, like ours, have been negatively affected by the current condition of the financial markets, as has our ability, if needed, to raise capital or borrow in the debt markets compared to recent years. As a result, there is potential for new federal or state laws and regulations regarding lending and funding practices and liquidity standards, and financial institution regulatory agencies are expected to be very aggressive in responding to concerns and trends identified in examinations, including the expected issuance of many formal enforcement actions. Negative developments in the financial services industry and the impact of new legislation in response to those developments could negatively impact our operations by restricting our business operations, including our ability to originate or sell loans, and adversely impact our financial performance.

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

Much of our business is with customers located within Central and Northern New Jersey, as well as New York City. Our business loans are generally made to small to mid-sized businesses, most of whose success depends on the regional economy. These businesses generally have fewer financial resources in terms of capital or borrowing capacity than larger entities. Adverse economic and business conditions in our market area could reduce our growth rate, affect our borrowers' ability to repay their loans and, consequently, adversely affect our financial condition and performance. Further, we place substantial reliance on real estate as collateral for our loan portfolio. A sharp downturn in real estate values in our market area could leave many of our loans under-secured, which could adversely affect our earnings.

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

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

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

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

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

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

There are certain risks inherent in making loans, including risks that the principal of or interest on the loan will not be repaid timely or at all or that the value of any collateral supporting the loan will be insufficient to cover our outstanding exposure. These risks may be affected by the strength of the borrower's business sector and local, regional and national market and economic conditions. Our risk management practices, such as monitoring the concentration of our loans within specific industries and our credit approval practices, may not adequately reduce credit risk, and our credit administration personnel, policies and procedures may not adequately adapt to changes in economic or any other conditions affecting customers and the quality of the loan portfolio. Finally, many of our loans are made to small and medium-sized businesses that are less able to withstand competitive, economic and financial pressures than larger borrowers. A failure to effectively measure and limit the credit risk associated with our loan portfolio could have a material adverse effect on our business, financial condition, results of operations and prospects.

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

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

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

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

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

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

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

In the course of our business, we may purchase real estate, or we may foreclose on and take title to real estate. As a result, we could be subject to environmental liabilities with respect to these properties. We may be held liable to a governmental entity or to third parties for property damage, personal injury, investigation and clean-up costs incurred by these parties in connection with environmental contamination or may be required to investigate or clean up hazardous or toxic substances or chemical releases at a property. The costs associated with investigation or remediation activities could be substantial. In

addition, if we are the owner or former owner of a contaminated site, we may be subject to common law claims by third parties based on damages and costs resulting from environmental contamination emanating from the property. Any significant environmental liabilities could cause a material adverse effect on our business, financial condition, results of operations and prospects.

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

A large portion of loans in our loan portfolio and of our lending relationships are of relatively recent origin. In general, loans do not begin to show signs of credit deterioration or default until they have been outstanding for some period of time, a process referred to as "seasoning." As a result, a portfolio of older loans will usually behave more predictably than a newer portfolio. Because a large portion of our portfolio is relatively new, the current level of delinquencies and defaults may not represent the level that may prevail as the portfolio becomes more seasoned. If delinquencies and defaults increase, we may be required to increase our provision for loan losses, which could materially adversely affect our business, financial condition, results of operations and prospects.

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

The long-term outlook for the fiscal position of the U.S. federal government is uncertain, as illustrated by the budget negotiations and partial shutdown of the U.S. government in October 2013. In addition to causing economic and financial market disruptions, any future failure to raise the U.S. statutory debt limit, or deterioration in the fiscal outlook of the U.S. federal government, could, among other things, materially adversely affect the market value of the U.S. and other government and governmental agency securities that we hold, the availability of those securities as collateral for borrowing, and our ability to access capital markets on favorable terms. In particular, it could increase interest rates and disrupt payment systems, money markets, and long-term or short-term fixed income markets, adversely affecting the cost and availability of funding, which could negatively affect our profitability. Any of these developments could materially adversely affect our business, financial condition, results of operations and prospects.

Government regulation significantly affects our business.

The banking industry is extensively regulated. Banking regulations are intended primarily to protect depositors, and the FDIC deposit insurance funds, not the shareholders of the Company. We are subject to regulation and supervision by the New Jersey Department of Banking and Insurance and the Federal Reserve Bank. Regulatory requirements affect our lending practices, capital structure, investment practices, dividend policy and growth. The bank regulatory agencies possess broad authority to prevent or remedy unsafe or unsound practices or violations of law. We are subject to various regulatory capital requirements, which involve both quantitative measures of our assets and liabilities and qualitative judgments by regulators regarding risks and other factors. Failure to meet minimum capital requirements or comply with other regulations could result in actions by regulators that could adversely affect our

ability to pay dividends or otherwise adversely impact operations. In addition, changes in laws, regulations and regulatory practices affecting the banking industry may limit the manner in which we conduct our business. Such changes may adversely affect us, including our ability to offer new products and services, obtain financing, attract deposits, make loans and achieve satisfactory spreads and may impose additional costs on us.

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

The short-term and long-term impact of the newly proposed regulatory capital rules is uncertain.

In July 2013, the FRB published final rules establishing a new comprehensive capital framework for U.S. banking organizations, referred to herein as the Rules. For a detailed description of the Rules, please refer to “**Governmental Policies and Legislation – Capital Requirements**” beginning on page 7. The FDIC and the OCC have adopted substantially identical rules (in the case of the FDIC, as interim final rules). The Rules implement the Basel Committee’s December 2010 framework, commonly referred to as Basel III, for strengthening international capital standards as well as certain provisions of the Dodd-Frank Act. Basel III creates a new regulatory capital standard based on Tier 1 common equity and increases the minimum leverage and risk-based capital ratios applicable to all banking organizations. Basel III

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also changes how a number of the regulatory capital components are calculated. A significant increase in our capital requirement could reduce our growth and profitability and materially adversely affect our business, financial condition, results of operations and prospects.

We are subject to liquidity risk.

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

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

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

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

Our information systems may experience a security breach, computer virus, or disruption of service.

We rely heavily on communications and information systems to conduct our business, and provide customers with various products and services, including the ability to bank online. Despite positioning our communications and information systems environment to be capable of controlling, monitoring and proactively preventing security breaches, our network could become vulnerable to unauthorized access, computer viruses, phishing schemes and other security problems. We may be required to spend significant capital and other resources to protect against the threat of security breaches and computer viruses, or to alleviate problems caused by security breaches or viruses. To the extent that our activities or the activities of our customers involve the storage and transmission of confidential information,

security breaches and viruses could expose us to claims, litigation and other possible liabilities. Any failure, interruption, or breach in security or operational integrity of our systems could also result in failures or disruptions in our general ledger, deposit, loan, and other systems, and could subject us to additional regulatory scrutiny. Any inability to prevent security breaches or computer viruses could also cause existing customers to lose confidence in our systems and could adversely affect our reputation.

The price of our common stock may fluctuate.

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

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

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

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- changes in accounting standards, policies, guidance, interpretations or principles; and
- general domestic economic and market conditions.

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

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

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

We may lose lower-cost funding sources.

Checking, savings, and money market deposit account balances and other forms of customer deposits can decrease when customers perceive alternative investments, such as the stock market, as providing a better risk/return tradeoff. If customers move money out of bank deposits and into other investments, we could lose a relatively low cost source of funds, increasing our funding costs and reducing our net interest income and net income.

There may be changes in accounting policies or accounting standards.

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

amounts would be reported under different conditions, using different assumptions, or as new information becomes available.

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

We encounter continuous technological change.

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

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We are subject to operational risk.

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

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

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

There may be claims and litigation pertaining to fiduciary responsibility.

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

Item 1B. UNRESOLVED STAFF COMMENTS

None.

Item 2. PROPERTIES

The Company owns 10 branches and leases 12 branches. The Company leases an administrative and operations office building in Bedminster, New Jersey, two private banking offices in Princeton and Teaneck, New Jersey and a trust office in Greenville, Delaware.

Item 3. LEGAL PROCEEDINGS

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

Item 4. MINE SAFETY DISCLOSURE

Not applicable.

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PART II

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

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

2014	HIGH	LOW	DIVIDEND PER SHARE
1st QUARTER	$22.78	$18.28	$ 0.05
2nd QUARTER	22.21	18.29	0.05
3rd QUARTER	22.00	17.40	0.05
4th QUARTER	19.25	17.16	0.05

2013	HIGH	LOW	DIVIDEND PER SHARE
1st QUARTER	$15.55	$14.01	$ 0.05
2nd QUARTER	17.50	13.87	0.05
3rd QUARTER	20.04	15.93	0.05
4th QUARTER	20.73	17.26	0.05

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

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Performance

The following graph compares the cumulative total return on a hypothetical $100 investment made on December 31, 2009 in (a) the Company's common stock; (b) the Russell 3000 Stock Index, and (c) the Keefe, Bruyette & Woods KBW 50 Index (top 50 U.S. banks). The graph is calculated assuming that all dividends are reinvested during the relevant periods. The graph shows how a $100 investment would increase or decrease in value over time, based on dividends (stock or cash) and increases or decreases in the market price of the stock.

Peapack-Gladstone Financial Corporation

	Period Ending					
Index	12/31/09	12/31/10	12/31/11	12/31/12	12/31/13	12/31/14
Peapack-Gladstone Financial Corporation	100.00	104.57	87.59	116.35	159.76	156.88
Russell 3000	100.00	116.93	118.13	137.52	183.66	206.72
KBW Bank	100.00	123.36	94.77	126.07	173.67	189.92

On December 31, 2014, the last reported sale price of the Common Stock was $18.56. Also, on March 4, 2015, there were approximately 796 registered shareholders of record.

Issuer Purchases of Equity Securities

None.

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Sales of Unregistered Securities

None.

