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

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

Annual Report Pursuant to Section 13 or 15(d)

of the Securities Exchange Act of 1934

For the Fiscal Year Ended December 31, 2016 **Commission File No. 000-16197**

PEAPACK-GLADSTONE FINANCIAL CORPORATION

(Exact name of registrant as specified in its charter)

New Jersey	**22-3537895**
(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__ No X .

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

Yes__ No X .

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

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

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

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

Large accelerated filer ___ Accelerated filer X
Non-accelerated filer ___ Smaller reporting company __

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

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

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

DOCUMENTS INCORPORATED BY REFERENCE

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

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FORM 10-K

PEAPACK-GLADSTONE FINANCIAL CORPORATION

For the Year Ended December 31, 2016

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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 and Union counties.

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

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

Employees

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

Peapack-Gladstone Bank’s Private Wealth Management Division

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

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

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

Our Business Strategy

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

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

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

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

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

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

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

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

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Governmental Policies and Legislation

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

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

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

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

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

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

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

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

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

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

Capital Requirements

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

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

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

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

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

When fully phased in on January 1, 2019, the Basel Rules will also require the Company and the Bank to maintain a 2.5% “capital conservation buffer”, composed entirely of CET1, on top of the minimum risk-weighted asset ratios, effectively resulting in minimum ratios of (i) CET1 to risk-weighted assets of at least 7.0%, (ii) Tier 1 capital to risk-weighted assets of at least 8.5%, and (iii) total capital to risk-weighted assets of at least 10.5%. The capital conservation buffer is designed to absorb losses during periods of economic stress. Banking institutions with a ratio of (i) CET1 to risk-weighted assets, (ii) Tier 1 capital to risk-weighted assets or (iii) total capital to risk-weighted assets above the respective minimum but below the capital conservation buffer will face constraints on dividends, equity repurchases and discretionary bonus payments to executive officers based on the amount of the shortfall. The implementation of the capital conservation buffer began on January 1, 2016 at the 0.625% level and will increase by 0.625% on each subsequent January 1, until it reaches 2.5% on January 1, 2019. As of January 1, 2017, the Company and the Bank were required to maintain a capital conservation buffer of 1.25%.

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

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

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

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

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

Insurance Funds Legislation

The Bank’s deposits are insured up to applicable limits by the Deposit Insurance Fund of the Federal Deposit Insurance Corporation (the “FDIC”). Under the FDIC’s risk-based system, insured institutions are assigned to one of four risk categories based on supervisory evaluations, regulatory capital levels and certain other factors with less risky institutions paying lower assessments on their deposits.

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

Restrictions on the Payment of Dividends

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

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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 and proposed revised regulations in May 2016, but the revised regulations have not been finalized. If the revised regulations are adopted in the form proposed, they will impose limitations on the manner in which the Company may structure compensation for its executives and employees.

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

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

Consumer Protection Regulations

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

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

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

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

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

Holding Company Supervision

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

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

Sarbanes-Oxley Act of 2002

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

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

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

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

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

USA PATRIOT Act

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

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

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

Gramm-Leach-Bliley Act

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

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

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

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

Item 1A. RISK FACTORS

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

Risks Relating to Ownership of Our Common Stock

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Government regulation significantly affects our business.

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

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

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

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

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

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

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

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

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

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

We are subject to liquidity risk.

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

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

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

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

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

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

The price of our common stock may fluctuate.

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

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

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

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

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

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

We may lose lower-cost funding sources.

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

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

There may be changes in accounting policies or accounting standards.

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

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

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

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

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

We encounter continuous technological change.

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

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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 clients and to financial loss or liability. We are further exposed to the risk that our external vendors may be unable to fulfill their contractual obligations (or will be subject to the same risk of fraud or operational errors by their respective employees as we are) and to the risk that our (or our vendors') business continuity and data security systems prove to be inadequate.

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

There may be claims and litigation pertaining to fiduciary responsibility.

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

Item 1B. UNRESOLVED STAFF COMMENTS

None.

Item 2. PROPERTIES

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

Item 3. LEGAL PROCEEDINGS

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

Item 4. MINE SAFETY DISCLOSURE

Not applicable.

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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 PGC. The following table sets forth, for the periods indicated, the reported high and low sale prices on known trades and cash dividends declared per share by the Company.

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

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

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

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Performance

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

Peapack-Gladstone Financial Corporation

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

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

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Issuer Purchases of Equity Securities

None.

Sales of Unregistered Securities

None.