Item 6. SELECTED FINANCIAL DATA

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

	Years Ended December 31,				
(In thousands, except per share data)	2014	2013	2012	2011	2010
Summary earnings:					
Interest income	$75,575	$57,053	$56,090	$56,051	$60,922
Interest expense	7,681	4,277	4,687	7,136	11,032
Net interest income	67,894	52,776	51,403	48,915	49,890
Provision for loan losses	4,875	3,425	8,275	7,250	10,000
Net interest income after provision for loan losses	63,019	49,351	43,128	41,665	39,890
Other income, exclusive of securities gains, net	20,547	19,755	17,493	15,679	14,932
Securities gains, net	260	840	3,810	1,037	124
Impairment charges on securities	—	—	—	—	(941)
Total expenses	59,540	55,183	48,330	44,399	43,110
Income before income tax expense	24,286	14,763	16,101	13,982	10,895
Income tax expense	9,396	5,502	6,405	1,814	3,231
Net income	14,890	9,261	9,696	12,168	7,664
Dividends on preferred stock and accretion	—	—	474	1,228	1,686
Net income available to common shareholders	$14,890	$9,261	$9,222	$10,940	$5,978
Per share data:					
Earnings per share-basic	$1.23	$1.02	$1.05	$1.25	$0.68
Earnings per share-diluted	1.22	1.01	1.05	1.25	0.68
Cash dividends declared	0.20	0.20	0.20	0.20	0.20
Book value end-of-period	16.36	14.79	13.90	12.47	11.03
Basic weighted average shares outstanding	12,065,615	9,094,111	8,780,973	8,741,209	8,784,655
Common stock equivalents (dilutive)	106,492	82,688	47,501	1,061	366
Fully diluted weighted average shares outstanding	12,172,107	9,176,799	8,828,474	8,742,270	8,785,021
Balance sheet data (at period end):					
Total assets	$2,702,397	$1,966,948	$1,667,836	$1,600,335	$1,505,425
Investment securities held to maturity	—	—	—	100,719	140,277
Securities available to sale	332,652	268,447	304,479	319,520	275,076
FHLB and FRB stock, at cost	11,593	10,032	4,639	4,569	4,624

Total loans	2,250,267	1,574,201	1,132,584	1,038,345	932,497
Allowance for loan losses	19,480	15,373	12,735	13,223	14,282
Total deposits	2,298,693	1,647,250	1,516,427	1,443,892	1,351,546
Total shareholders’ equity	242,267	170,657	122,057	122,971	117,716
Cash dividends:					
Common	2,414	1,802	1,774	1,765	1,757
Preferred	—	—	112	823	1,126
Assets under administration at Wealth Management Division (market value)	2,986,623	2,690,601	2,303,612	1,957,146	1,940,404

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	Years Ended December 31,				
	2014	2013	2012	2011	2010
Selected performance ratios:					
Return on average total assets	0.63 %	0.54 %	0.61 %	0.79 %	0.52 %
Return on average common shareholders' equity	7.96	7.37	8.03	10.74	6.26
Dividend payout ratio	16.21	19.46	19.24	16.13	29.39
Average equity to average assets ratio	7.94	7.26	7.25	7.64	7.83
Net interest margin	3.01	3.26	3.50	3.47	3.64
Non-interest expenses to average assets	2.53	3.19	3.04	2.90	2.91
Non-interest income to average assets	0.88	1.19	1.34	1.09	0.95
Liquidity and capital ratios:					
Average loans to average deposits	92.55%	83.05%	76.39%	70.15%	72.22%
Total shareholders' equity to total assets	8.96	8.68	7.32	7.68	7.82
Total capital to risk-weighted assets	15.55	15.33	13.08	13.76	14.16
Tier 1 capital to risk-weighted assets	14.38	14.07	11.83	12.51	12.91
Tier 1 leverage ratio	9.11	9.00	7.27	7.73	7.96

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

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

Peapack-Gladstone Financial Corporation (the "Company"), formed in 1997, is the parent holding company for Peapack-Gladstone Bank (the "Bank"), formed in 1921, a commercial bank providing innovative private banking services to businesses, non-profits and consumers which help them to establish, maintain and expand their legacy. Through its private banking locations in Bedminster, Morristown, Princeton and Teaneck, its wealth management division, and its branch network in Somerset, Hunterdon, Morris, Middlesex and Union counties, the Bank offers a strong commitment to client service.

For the year ended December 31, 2014, Peapack-Gladstone Financial Corporation recorded net income of $14.9 million, and diluted earnings per share of $1.22. During 2014, the Company continued to focus on executing its Strategic Plan – known as "Expanding Our Reach" – which focuses on the client experience and organic growth across all lines of business. The Strategic Plan calls for expansion of existing lines of business, and establishment of a new commercial and industrial (C&I) lending platform, through the use of private bankers, who lead with deposit gathering and wealth management discussions. The Strategic Plan further calls for establishment of a sales force that supports our branches and serves as a primary point of contact for clients.

In addition to continuing to execute the Strategic Plan, the following are additional highlights for 2014:

- In support of the growth associated with the Strategic Plan, the Company successfully sold 2.776 million common shares ($50 million gross) in its at-the-market equity offering in the fourth quarter of 2014, just one year after selling 2.471 million common shares ($42 million gross) in its rights offering / sale to stand-by investors in the fourth quarter of 2013. We believe the 2014 capital raise has positioned the Company for continued growth and expansion.
- Total end of year loan balances for the Company were $2.25 billion. This level reflected an increase of $676 million, or 43 percent, from the balance at December 31, 2013.

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- Total "customer" deposits (defined as deposits excluding brokered CDs and brokered "overnight" interest-bearing demand deposits) at the end of 2014 were $1.98 billion, reflecting an increase of $347 million, or 21 percent, from the balance at December 31, 2013.
- At December 31, 2014, the market value of assets under administration at the Bank's Wealth Management Division of $2.99 billion reflected an increase of 11 percent from the balance at December 31, 2013.
- Asset quality metrics continue to be strong. For example, nonperforming assets declined in both dollars and as a percentage of assets to 0.30 percent of total assets as of December 31, 2014, compared to 0.44 percent of total assets as of December 31, 2013.
- The book value per share at December 31, 2014 of $16.36 reflected improvement when compared to $14.79 at December 31, 2013.
- Capital ratios were benefitted by the December 2014 at-the-market equity offering and were improved and strong as of December 31, 2014, even with nearly $735 million growth in assets for the year.

Peapack-Gladstone Financial Corporation's common stock trades on the NASDAQ Global Select Market under the symbol "PGC."

CRITICAL ACCOUNTING POLICIES AND ESTIMATES: Management's Discussion and Analysis of Financial Condition and Results of Operations is based upon the Company's consolidated financial statements, which have been prepared in accordance with U.S. generally accepted accounting principles. The preparation of these financial statements requires the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. Note 1 to the Company's Audited Consolidated Financial Statements for the year ended December 31, 2014, contains a summary of the Company's significant accounting policies.

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

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

adjustments to the provision for loan losses and allowance for loan losses may be necessary due to economic, operating, regulatory and other conditions beyond the Company's control.

The Company accounts for its securities in accordance with "Accounting for Certain Investments in Debt and Equity Securities," which was codified into Accounting Standards Codification ("ASC") 320. Debt securities are classified as held to maturity and carried at amortized cost when Management has the positive intent and ability to hold them to maturity. Debt securities are classified as available for sale when they might be sold before maturity due to changes in interest rates, prepayment risk, liquidity or other factors. Securities available for sale are carried at fair value, with unrealized holding gains and losses reported in other comprehensive income, net of tax. As of December 31, 2014 and 2013, all securities were classified as available for sale.

Securities are evaluated on at least a quarterly basis to determine whether a decline in value is other-than-temporary. To determine whether a decline in value is other-than-temporary, Management considers the reasons underlying the decline, the near-term prospects of the issuer, the extent and duration of the decline and whether it intends to sell, or it is more likely than not that it will be required to sell, a security in an unrealized loss position before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the entire difference between amortized cost and fair value is recognized as impairment through earnings. "Other-than-temporary" is not intended to indicate that the decline is permanent, but indicates that the prospects for a near-term recovery of value is not necessarily favorable, or that there is a lack of evidence to support a realizable value equal to or greater than the carrying value of the investment. Once a decline in value is determined to be other-than-temporary, the amount of the impairment is split into two components – other-than-temporary impairment related to credit loss, which must be recognized through earnings. No impairment charges were recognized in 2014, 2013 or 2012. For equity securities, the entire amount of impairment is recognized through earnings.

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EARNINGS SUMMARY:

The following table presents certain key aspects of our performance for the years ended December 31, 2014, 2013 and 2012.

	Years Ended December 31,			Change	
(In thousands, except per share data)	2014	2013	2012	2014 v 2013	2013 v 2012
Results of Operations:					
Interest income	$75,575	$57,053	$56,090	$18,522	$963
Interest expense	7,681	4,277	4,687	3,404	(410)
Net interest income	67,894	52,776	51,403	15,118	1,373
Provision for loan losses	4,875	3,425	8,275	1,450	(4,850)
Net interest income after provision for loan losses	63,019	49,351	43,128	13,668	6,223
Other income	20,807	20,595	21,303	212	(708)
Total operating expense	59,540	55,183	48,330	4,357	6,853
Income before income tax expense	24,286	14,763	16,101	9,523	(1,338)
Income tax expense	9,396	5,502	6,405	3,894	(903)
Net income	$14,890	$9,261	$9,696	$5,629	$(435)
Dividends on Preferred Stock and accretion	—	—	474	—	(474)
Net income available to common shareholders	$14,890	$9,261	$9,222	$5,629	$39
Per Share Data:					
Basic earnings per common share	$1.23	$1.02	$1.05	$0.21	$(0.03)
Diluted earnings per common share	1.22	1.01	1.05	0.21	(0.04)
Average common shares outstanding	12,065,615	9,094,111	8,780,973	2,971,504	313,138
Diluted average common shares outstanding	12,172,107	9,176,799	8,828,474	2,995,308	348,325
Average common equity to average assets	7.94%	7.26%	7.22%	0.68%	0.04%
Return on average assets	0.63	0.54	0.61	0.09	(0.07)
Return on average common equity	7.96	7.37	8.03	0.59	(0.66)
Selected Balance Sheet Ratios:					
Total capital to risk-weighted assets	15.55%	15.33%	13.08%	0.22%	2.25%
Leverage ratio	9.11	9.00	7.27	0.11	1.73
Average loans to average deposits	92.55	83.05	76.39	9.50	6.66
Allowance for loan losses to total loans	0.87	0.98	1.12	(0.11)	(0.14)
Allowance for loan losses to nonperforming loans	284.38	231.87	108.55	52.51	123.32

Nonperforming loans to total loans	0.30	0.42	1.04	(0.12)	(0.62)
Noninterest bearing deposits to total deposits	15.94	21.62	19.66	(5.68)	1.96
Time deposits to total deposits	14.38	9.52	11.78	4.86	(2.26)

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2014 compared to 2013

For the year ended December 31, 2014, the Company recorded net income available to common shareholders of $14.9 million and diluted earnings per share of $1.22 compared to net income available to common shareholders of $9.3 million and diluted earnings per share of $1.01 for the year ended December 31, 2013. These results produced a return on average assets of 0.63 percent and 0.54 percent in 2014 and 2013, respectively, and a return on average shareholders' equity of 7.96 percent and 7.37 percent in 2014 and 2013, respectively.

Earnings for the 2014 year were benefitted by higher net interest income, offset by a higher provision for loan losses and by higher other operating expenses when compared to 2013. Higher operating expenses were principally due to costs associated with the Strategic Plan, described in the Overview section above.

2013 compared to 2012

For the year ended December 31, 2013, the Company recorded net income available to common shareholders of $9.3 million and diluted earnings per share of $1.01 as compared to net income available to common shareholders of $9.2 million and diluted earnings per share of $1.05 for the year ended December 31, 2012. These results produced a return on average assets of 0.54 percent and 0.61 percent in 2013 and 2012, respectively, and a return on average common shareholders' equity of 7.37 percent and 8.03 percent in 2013 and 2012, respectively.

Earnings for the 2013 year were benefitted by higher net interest income and a lower provision for loan losses, offset by higher other operating expenses when compared to 2012. Higher operating expenses were principally due to costs associated with the Strategic Plan, described in the Overview section above.

NET INTEREST INCOME AND NET INTEREST MARGIN

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

levels of nonperforming assets.

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

	Years Ended December 31,					
(In thousands)	2014		2013		2012	
Net interest income	$67,894		$52,776		$51,403	
Interest rate spread	2.92	%	3.18	%	3.41	%
Net interest margin	3.01		3.26		3.50	

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The following table compares the average balance sheets, net interest spreads and net interest margins for the years ended December 31, 2014, 2013 and 2012 (on a fully tax-equivalent basis-"FTE"):

Year Ended December 31, 2014

(In thousands except yield information)	Average Balance	Income/Expense (FTE)	Yield (FTE)
Assets:			
Interest-earnings assets:			
Investments:			
Taxable (1)	$212,038	$ 4,156	1.96 %
Tax-exempt(1)(2)	52,015	1,160	2.23
Loans held for sale	1,029	48	4.66
Loans (2)(3):			
Mortgages	489,941	16,524	3.37
Commercial mortgages	1,156,369	44,319	3.83
Commercial	171,701	6,818	3.97
Commercial construction	5,996	262	4.37
Installment	24,223	969	4.00
Home Equity	48,055	1,550	3.23
Other	571	53	9.28
Total loans	1,896,856	70,495	3.72
Federal funds sold	101	—	0.10
Interest-earning deposits	111,554	248	0.22
Total interest-earning assets	2,273,593	$ 76,107	3.35 %
Noninterest-earning assets:			
Cash and due from banks	6,475		
Allowance for loan losses	(17,462)		
Premises and equipment	31,220		
Other assets	60,474		
Total noninterest-earning assets	80,707		
Total assets	$2,354,300		
Liabilities and shareholders' equity:			
Interest-bearing deposits:			
Checking	$498,408	$ 782	0.16 %
Money markets	680,760	1,612	0.24
Savings	114,702	59	0.05
Certificates of deposit - retail	162,418	1,522	0.94
Subtotal interest-bearing deposits	1,456,288	3,975	0.27
Interest-bearing demand - brokered	128,855	306	0.24
Certificates of deposit - brokered	97,944	1,384	1.41
Total interest-bearing deposits	1,683,087	5,665	0.34
Borrowed funds	95,713	1,533	1.60
Capital lease obligation	10,085	483	4.79
Total interest-bearing liabilities	1,788,885	7,681	0.43 %
Noninterest-bearing liabilities:			

Demand deposits	366,424		
Accrued expenses and other liabilities	11,960		
Total noninterest-bearing liabilities	378,384		
Shareholders' equity	187,031		
Total liabilities and shareholders' equity	$2,354,300		
Net interest income		$ 68,426	
Net interest spread			2.92 %
Net interest margin (4)			3.01 %

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

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Year Ended December 31, 2013

(In thousands except yield information)	Average Balance	Income/ Expense (FTE)	Yield (FTE)
Assets:			
Interest-earnings assets:			
Investments:			
Taxable (1)	$230,158	$4,606	2.00 %
Tax-exempt(1)(2)	53,038	1,307	2.46
Loans held for sale	5,498	285	5.18
Loans (2)(3):			
Mortgages	526,643	18,616	3.53
Commercial mortgages	576,776	24,684	4.28
Commercial	109,331	5,082	4.65
Commercial construction	8,956	427	4.77
Installment	20,458	902	4.41
Home Equity	47,489	1,542	3.25
Other	594	58	9.76
Total loans	1,290,247	51,311	3.98
Federal funds sold	101	—	0.10
Interest-earning deposits	60,685	152	0.25
Total interest-earning assets	1,639,727	$57,661	3.52 %
Noninterest-earning assets:			
Cash and due from banks	5,970		
Allowance for loan losses	(13,653)		
Premises and equipment	29,312		
Other assets	69,197		
Total noninterest-earning assets	90,826		
Total assets	$1,730,553		
Liabilities and shareholders' equity:			
Interest-bearing deposits:			
Checking	$358,316	$308	0.09 %
Money markets	578,819	1,048	0.18
Savings	113,914	59	0.05
Certificates of deposit - retail	162,921	1,763	1.08
Subtotal interest-bearing deposits	1,213,970	3,178	0.26
Interest-bearing demand – brokered	8,387	15	0.18
Certificates of deposit – brokered	5,000	60	1.20
Total interest-bearing deposits	1,227,357	3,253	0.27
Borrowed funds	32,894	603	1.83
Capital lease obligation	8,855	421	4.75
Total interest-bearing liabilities	1,269,106	4,277	0.34 %
Noninterest-bearing liabilities:			
Demand deposits	326,286		
Accrued expenses and other liabilities	9,460		
Total noninterest-bearing liabilities	335,746		
Shareholders' equity	125,701		
Total liabilities and shareholders' equity	$1,730,553		

Net interest income	$53,384	
Net interest spread		3.18 %
Net interest margin (4)		3.26 %

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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Year Ended December 31, 2012

(In thousands except yield information)	Average Balance	Income/ Expense (FTE)	Yield (FTE)
Assets:			
Interest-earnings assets:			
Investments:			
Taxable (1)	$303,599	$7,033	2.32 %
Tax-exempt(1)(2)	46,780	1,363	2.91
Loans held for sale	2,487	123	4.94
Loans (2)(3):			
Mortgages	520,236	20,038	3.85
Commercial mortgages	375,062	19,039	5.08
Commercial	117,756	5,857	4.97
Commercial construction	10,550	531	5.03
Installment	20,663	995	4.82
Home Equity	49,764	1,591	3.20
Other	665	61	9.17
Total loans	1,094,696	48,112	4.40
Federal funds sold	100	—	0.10
Interest-earning deposits	41,303	98	0.24
Total interest-earning assets	1,488,965	$56,729	3.81 %
Noninterest-earning assets:			
Cash and due from banks	6,506		
Allowance for loan losses	(13,942)		
Premises and equipment	31,049		
Other assets	77,048		
Total noninterest-earning assets	100,661		
Total assets	$1,589,626		
Liabilities and shareholders' equity:			
Interest-bearing deposits:			
Checking	$336,228	$379	0.11 %
Money markets	510,633	1,022	0.20
Savings	101,068	70	0.07
Certificates of deposit - retail	186,158	2,204	1.18
Subtotal interest-bearing deposits	1,134,087	3,675	0.32
Interest-bearing demand - brokered	—	—	—
Certificates of deposit – brokered	2,760	33	1.20
Total interest-bearing deposits	1,136,847	3,708	0.33
Borrowed funds	25,277	548	2.17
Capital lease obligation	9,067	431	4.75
Total interest-bearing liabilities	1,171,191	4,687	0.40 %
Noninterest-bearing liabilities:			
Demand deposits	296,250		
Accrued expenses and other liabilities	6,977		
Total noninterest-bearing liabilities	303,227		
Shareholders' equity	115,208		

Total liabilities and shareholders' equity	$1,589,626		
Net interest income		$52,042	
Net interest spread			3.41 %
Net interest margin (4)			3.50 %

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:

	Year Ended 2014 Compared with 2013			Year Ended 2013 Compared with 2012		
	Difference due to Change In:		Net Change In Income/	Change In Income/		Net Change In Income/
(In Thousands):	Volume	Rate	Expense	Volume	Rate	Expense
ASSETS:						
Investments	$ (325)	$ (272)	$ (597)	(1,370)	(1,113)	$ (2,483)
Loans	23,811	(4,627)	19,184	8,679	(5,480)	3,199
Loans held for sale	(208)	(29)	(237)	156	6	162
Federal funds sold	—	—	—	—	—	—
Interest-earning deposits	116	(20)	96	50	4	54
Total interest income	$ 23,394	$ (4,948)	$ 18,446	7,515	(6,583)	$ 932
LIABILITIES:						
Checking	714	$ 51	$ 765	29	(85)	$ (56)
Money market	315	249	564	122	(96)	26
Savings	—	—	—	9	(20)	(11)
Certificates of deposit	1,307	(224)	1,083	(247)	(167)	(414)
Borrowed funds	1,075	(145)	930	259	(204)	55
Capital lease obligation	57	5	62	(10)	—	(10)
Total interest expense	$ 3,468	$ (64)	$ 3,404	162	(572)	$ (410)
Net interest income	$ 19,926	$ (4,884)	$ 15,042	7,353	(6,011)	$ 1,342

2014 compared to 2013

On a fully tax-equivalent basis, net interest income was $68.4 million in 2014, an increase of $15.0 million or 28 percent over net interest income of $53.4 million in 2013. For 2014 and 2013, the Company’s net interest margin was 3.01 percent and 3.26 percent, respectively, a decrease of 25 basis points year over year. Net interest income increased from 2013 to 2014 due to an increase in loan volumes, especially multifamily mortgages, offset by declines in the average investment portfolios, as well as the effect of lower market rates on loans and investments. The net interest margin for 2014 was impacted by the effect of low market yields, competitive pressures in attracting new loans and deposits, and the maintenance of larger interest bearing deposit/cash balances. The Company expects continued loan growth in this lower market rate and competitive environment.