Equity Compensation Plan Information

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

Item 6. SELECTED FINANCIAL DATA

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

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

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

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

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

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

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

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

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

- Fee income from the Private Wealth Management Division totaled $18.2 million for the year ended 2016, growing from $17.0 million for the year ended 2015.
- Total end of year loan balances for the Company were $3.31 billion. This level reflected an increase of $399 million, or 14 percent, from the balance at December 31, 2015.
- Total "customer" deposits (defined as deposits excluding brokered CDs and brokered "overnight" interest-bearing demand deposits) at the end of 2016 were $3.14 billion, reflecting an increase of $496 million, or 19 percent, from the balance at December 31, 2015.
- At December 31, 2016, the market value of assets under administration at the Private Wealth Management Division of the Bank was $3.7 billion, reflecting an increase of 11 percent from the balance at December 31, 2015.
- Asset quality metrics continued to be strong at December 31, 2016. Nonperforming assets at December 31, 2016 were just $11.8 million, or 0.30 percent of total assets. Total loans past due 30 through 89 days and still accruing were $1.4 million or 0.04 percent of total loans at December 31, 2016.
- The book value per share at December 31, 2016 of $19.10 reflected improvement when compared to $17.61 at December 31, 2015.

The Company's common stock trades on the NASDAQ Global Select Market under the symbol "PGC."

CRITICAL ACCOUNTING POLICIES AND ESTIMATES: Management's Discussion and Analysis of Financial Condition and Results of Operations is based upon the Company's consolidated financial statements, which have been prepared in accordance with U.S. generally accepted accounting principles. The preparation of these financial statements requires the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. Note 1 to the Company's Audited Consolidated Financial Statements for the year ended December 31, 2016, contains a summary of the Company's significant accounting policies.

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

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

The Company accounts for its securities in accordance with "Accounting for Certain Investments in Debt and Equity Securities," which was codified into Accounting Standards Codification ("ASC") 320. Debt securities are classified as held to maturity and carried at amortized cost when Management has the positive intent and ability to hold them to maturity. Debt securities are classified as available for sale when they might be sold before maturity due to changes in interest rates, prepayment risk, liquidity or other factors. Securities available for sale are carried at fair value, with unrealized holding gains and losses reported in other comprehensive income, net of tax. As of December 31, 2016 and 2015, all securities were classified as available for sale.

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

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the near-term prospects of the issuer, the extent and duration of the decline and whether it intends to sell, or it is more likely than not that it will be required to sell, a security in an unrealized loss position before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the entire difference between amortized cost and fair value is recognized as impairment through earnings. "Other-than-temporary" is not intended to indicate that the decline is permanent, but indicates that the prospects for a near-term recovery of value is not necessarily favorable, or that there is a lack of evidence to support a realizable value equal to or greater than the carrying value of the investment. Once a decline in value is determined to be other-than-temporary, the amount of the impairment is split into two components – other-than-temporary impairment related to credit loss, which must be recognized through earnings. No impairment charges were recognized in 2016, 2015 or 2014. For equity securities, the entire amount of impairment is recognized through earnings.

EARNINGS SUMMARY:

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

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

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

2016 compared to 2015

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

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

2015 compared to 2014

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

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

NET INTEREST INCOME AND NET INTEREST MARGIN

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

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

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

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

Year Ended December 31, 2016			
(In thousands except yield information)	Average Balance	Income/Expense (FTE)	Yield (FTE)
Assets:			
Interest-earnings assets:			
Investments:			
Taxable (1)	$208,980	$ 4,018	1.92 %
Tax-exempt (1)(2)	27,225	840	3.09
Loans (2)(3):			
Mortgages	483,088	15,790	3.27
Commercial mortgages	2,022,936	70,775	3.50
Commercial	564,598	22,206	3.93
Commercial construction	991	41	4.14
Installment	61,362	1,737	2.83
Home Equity	59,555	1,964	3.30
Other	474	47	9.92
Total loans	3,193,004	112,560	3.53
Federal funds sold	101	—	0.24
Interest-earning deposits	128,488	551	0.43
Total interest-earning assets	3,557,798	$ 117,969	3.32
Noninterest-earning assets:			
Cash and due from banks	9,580		
Allowance for loan losses	(29,068)		
Premises and equipment	29,839		
Other assets	86,228		
Total noninterest-earning assets	96,579		
Total assets	$3,654,377		
Liabilities and shareholders’ equity:			
Interest-bearing deposits:			
Checking	$926,713	$ 2,547	0.27 %
Money markets	894,215	2,775	0.31
Savings	119,043	68	0.06
Certificates of deposit - retail	455,946	6,270	1.38
Subtotal interest-bearing deposits	2,395,917	11,660	0.49
Interest-bearing demand - brokered	199,208	3,020	1.52
Certificates of deposit - brokered	93,674	1,995	2.13
Total interest-bearing deposits	2,688,799	16,675	0.62
Borrowed funds	132,985	1,764	1.33
Capital lease obligation	9,940	478	4.81
Subordinated debt	26,679	1,696	6.36
Total interest-bearing liabilities	2,858,403	20,613	0.72
Noninterest-bearing liabilities:			

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

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

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Year Ended December 31, 2015

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

Net interest margin (4)	2.80 %

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

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Year Ended December 31, 2014

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

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

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

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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:

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

2016 compared to 2015

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

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

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

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

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

In June 2016, the Company issued $50.0 million of subordinated debt ($48.7 million net of issuance costs) bearing interest at an annual rate of 6 percent for the first five years, and thereafter at an adjustable rate until maturity in June 2026 or earlier redemption.