Interest income on earning assets, on a fully tax-equivalent basis, increased $18.4 million or 32 percent to $76.1 million in 2014 from $57.7 million in 2013. Average earning assets for 2014 and 2013 totaled $2.27 billion and $1.64 billion, respectively, an increase of $634 million or 39 percent over 2013 average earning assets. The average rate earned on earning assets was 3.35 percent in 2014, compared to 3.52 percent in 2013, a decrease of 17 basis points.

For the year ended December 31, 2014, average interest-bearing liabilities totaled $1.79 billion, an increase of $520 million or 41 percent over the average interest-bearing liabilities for 2013 of $1.27 billion. The average rate paid increased to 0.43 percent for 2014 from 0.34 percent for 2013. The increase in the average rate on interest-bearing liabilities was due to competitive pressures in attracting new deposits to support loan growth, as well as the growth of brokered certificates of deposits. Brokered certificates of deposit are generally medium/longer term and have been used in the Company's interest rate risk management practices. Brokered interest-bearing demand deposits have been utilized in the Company's liquidity management. These brokered deposits are more cost effective than other alternatives and do not require any pledging of collateral. The Company utilized alternative sources to meet its funding needs to manage interest rate risk, as well as to retain a higher level of liquidity on its balance sheet.

The average balance of borrowings was $95.7 million for 2014 compared to $32.9 million during 2013, an increase of $62.8 million. Average Federal Home Loan Bank advances increased during 2014 to $83.1 million as the Company utilized medium term, fixed rate FHLB advances, from time to time, as an interest rate risk management tool. Average overnight borrowings increased $7.3 million during 2014 to $12.7 million. The average rates paid on total borrowings was 1.60 percent during 2014 compared to 1.83 percent during 2013, a decrease of 23 basis points. The average rates paid on the Company's overnight borrowings during 2014 was 0.38 percent compared to 0.35 percent during 2013, while the average rates paid on Federal Home Loan Bank advances was 1.79 percent and 2.28 percent in 2014 and 2013, respectively.

The average balance on capital lease obligations was $10.1 million and $8.9 million during 2014 and 2013, respectively, while the average rate paid on capital lease obligations was 4.79 percent and 4.75 percent in 2014 and 2013, respectively.

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2013 compared to 2012

On a fully tax-equivalent basis, net interest income was $53.4 million in 2013, an increase of $1.3 million or three percent over net interest income of $52.0 million in 2012. For 2013 and 2012, the Company's net interest margin was 3.26 percent and 3.50 percent, respectively, a decrease of 24 basis points. Net interest income increased from 2012 to 2013 due to an increase in loan volumes, especially multifamily mortgages, offset by the effect of lower market rates on loans and investments and declines in the average investment portfolios.

Interest income on earning assets, on a fully tax-equivalent basis, increased $932 thousand or 2 percent to $57.7 million in 2013 from $56.7 million in 2012. Average earning assets for 2013 and 2012 totaled $1.64 billion and $1.49 billion, respectively, an increase of $151 million or 10 percent over 2012 average earning assets. The average rate earned on earning assets was 3.52 percent in 2013, compared to 3.81 percent in 2012, a decrease of 29 basis points and due to continued decreases in market rates for all loan and investment types.

For the year ended December 31, 2013, average interest-bearing liabilities totaled $1.27 billion, an increase of $100 million or eight percent over the average interest-bearing liabilities for 2012 of $1.17 billion. The average rate paid declined to 0.34 percent for 2013 from 0.40 percent for 2012. The decline in the average rate on interest-bearing liabilities was due to the sustained low in market rates coupled with targeted growth of lower-costing core deposits and continued run-off of higher-paying certificates of deposit.

The average balance of borrowings was $32.9 million for 2013 compared to $25.3 million during 2012, an increase of $7.6 million or 30 percent. Average Federal Home Loan Bank advances increased during 2013 to $25.2 million as the Company utilized medium term, fixed rate FHLB advances, from time to time, as an interest rate risk management tool. Average overnight borrowings decreased $4.8 million during 2013 to $5.4 million. The average rates paid on total borrowings was 1.83 percent during 2013 compared to 2.17 percent during 2012, a decrease of 34 basis points. The average rates paid on the Company's overnight borrowings during 2013 was 0.35 percent compared to 0.38 percent during 2012, while the average rates paid on Federal Home Loan Bank advances was 2.28 percent and 3.37 percent in 2013 and 2012, respectively.

The average balance on capital lease obligations was $8.9 million and $9.1 million during 2013 and 2012, respectively, while the average rate on capital lease obligations during both 2013 and 2012 was 4.75 percent.

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

recognized in income at the time the securities are sold.

At December 31, 2014, the Company had investment securities available for sale with a fair value of $332.7 million, compared with $268.4 million at December 31, 2013. Net unrealized gains (net of income tax) of $1.3 million and $23 thousand were included in shareholders’ equity at December 31, 2014 and 2013, respectively.

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The carrying value of investment securities available for sale for the years ended December 31, 2014, 2013 and 2012 are shown below:

(In Thousands)	2014	2013	2012
U.S. treasury and U.S. government-sponsored entity bonds	$35,670	$14,770	$26,845
Mortgage-backed securities-residential (principally U.S. government-sponsored entities)	242,289	189,080	221,440
SBA pool securities	7,944	—	—
State and political subdivision	41,394	59,343	50,632
Single-issuer trust preferred security	2,400	2,370	2,289
CRA investment fund	2,955	2,884	3,062
Marketable equity securities	—	—	211
Total	$332,652	$268,447	$304,479

The following table presents the contractual maturities and yields of debt securities available for sale, stated at fair value, as of December 31, 2014:

(In Thousands)	Within 1 Year	After 1 But Within 5 Years	After 5 But Within 10 Years	After 10 Years	Total
U.S. treasury and U.S. government-	$—	$23,710	$8,997	$2,963	$35,670
sponsored entity bonds	— %	1.48 %	0.84 %	1.40 %	1.31 %
Mortgage-backed securities-	$—	$7,970	$91,781	$142,538	$242,289
residential (1)	— %	3.64 %	1.88 %	1.58 %	1.76 %
SBA pool securities	$—	$—	$—	$7,944	7,944
	— %	— %	— %	0.49 %	0.49 %
State and political subdivisions (2)	$24,079	$10,367	$5,790	$1,158	$41,394
	0.80 %	3.25 %	4.88 %	5.34 %	2.08 %
Single-issuer trust preferred security (1)	$—	$—	$—	$2,400	$2,400
	— %	— %	— %	1.04 %	1.04 %
Total	$24,079	$42,047	$106,568	$157,003	$329,697
	0.80 %	2.31 %	1.95 %	1.487 %	1.69 %

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

Federal funds sold and interest-earning deposits are an additional part of the Company's liquidity and interest rate risk management strategies. The combined average balance of these investments during 2014 was $111.7 million compared to $60.8 million in 2013.

LOANS: The loan portfolio represents the largest portion of the Company’s earning assets and is the primary source of interest and fee income. Loans are primarily originated in the State of New Jersey and, to a lesser extent, the New York City area.

Total loans were $2.25 billion and $1.57 billion at December 31, 2014 and 2013, respectively, an increase of $676.1 million, or 43 percent, over the previous year. During 2014, commercial mortgages and multifamily mortgages increased $556.8 million, or 67 percent, due to a company-wide focus on this type of business in both the New Jersey and the boroughs of New York City markets as well as continued demand from borrowers looking to refinance multifamily and other commercial mortgages held by other institutions. Commercial loans totaled $308.7 million at December 31, 2014, increasing $176.9 million, or 134 percent, from 2013, as the Company introduced a comprehensive commercial and industrial (C&I) lending program in 2013 and added seasoned bankers focused on C&I lending in both 2013 and 2014. This resulted in robust growth during the current year. Residential mortgage loans totaled $466.8 million at December 31, 2014, a decrease of $66.2 million, or 12 percent, from 2013. Throughout 2014 and continuing a trend that began in the middle of 2013 with an increase in mortgage rates, the Company experienced continued low levels of residential mortgage loans originations for which management had expected and planned. Additionally, a shift in the Company’s strategy,

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emphasizing shorter duration mortgage loans for relationship purposes and de-emphasizing origination for sale, also contributed to lower levels of residential mortgages.

In December 2012, the Company transferred $19 million of classified loans to loans held for sale as these loans were being marketed for sale. Upon transfer, the Company recorded a charge-off on these loans totaling $5.4 million. In March 2013, the loans were sold for a gain of $522 thousand.

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

(In Thousands)	2014	2013	2012	2011	2010
Residential mortgage	$466,760	$532,911	$515,014	$498,482	$419,653
Commercial mortgage	1,388,747	831,997	420,086	330,559	288,183
Commercial loans	308,743	131,795	115,372	123,845	131,408
Commercial-construction	5,998	5,893	9,328	13,713	25,367
Home equity lines of credit	50,141	47,905	49,635	50,291	45,775
Consumer and other loans	29,878	23,700	23,149	21,455	22,111
Total loans	$2,250,267	$1,574,201	$1,132,584	$1,038,345	$932,497

The following table presents the contractual repayments of the loan portfolio, by loan type, at December 31, 2014:

(In Thousands)	Within One Year	After 1 But Within 5 Years	After 5 Years	Total
Residential mortgage	$144,224	$ 210,989	$111,547	$466,760
Commercial mortgage	181,856	771,043	435,848	1,388,747
Commercial loans	214,256	70,209	24,278	308,743
Commercial-construction	5,998	—	—	5,998
Home equity lines of credit	50,141	—	—	50,141
Consumer and other loans	15,919	9,463	4,496	29,878
Total loans	$612,394	$ 1,061,704	$576,169	$2,250,267

The following table presents the loans, by loan type, that have a predetermined interest rate and an adjustable interest rate due after one year at December 31, 2014:

(In Thousands)	Predetermined Interest Rate	Adjustable Interest Rate
Residential mortgage	$ 243,482	$ 138,148
Commercial mortgage	163,285	1,210,513

Commercial loans	24,444	33,940
Commercial construction	1,281	4,381
Consumer loans	18,074	—
Total loans	$ 450,566	$ 1,386,982

The Company has not made nor invested in subprime loans or “Alt-A” type mortgages. At December 31, 2014, there were no commitments to lend additional funds to borrowers whose loans are classified as nonperforming.

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DEPOSITS: At December 31, 2014, the Company reported total deposits of $2.30 billion, an increase of $651.4 million, or 39.5 percent, from the balance reported at December 31, 2013. The Company's strategy is to fund a majority of loan growth with core deposits, which is an important factor in the generation of net interest income. The Company's average deposits for 2014 increased $495.9 million, or 31.9 percent, over 2013 average levels. Over that period, the Company saw growth in average noninterest-bearing checking balances, average interest-bearing checking, money market account balances and brokered deposits. The Company has successfully focused on:

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

Brokered certificates of deposit were also utilized throughout 2014. The majority of these deposits were longer term and have been transacted as part of the Company's interest rate risk management. These certificates of deposit are also a more cost effective alternative than other borrowings and also do not require pledging of collateral.

Brokered interest-bearing demand deposits continue to be maintained as an additional source of liquidity. Such deposits are generally a more cost effective alternative than other borrowings and do not require pledging of collateral, as wholesale borrowings do. These deposits increased to $188 million at December 31, 2014. The Company ensures, ample available collateralized liquidity as a backup to these short term brokered deposits.

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

(In Thousands)	2014		2013		2012	
Noninterest-bearing demand	$366,424	— %	$326,286	— %	$296,250	— %
Checking	498,408	0.16	358,316	0.09	336,228	0.11
Savings	114,702	0.05	113,914	0.05	101,068	0.07
Money markets	680,760	0.24	578,819	0.18	510,633	0.20
Certificates of deposit - retail	162,418	0.94	162,921	1.08	186,158	1.18
Interest-bearing						
Demand - brokered	128,855	0.24	8,387	0.18	—	—
Certificates of deposit - brokered	97,944	1.41	5,000	1.20	2,760	1.20
Total deposits	$2,049,511	0.28%	$1,553,643	0.21%	$1,433,097	0.26%

The Company is a participant in the Reich & Tang Demand Deposit Marketplace ("DDM") program. The Company uses these deposit sweep services to place customer funds into interest-bearing demand checking accounts issued by other participating banks. Customer funds are placed at one or more participating bank to ensure that each deposit customer is eligible for the full amount of FDIC insurance. As a program participant, the Company receives reciprocal

amounts of deposits from other participating banks. The DDM program is considered to be a source of brokered deposits for bank regulatory purposes. However, the Company considers these reciprocal deposit balances to be in-market customer deposits as distinguished from traditional out-of-market brokered deposits.

Certificates of deposit $100,000 and over are generally purchased by local municipal governments or individuals for periods of one year or less. The following table shows the remaining maturity for certificates of deposit of $100,000 or more as of December 31, 2014 (in thousands):

Three months or less	$8,059
Over three months through six months	10,133
Over six months through twelve months	15,107
Over twelve months	84,754
Total	$118,053

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FEDERAL HOME LOAN BANK ADVANCES AND OTHER BORROWINGS: At December 31, 2014 and 2013, Federal Home Loan Bank (FHLB) advances totaled $83.7 million and $74.7 million, respectively, with a weighted average interest rate of 1.78 percent and 1.80 percent, respectively. The Company considers FHLB advances an added source of funding, and accordingly, may execute transactions from time to time as an additional part of Company's liquidity and interest rate risk management strategies. The FHLB advances outstanding at December 31, 2014 have varying maturities, call dates and interest rates, as well as prepayment penalties. At December 31, 2014 and 2013 overnight borrowings totaled $54.6 and 54.9 million, respectively with a weighted average rate of 0.32% and 0.40% respectively.

ALLOWANCE FOR LOAN LOSSES AND RELATED PROVISION: The allowance for loan losses was $19.5 million at December 31, 2014 compared to $15.4 million at December 31, 2013. At December 31, 2014, the allowance for loan losses as a percentage of total loans outstanding was 0.87 percent compared to 0.98 percent at December 31, 2013. The provision for loan losses was $4.9 million for 2014, $3.4 million for 2013 and $8.3 million for 2012.

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:

a) Primary Residential Mortgages. The Bank originates one to four family residential mortgage loans in the Tri-State area, as well as Pennsylvania and Florida. When reviewing residential mortgage loan applications, the Bank obtains detailed verifiable information regarding income, assets and indebtedness, a credit report, and an independent appraisal of the property to be mortgaged. The Bank makes residential mortgage loans up to 80 percent of the appraised value and up to 97 percent with private mortgage insurance. The Bank has developed a suite of products for use exclusively by Wealth Advisors to drive relationship banking. LTVs are done uniformly and there are two loan groups: loans less than $3 million and loans greater than $3 million to $5 million. There is no differentiation by property type. The Bank's underwriting guidelines include (i) minimum credit report scores of 700 and (ii) a maximum debt to income ratio of 45 percent. The Bank may consider an exception to any guideline if the remaining characteristics of the application are sufficiently strong to compensate. Generally, the Bank retains in its portfolio residential mortgage loans with fixed rate maturities of no greater than 7 years, which then convert to annually adjusted floating rates. Community Development loans granted under the Affordable Housing Program are offered with 30 year maturities. Loans with longer maturities or lower credit scores are sold to secondary market investors. The Bank does not originate, purchase or carry any sub-prime mortgage loans.

Primary risk characteristics associated with residential mortgage loans typically involve major living or lifestyle changes to the borrower, including unemployment or other loss of income; unexpected significant expenses, such as for major medical issues or catastrophic events; divorce or death. In addition, residential mortgage loans that have adjustable rates could expose the borrower to higher debt service requirements in a rising interest rate environment. Further, real estate value could drop significantly and cause the value of the property to fall below the loan amount, creating additional potential exposure for the Bank.

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

problematic residential mortgage loans.

b) Home Equity Lines of Credit. The Bank provides revolving lines of credit against one to four family residences within or near its primary geographic market. These loans are in a first lien position, in lieu of a primary residential first mortgage. When reviewing residential mortgage loan applications, the Bank obtains detailed verifiable information regarding income, assets and indebtedness, a credit report, and an independent appraisal of the property to be mortgaged. For home equity lines of credit, the Bank utilizes the same underwriting standards as for primary residential mortgages. Primary risk characteristics associated with home equity lines of credit typically involve major living or lifestyle changes to the borrower, including unemployment or other loss of income; unexpected significant expenses, such as for major medical issues or catastrophic events; divorce or death. In addition, home equity lines of credit typically are made with variable or floating interest rates, such as the Prime Rate, which could expose the borrower to higher debt service requirements in a rising interest rate environment. Further, real estate value could drop significantly and cause the value of the property to fall below the loan amount, creating additional potential exposure for the Bank.

Bank management believes that the underwriting guidelines previously described address the primary risk characteristics. Further, the Bank has dedicated staff and system resources to monitor and collect on any potentially problematic home equity lines of credit.

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c) Junior Lien Loan on Residence. The Bank provides junior lien loans (“JLL”) against one to four family properties within or near its primary geographic market area. Junior liens loans can be either in the form of an amortizing fixed rate home equity loan or a revolving home equity line of credit. These loans are subordinate to a first mortgage which may be from another lending institution. The Bank will require that the mortgage securing the JLL be no more junior than a second lien position. The Bank will evaluate these applications in the same manner as it underwrites primary residential mortgages. The combined first mortgage and junior lien loan must be no more than 80 percent of the appraised value of the property when the combined debt is less than or equal to $800,000. For JLL amounts where the combined debt exceeds $800,000, the maximum loan-to-value ratio is 65 percent. Primary risk characteristics associated with junior lien loans typically involve major living or lifestyle changes to the borrower, including unemployment or other loss of income; unexpected significant expenses, such as for major medical issues or catastrophic events; divorce or death. Further, real estate value could drop significantly and cause the value of the property to fall below the loan amount, creating additional potential exposure for the Bank.

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

d) Multifamily Loans. Multifamily loans are commercial mortgages on residential apartment buildings. Within the multifamily sector, the Bank’s primary focus is to lend against larger non-luxury apartment buildings with at least 20 units and which are owned and managed by experienced sponsors. As of December 31, 2014, the average property size in the portfolio was 48 units and, of the total portfolio balance, 46 percent was on properties in New Jersey, 45 percent in New York and 9 percent in Pennsylvania.

Multifamily loans are expected to be repaid from the cash flow of the underlying property so the collective amount of rents must be sufficient to cover all operating expense, maintenance, taxes and debt service. The Bank includes debt service coverage covenants in these loans and the average ratio at original underwriting was about 1.63x. Increases in vacancy rates, interest rates or other changes in general economic conditions can all have an impact on the borrower and their ability to repay the loan. Certain markets, such as New York City, are rent regulated, and as such, feature rents that are considered to be below market rates. Generally, rent regulated properties are characterized by relatively stable occupancy levels and longer term tenants. As a loan asset class for many banks, multifamily loans have experienced much lower historical loss rates compared to other types of commercial lending.

The Bank’s Loan Policy allows loan to appraised value ratios of up to 80 percent, however, almost all loans are originated at a maximum loan to value of 75 percent and the overall portfolio average loan to value ratio was under 61 percent at year end 2014. Most multifamily loans are made on a fixed rate basis with interest rate resets every five or seven years over an underlying market index, however, the Bank periodically will provide fixed rate periods as short as three years or up to ten years. Multifamily loan terms include prepayment penalties for early payoffs and generally require that the Bank escrow for real estate taxes. Multifamily loans will typically have a minimum debt service coverage ratio that provides for an adequate cushion for unexpected or uncertain events and changes in market conditions. In the loan underwriting process, the Bank requires an independent appraisal and review, appropriate environmental due diligence and an assessment of the property’s condition. A high majority of multifamily borrowers also maintain some form of deposit relationship with the Bank.

e) Commercial Real Estate Loans. The Bank provides mortgage loans for commercial real estate that is either owner occupied or managed as an investment property (non-owner occupied). Principal types of investment commercial real estate properties include retail (26 percent of the investment CRE portfolio), office buildings (18 percent), hotels (17 percent), mixed use (14 percent), medical facilities (7 percent), industrial (5 percent) and other (13 percent). The terms and conditions of all commercial mortgage loans are tailored to the specific attributes of the borrower and any guarantors as well as the nature of the property and loan purpose. In the case of investment commercial real estate properties, the Bank reviews, among other things, the composition and diversity of the underlying tenants, terms and conditions of the underlying tenant lease agreements, the resources and experience of the sponsor, and the condition and location of the subject property.

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

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

While the Bank's policy allows loan to value ratios of up to 80 percent of an appraised value, the maximum is typically 75 percent, and more than half are at 65 percent or lower at origination. Commercial mortgage loans are generally made on a fixed rate basis with periodic rate resets every five or seven years over an underlying market index. Commercial mortgage loan terms include prepayment penalties for early payoffs and generally require that the Bank escrow for real estate taxes. The Bank requires an independent appraisal, an assessment of the property's condition, and appropriate environmental due diligence. With all commercial real estate loans, the Bank's standard practice is to require a depository relationship.

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

Commercial and industrial loans are typically repaid first by the cash flow generated by the borrower's business operation. The primary risk characteristics are specific to the underlying business and its ability to generate sustainable profitability and resulting positive cash flow. Factors that may influence a business's profitability include, but are not limited to, demand for its products or services, quality and depth of management, degree of competition, regulatory changes, and general economic conditions. Commercial and industrial loans are generally secured by business assets; however, the ability of the Bank to foreclose and realize sufficient value from the assets is often highly uncertain. To mitigate the risk characteristics of commercial and industrial loans, the Bank will often require more frequent reporting requirements from the borrower in order to better monitor its business performance.

g) Agricultural Production. These are loans to finance agricultural production and other loans to farmers.

h) Commercial Construction. The Bank has substantially wound down its commercial construction lending activity given the current economic environment. New construction loans would be considered only to experienced and reputable local builders and developers that have the capital and liquidity to carry a project to completion and stabilization and for projects that are supported by either a permanent take-out or acceptable executed leases or sales contracts. When evaluating a construction loan request, the Bank will also review the construction plans and drawings, costs estimates from architects, and an independent appraisal. Construction loans typically have a 12-24 month period of interest only and at a maximum 70% loan-to-value ratio. Construction loans are considered riskier than commercial financing on improved and established commercial real estate. The risk of potential loss increases if the original cost estimates or time to complete are significantly off.

i) 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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The provision was based upon Management's review and evaluation of the size and composition of the loan portfolio, actual loan loss experience, level of delinquencies, general market and economic conditions, detailed analysis of individual loans for which full collectability may not be assured, and the existence and fair value of the collateral and guarantees securing the loans. Although Management used the best information available, the level of the allowance for loan losses remains an estimate, which is subject to significant judgment and short-term change. Various regulatory agencies, as an integral part of their examination process, periodically review the Company's allowance for loan losses. Such agencies may require the Company to make additional provisions for loan losses based upon information available to them at the time of their examination. Furthermore, the majority of the Company's loans are secured by real estate in the State of New Jersey and, to a lesser extent, the New York City area. Accordingly, the collectability of a substantial portion of the carrying value of the Company's loan portfolio is susceptible to changes in market conditions in the state and may be adversely affected should real estate values decline further or New Jersey or New York City experience continuing adverse economic conditions. Future adjustments to the allowance may be necessary due to economic, operating, regulatory and other conditions beyond the Company's control.

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

(In Thousands)	2014	2013	2012	2011	2010
Allowance for loan losses at					
Beginning of year	$15,373	$12,735	$13,223	$14,282	$13,192
Loans charged-off during the period:					
Residential mortgage	273	611	1,676	763	450
Commercial mortgage	669	56	6,987	6,767	198
Commercial and construction	123	16	305	879	8,330
Home equity lines of credit	—	—	91	89	—
Consumer and other	23	357	100	41	188
Total loans charged-off	1,088	1,040	9,159	8,539	9,166
Recoveries during the period:					
Residential mortgage	1	48	3	—	—
Commercial mortgage	124	114	316	96	15
Commercial and construction	85	65	60	119	239
Home equity lines of credit	—	—	—	—	—
Consumer and other	110	26	17	15	2
Total recoveries	320	253	396	230	256
Net charge-offs	768	787	8,763	8,309	8,910
Provision charge to expense	4,875	3,425	8,275	7,250	10,000
Allowance for loan losses at end of year	$19,480	$15,373	$12,735	$13,223	$14,282
Ratios:					
Allowance for loan losses/total loans	0.87 %	0.98 %	1.12 %	1.27 %	1.53 %
Allowance for loan losses/					
Total nonperforming loans	284.38	231.87	108.55	68.83	76.05

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

(In thousands)	2014	% of Loan Category To Total Loans	2013	% of Loan Category To Total Loans	2012	% of Loan Category To Total Loans	2011	% of Loan Category To Total Loans	2010	% of Loan Category To Total Loans
Residential	$3,188	24.1	$2,698	38.7	$3,628	52.2	$2,682	55.0	$1,890	52.5
Commercial and other	16,196	74.7	12,597	60.3	9,015	46.4	9,955	43.8	11,804	46.3
Consumer	96	1.2	78	1.0	92	1.4	78	1.2	66	1.2
Unallocated	—	**N/A**	—	N/A	—	N/A	508	N/A	522	N/A
Total	$19,480	100.0	$15,373	100.0	$12,735	100.0	$13,223	100.0	14,282	100.0

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The allowance for loan losses as of December 31, 2014 totaled $19.5 million compared to $15.4 million at December 31, 2013. In spite of the increase, the allowance for loan loss as a percentage of loans declined to 0.87 percent at December 31, 2014 compared to 0.98 percent at December 31, 2013. The provision for loan losses made during 2014 totaled $4.9 million for 2014 compared with $3.4 million for 2013. The provision for loan losses made was primarily influenced by net charge offs taken during the year of $768 thousand and loan growth experienced during 2014. The Company believes that the allowance for loan losses as of December 31, 2014 represents a reasonable estimate for probable incurred losses in the portfolio.

The portion of the allowance for loan losses allocated to loans collectively evaluated for impairment, commonly referred to as general reserves, was $18.5 million at December 31, 2014 and $13.7 million at December 31, 2013. General reserves at December 31, 2014 and 2013 represent 0.83 percent and 0.88 percent, respectively, of loans collectively evaluated for impairment. The Company experienced growth in the loan portfolio of approximately $677 million of which $539 million was in the multifamily portfolio. As a result of the growth experienced, multifamily and residential loan classes make up 69 percent of the loan portfolio as of December 31, 2014 compared to approximately 68 percent at December 31, 2013. This continued change in loan composition has resulted in the overall decline of the general reserve allowance as a percentage of loans collectively evaluated for impairment at December 31, 2014 when compared to December 31, 2013 as the multifamily and residential loan classes carry a lower general reserve allocation compared to the other non-homogeneous lending portfolios.

The specific reserve component of the allowance for loan losses decreased to $957 thousand at December 31, 2014 compared to $1.7 million as of December 31, 2013.

The allowance for loan losses as a percentage of nonperforming loans increased, as the level of nonperforming loans also decreased during the year. Nonperforming loans are specifically evaluated for impairment. Also, Management commonly records partial charge-offs of the excess of the principal balance over the fair value, less costs to sell, of collateral for collateral dependent impaired loans; as a result, the allowance for loan losses does not always change proportionately with changes in nonperforming loans. Management charged off $935 thousand on loans identified as collateral-dependent impaired loans during 2014 and charged off $973 thousand on loans identified as collateral-dependent impaired loans during 2013.

ASSET QUALITY:

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

	Years Ended December 31,				
(In thousands)	2014	2013	2012	2011	2010

Loans past due 30-89 days	$1,755	$2,953	$3,786	$11,632	$5,475
Troubled debt restructured loans	$15,033	$13,966	$9,316	$11,104	$7,157
Loans past due 90 days or more and still accruing interest	$—	$—	$—	$345	$666
Nonaccrual loans	6,850	6,630	11,732	18,865	18,114
Total nonperforming loans	6,850	6,630	11,732	19,210	18,780
Other real estate owned	1,324	1,941	3,496	7,137	4,000
Total nonperforming assets	$8,174	$8,571	$15,228	$26,347	$22,780
Ratios:					
Total nonperforming loans/total loans	0.30 %	0.42 %	1.04 %	1.85 %	2.01 %
Total nonperforming loans/total assets	0.25	0.34	0.70	1.20	1.25
Total nonperforming assets/total assets	0.30	0.44	0.91	1.65	1.51

Due to the continued weakness in the housing markets and economic environment during 2014, some borrowers have found it difficult to make their loan payments under contractual terms. In certain of these cases, the Company has chosen to grant concessions and modify certain loan terms.

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The following table presents the troubled debt restructured loans, by collateral, at December 31, 2014 and 2013:

(Dollars in thousands)	December 31, 2014	Number of Relationships	December 31, 2013	Number of Relationships
Primary residential mortgage	$ 3,655	17	$ 1,589	9
Owner-occupied commercial real estate	—	—	2,057	1
Investment commercial real estate	11,229	3	9,949	2
Commercial and industrial	149	1	371	3
Total	$ 15,033	21	$ 13,966	15

At December 31, 2014 there were $1.4 million of troubled debt restructured loans included in nonaccrual loans above compared to $2.9 million at December 31, 2013. All troubled debt restructured loans are considered and included in impaired loans at December 31, 2014 and had specific reserves of $892 thousand. At December 31, 2013, all troubled debt restructured loans were considered and included in impaired loans and had specific reserves of $1.7 million.

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

Impaired loans totaled $20.5 million and $17.7 million at December 31, 2014 and 2013. Impaired loans include nonaccrual loans of $6.9 million and $6.6 million at December 31, 2014 and 2013, respectively. Impaired loans also include accruing troubled debt restructuring loans of $13.6 million at December 31, 2014 and $11.1 million at December 31, 2013.

The following table presents impaired loans, by collateral type, at December 31, 2014 and 2013.

(Dollars in thousands)	December 31, 2014	Number of Relationships	December 31, 2013	Number of Relationships
Primary residential mortgage	$ 6,500	32	$ 3,691	23
Home equity lines of credit	210	3	111	2
Junior lien loan on residence	164	3	260	6
Owner-occupied commercial real estate	1,674	3	3,250	6
Investment commercial real estate	11,653	4	9,949	2
Commercial and industrial	248	2	470	5
Consumer and other	2	1	13	1
Total	$ 20,451	48	$ 17,744	45
Specific reserves, included in the allowance for loan losses	$ 957		$ 1,653	

CONTRACTUAL OBLIGATIONS: The following table shows the significant contractual obligations of the Company by expected payment period, as of December 31, 2014:

(In thousands)	Less Than One Year	1-3 Years	3-5 Years	More Than 5 Years	Total
Loan commitments	$ 223,009	$ —	$ —	$ —	$ 223,009
Long-term debt obligations	—	45,794	37,898	—	83,692
Purchase obligations	2,060	4,180	3,500	3,600	13,340
Capital lease obligations	993	2,088	2,273	9,648	15,002
Operating lease obligations	2,496	3,713	2,797	6,002	15,008
Total contractual obligations	$ 228,558	$ 55,775	$ 46,468	$ 19,250	$ 350,051

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

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

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Purchase obligations represent legally binding and enforceable agreements to purchase goods and services from third parties and consist of contractual obligations under data processing service agreements. The Company also enters into various routine rental and maintenance contracts for facilities and equipment. These contracts are generally for one year.

OFF-BALANCE SHEET ARRANGEMENTS: The following table shows the amounts and expected maturities of significant commitments, consisting primarily of letters of credit, as of December 31, 2014.

(In thousands)	Less Than One Year	1-3 Years	3-5 Years	More Than 5 Years	Total
Financial letters of credit	$ 747	$ —	$ —	$ —	$747
Performance letters of credit	1,745	—	—	—	1,745
Commercial letters of credit	675	—	—	—	675
Total letters of credit	$ 3,167	$ —	$ —	$ —	$3,167

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

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

	Years Ended December 31,			Change	
(In thousands)	2014	2013	2012	2014 v 2013	2013 v 2012
Service charges and fees	$3,111	$2,798	$2,756	$313	$ 42
Gain on sale of loans (mortgage banking)	439	1,330	1,195	(891)	135
Gain on sale of loans held for sale at lower of cost or fair value	166	522	—	(356)	522
Bank owned life insurance	1,092	1,098	1,064	(6)	34
Securities gains	260	840	3,810	(580)	(2,970)
Gain/loss on ORE	139	85	(89)	54	174
Other income	358	84	285	274	(201)
Total other income	$5,565	$6,757	$9,021	$(1,192)	$ (2,264)

2014 compared to 2013

The Company recorded total other income, excluding wealth management fee income of $5.6 million in 2014, reflecting a decrease of $1.2 million or 18 percent compared to 2013 levels. The decrease in 2014 was attributable to

decreases in net securities gains and gains on sale of loans, offset in part by an increase in service charges and fees.

Securities gains were $260 thousand for 2014 compared to $840 thousand for 2013. Sales of securities have been generally employed to benefit interest rate risk, prepayment risk, and/or liquidity risk. Given the short duration of the securities portfolio, sales have been employed much less often in 2014 compared to 2013.

The decrease in loan sale gains is due to decreased levels of mortgage loans originated for sale. This decline in originations for sale was caused by market changes, most notably a rise in rates in mid-2013, as well as a shift in strategy, emphasizing mortgage loans for relation purposes.

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

2013 compared to 2012

The Company recorded total other income, excluding income from the Bank’s Private Wealth Management Division, of $6.8 million in 2013, reflecting a decrease of $2.3 million or 25 percent over 2012 levels. The decrease in 2013 was attributable to decreases in mortgage late fees and net securities gains, offset in part by an increase in gains on sales of loans and net gains on sales of OREO properties.

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The gain on the sale of classified loans totaled $522 thousand for 2013, which, was due to the sale of classified loans held for sale as of December 31, 2012. The decrease in securities gains was due to the sale of the Company's entire pooled trust preferred security portfolio in December 2012 for a net gain of $2.9 million. The Company continues to strategically sell investments to reduce prepayment risk and/or interest rate risk and/or to benefit future yield or current capital.

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

	Years Ended December 31,			Change	
(In thousands)	2014	2013	2012	2014 v 2013	2013 v 2012
Salaries and employee benefits	$36,241	$32,249	$27,595	$3,992	$ 4,654
Premises and equipment	9,963	9,914	9,467	49	447
Other operating expenses:					
Wealth management division other expense	1,896	1,702	1,462	194	240
Professional and legal fees	1,873	2,085	1,301	(212)	784
FDIC assessment	1,381	1,121	1,208	260	(87)
Loan expense	532	676	877	(144)	(201)
Telephone	914	696	647	218	49
Advertising	594	519	512	75	7
Stationery and supplies	306	391	381	(85)	10
Postage	391	409	370	(18)	39
Provision for ORE losses	400	1,010	145	(610)	865
Other operating expenses	5,049	4,411	4,365	638	46
Total operating expense	$59,540	$55,183	$48,330	$4,357	$ 6,853

2014 compared to 2013

Operating expenses totaled $59.5 million in 2014, compared to $55.2 million in 2013, resulting in an increase of $4.4 million, or 8 percent. Salaries and benefits expense, which accounts for the largest portion of operating expenses, totaled $36.2 million in 2014, reflecting an increase of $4.0 million or 12 percent, when compared to 2013. This is largely due to strategic hiring in line with the Strategic Plan. In 2014, in addition to the normal salary increases and the additional compensation associated with additions to staff, the Company saw increases in bonus and incentive accruals, associated with the Company's growth.

Wealth management division other expense totaled $1.9 million in 2014, increasing $194 thousand, or 11 percent, from 2013 due to increased system expenses related to increased volume. Professional and legal fees decreased $212 thousand, or 10 percent, from $2.1 million in 2013 to $1.9 million in 2014, due primarily to fees in 2013 associated with the search for a new head of Wealth Management.

Loan expense totaled $532 thousand in 2014, decreasing $144 thousand, or 21 percent, when compared to 2013 expense due to lower expenses associated with problem loans. Provision for ORE expense was $400 thousand and $1.0 million in 2014 and 2013, respectively, and both were as a result of an adjustment necessary relating to one large ORE property.

The Company strives to operate in an efficient manner and control costs; however, given its plans to grow its core businesses, it expects higher operating expenses in 2015 compared to prior periods. The Company anticipates that revenue and related profitability associated with these plans will begin to improve after lagging expenses by several quarters.

2013 compared to 2012

Operating expenses totaled $55.2 million in 2013, compared to $48.3 million in 2012, resulting in an increase of $6.9 million, or 14 percent. Salaries and benefits expense, which accounts for the largest portion of operating expenses, totaled $32.2 million in 2013, reflecting an increase of $4.7 million or 17 percent, when compared to 2012. This is largely due to strategic hiring in line with the Strategic Plan. In addition, the Company recorded a $933 thousand compensation expense accrual related to certain staff restructurings during the third quarter of 2013. In 2013, in addition to the normal salary increases and the additional compensation associated with additions to staff, the Company saw increases in bonus, incentive and profit sharing accruals.

In 2013, premises and equipment expense totaled $9.9 million compared to $9.5 million in 2012, an increase of $447 thousand, or 5 percent. This was due to accelerated depreciation expense related to the consolidation of the operations center staff and equipment, as previously described.

Wealth management division other expense totaled $1.7 million in 2013, increasing $240 thousand, or 16 percent, from 2012 due to increased system expenses related to increased volume. Professional and legal fees increased $784 thousand, or 60 percent, from $1.3 million in 2012 to $2.1 million in 2013, due primarily to fees associated with the search for a new head of Wealth Management and various training and consulting expenses, much of which was associated with the Strategic Plan.

Loan expense totaled $676 thousand in 2013, decreasing $201 thousand, or 23 percent, when compared to 2012 expense due to lower expenses associated with problem loans. Provision for ORE expense was $1.0 million in 2013 compared to $145 thousand in 2012, as one large ORE property required a $1.0 million provision for ORE based on its appraisal in 2013.

INCOME TAXES: For the year ended December 31, 2014, income tax expense was $9.4 million compared to income tax expense of $5.5 million for the same period of 2013. The effective tax rate for the year ended December 31, 2014 was 38.69 percent compared to 36.27 percent for the year ended December 31, 2013. The effective tax rate for 2014 was greater than 2013 due to increase in income before income taxes compared to the prior year resulting in a higher tax rate applied.

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.

At December 31, 2014, the Company's equity to total assets ratio was 8.96 percent, up from 8.68 percent at December 31, 2013. Also at December 31, 2014, the Company's Tier 1 and total capital ratios were 14.38 percent and 15.55 percent, respectively, and its capital leverage ratio was 9.11 percent at December 31, 2014, all above the required levels necessary to be considered well capitalized under regulatory guidelines applicable to banks.

In December 2014, the Company successfully completed the sale of 2,776,215 common shares under its "at-the-market" equity offering program announced on October 23, 2014. The common shares in the offering were sold at a weighted average price of $18.01 per share, representing gross proceeds to the Company of $50 million, $48.2 million after sales agent commissions and offering expenses. The Board of Directors authorized the Company to contribute $48.2

million of the proceeds received from the equity offering to the Bank as equity. The cash was transferred from the Company to the Bank before year end 2014.

In December 2013, the Company completed the sale of 2,470,588 common shares in its rights offering and sale to standby investors. The common shares in the offering were all sold at a price of $17.00 per share, representing proceeds to the Company of $41.1 million, net of offering costs of $900 thousand. On December 19, 2013, the Board of Directors authorized the Company to contribute $40.5 million of the proceeds received from the rights offering to the Bank as equity. At December 31, 2013, the Company entered into a note agreement with the Bank, which resulted in a capital contribution of $40.5 million to the Bank. The cash was transferred from the Company to the Bank on January 2, 2014 to satisfy the note agreement.

As noted under Capital Requirements of Part I, Item 1, Basel III rules are effective for the Company on January 1, 2015, subject to phase-in periods for certain components. As also noted in that section, the Company believes the Company and the Bank would meet all capital adequacy requirements under Basel III if such requirements were currently effective.

The Dividend Reinvestment Plan of Peapack-Gladstone Financial Corporation, or the “Reinvestment Plan,” allows shareholders of the Company to purchase additional shares of common stock using cash dividends without payment of any brokerage commissions or other charges. Shareholders may also make voluntary cash payments of up to $50,000 per quarter to purchase additional shares of common stock. The Reinvestment Plan provided $7.4 million of capital to the Company in 2014.

Management believes the Company’s capital position and capital ratios are adequate.

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LIQUIDITY: Liquidity refers to an institution's ability to meet short-term requirements including loan fundings, deposit withdrawals and maturing obligations, as well as long-term obligations, including potential capital expenditures. The 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, brokered deposits, 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 $31.2 million at December 31, 2014. In addition, the Company had $332.7 million in securities designated as available for sale at December 31, 2014. These securities can be sold, or used as collateral for borrowings, in response to liquidity concerns. In addition, the Company generates significant liquidity from scheduled and unscheduled principal repayments of loans and mortgage-backed securities.

A further source of liquidity is borrowing capacity. At December 31, 2014, unused borrowing commitments totaled $672.4 million from the FHLB and $28.4 million from correspondent banks.

Asset growth for 2014 was funded by a diversified source of funding alternatives, including customer deposits, brokered CDs, short term brokered interest-bearing demand deposits, multifamily loan participations, residential 1-4 family first mortgage loan sales and capital growth. The short term brokered interest-bearing demand deposit balances also assist in the Company's liquidity management. These deposits are more cost effective than other short term alternatives and do not require any pledging of collateral. These deposits have generally funded the Company's larger average interest earning deposit/cash balances maintained in 2014, as the Company had decided to maintain greater liquidity on its balance sheet, in light of its growth. The Company ensures ample available collateralized liquidity as a backup to these short term brokered deposits.

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

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

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

on a financial institution's performance than do general levels of inflation.

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

The following table presents certain key aspects of the Private Wealth Management Division's performance for the years ended December 31, 2014, 2013 and 2012.

	Years Ended December 31,			Change	
(In thousands, except per share data)	2014	2013	2012	2014 v 2013	2013 v 2012
Total fee income	$15,242	$13,838	$12,282	$1,404	$ 1,556
Salaries and benefits	7,562	5,745	5,565	1,817	180
Other operating expense (included in Operating Expenses section above)	5,170	5,039	4,605	131	434
Assets under administration (market value)	$2,986,623	$2,690,601	$2,303,612	$296,022	$ 386,989

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2014 compared to 2013

The market value of assets under administration at December 31, 2014 and 2013 was $2.99 billion and $2.69 billion, respectively, an increase of $296 million or 11 percent over the prior year as the result of improving values in the markets as well as new business activity.

The Company realized wealth management fees totaling $15.24 million in 2014, an increase of $1.4 million or 10 percent, over the levels in 2013. The increase reflects increased relationships, a greater mix of higher margin business and an improvement in the market value of assets under management.

While the “Operating Expenses” section above offers an overall discussion of the Company’s expenses including the Private Wealth Management Division, expenses for the division totaled $12.7 million compared to $10.8 million for the same period in 2013, an increase of $1.9 million, or 18 percent. For the 2014 year, salaries and benefits expense increased $1.8 million, or 32 percent to $7.6 million when compared to the same period in 2013. Other operating expenses totaled $5.2 million and $5.0 million for the years ended 2014 and 2013, respectively, increasing $131 thousand, or 3 percent when compared to 2013. Expenses increased due to strategic hiring in line with the Company’s Strategic Plan, as well as growth in the business.

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.

2013 compared to 2012

At December 31, 2013 and 2012, the market value of assets under administration was $2.69 billion and $2.30 billion, an increase of $387 million or 17 percent and can be attributed to improving values in the markets and new business activity. Fee income generated by PGB Trust Investments was $13.8 million and $12.3 million in 2013 and 2012 respectively, an increase of $1.6 million or 13 percent.

As explained previously, the “Operating Expenses” section above offers an overall discussion of the Company’s expenses. Other expenses for the Private Wealth Management Division totaled $10.8 million and $10.2 million for the years ended December 31, 2013 and 2012, respectively, an increase of $614 thousand or 6 percent, when compared to the 2012 year.

CAUTIONARY STATEMENT CONCERNING FORWARD LOOKING STATEMENTS: This Annual Report on Form 10-K, both in the foregoing discussion and elsewhere, contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements are not historical facts and include expressions about Management's confidence and strategies and Management's expectations about new and existing programs and products, investments, relationships, opportunities and market conditions. These statements may be identified by such forward-looking terminology as "expect," "look," "believe," "anticipate,", "may," "will" or similar statemen variations of such terms. Actual results may differ materially from such forward-looking statements. Factors that may cause actual results to differ materially from those contemplated by such forward-looking statements include, but are not limited to

- inability to successfully grow our business and implement our strategic plan, including an inability to generate revenues to offset the increased personnel and other costs related to the strategic plan;
- inability to manage our growth;
- inability to successfully integrate our expanded employee base;
- a continued or unexpected decline in the economy, in particular in our New Jersey and New York market areas;
- declines in value in our investment portfolio;
- higher than expected increases in our allowance for loan losses;
- higher than expected increases in loan losses or in the level of 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 cyber-attacks against our IT infrastructure or that of our IT providers;
- higher than expected FDIC insurance premiums;

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- adverse weather conditions;
- inability to successfully generate new business in new geographic markets;
- inability to execute upon new business initiatives;
- lack of liquidity to fund our various cash obligations;
- reduction in our lower-cost funding sources;
- our inability to adapt to technological changes;
- claims and litigation pertaining to fiduciary responsibility, environmental laws and other matters; and
- other unexpected material adverse changes in our operations or earnings.

The Company undertakes no duty to update any forward-looking statement to conform the statement to actual results or changes in the Company's expectations. Although we believe that the expectations reflected in the forward-looking statements are reasonable, the Company cannot guarantee future results, levels of activity, performance or achievements.

Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

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, brokered deposits and other sources of medium/longer term funding. ALCO is authorized to engage in interest rate swaps as a means of extending duration of shorter term liabilities and the Company entered into one such contract during 2014.

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

- Actively market commercial and industrial 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 wholesale borrowings and/or brokered deposits to extend liability duration;
- Closely monitor and actively manage the investment portfolio, including management of duration, prepayment and interest rate risk;
- Maintain adequate levels of capital; and
- Utilize loan sales and/or loan participations.

During the fourth quarter of 2014, the Company initiated a program of using interest rate swaps as a tool in the management of interest rate risk. 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. The Company executed one swap, receiving floating and paying fixed with a notional value of $25.0 million in the fourth quarter of 2014.

As noted above, ALCO uses simulation modeling to analyze the Company's net interest income sensitivity, as well as the Company's economic value of portfolio equity under various interest rate scenarios. The model is based on the actual maturity and repricing characteristics of rate sensitive assets and liabilities. The model incorporates certain prepayment and interest rate assumptions, which management believes to be reasonable as of December 31, 2014. The model assumes changes in interest rates without any proactive change in the balance sheet by management. In the model, the forecasted shape of the yield curve remains static as of December 31, 2014.

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In an immediate and sustained 200 basis point increase in market rates at December 31, 2014, net interest income for 2015 would decline approximately 10.5 percent. This sensitivity improves in 2016 to a further decline of only 3.3 percent, when c