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

2015 compared to 2014

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

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

Average interest-bearing liabilities for the year ended December 31, 2015, totaled $2.45 billion, an increase of $664 million, or 37 percent, over the average interest-bearing liabilities for 2014 of $1.79 billion. The average rate paid increased to 0.60 percent for 2015 from 0.43 percent for 2014. The increase in the average rate on interest-bearing liabilities was due to competitive pressures in attracting new deposits to support loan growth, as well as the growth of brokered certificates of deposits and the effect of interest rate swaps. The increase in the average rate paid on interest-bearing demand-brokered deposits is primarily due to interest paid on the $180.0 million notional principal in interest rate swaps that the Company is using to hedge against future rises in interest rates. These swaps resulted in an increase of approximately $1.6 million in interest expense in 2015, or an additional 0.59 percent in the average rate paid, compared to 2014. Brokered certificates of deposit are generally medium/longer term and have been used in the Company's interest rate risk management practices. The Company utilized a diverse funding mix to meet its funding needs to manage interest rate risk, as well as to retain a higher level of liquidity on its balance sheet.

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

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

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

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

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

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

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

(Dollars in thousands)	Within 1 Year	After 1 But Within 5 Years	After 5 But Within 10 Years	After 10 Years	Total
U.S. treasury and U.S. government-	$—	$9,998	$11,519	$—	$21,517
sponsored entity bonds	— %	1.25 %	1.81 %	— %	1.56 %
Mortgage-backed securities-	$26	$17,494	$30,832	$189,265	$237,617

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

New Jersey		New York		Pennsylvania	
Essex County	25 %	Bronx County	64 %	Philadelphia	58 %
Hudson County	22	Kings County	16	Bucks County	21

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

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

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

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

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

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

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

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

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

DEPOSITS: At December 31, 2016 and 2015, the Company reported total deposits of $3.41 billion and $2.94 billion, an increase of $476.4 million, or 16.2 percent, year over year. The Company’s strategy is to fund a majority of loan growth with core deposits, which is an important factor in the generation of net interest income. The Company's average deposits for 2016 increased $438.0 million, or 16.1 percent, over 2015 average levels to $3.16 billion. On average, the Company saw the largest dollar growth in non-interest-bearing demand, interest-bearing checking, retail certificate of deposits and money market balances. The Company has successfully focused on:

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

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

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

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

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

The Company is a participant in the Reich & Tang Demand Deposit Marketplace ("DDM") program. The Company uses these deposit sweep services to place customer funds into interest-bearing demand (checking) accounts issued by other participating banks. Customer funds are placed at one or more participating bank to ensure that each deposit customer is eligible for the full amount of FDIC insurance. As a program participant, the Company receives reciprocal amounts of deposits from other participating banks. The DDM program is considered to be a source of brokered deposits for bank regulatory purposes. However, the Company considers these reciprocal deposit balances to be in-market customer deposits as distinguished from traditional out-of-market brokered deposits. Reciprocal deposits of $393.0 million are included in the Company's interest bearing checking deposits as of December 31, 2016.

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

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

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

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

The subordinated debt issuance benefitted the Company’s regulatory total capital amount and ratio. Approximately $40.0 million of the net proceeds from the sale of the Notes were used by the Company to contribute capital to the Bank in the second quarter of 2016, benefitting all of the Bank’s regulatory capital amounts and ratios. The remaining funds

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(approximately $10 million) were retained by the Company and are intended to cover future subordinated debt interest payments.

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

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

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

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

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

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

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

c) Junior Lien Loan on Residence. The Bank provides junior lien loans ("JLL") against one to four family properties in the Tri-State area. Junior lien loans can be either in the form of an amortizing fixed rate home equity loan or a revolving home equity line of credit. These loans are subordinate to a first mortgage which may be from another lending institution. The Bank will require that the mortgage securing the JLL be no lower than a second lien position. When reviewing the JLL application, the Bank collects detailed verifiable information regarding income, assets, employment and a single merged credit report that will determine total monthly debt obligations. The Bank will use an automated valuation model on all JLLs up to $250,000 and will obtain an independent appraisal of the subject property on all applications exceeding $250,000. LTV and combined LTVs are capped at 80% or 65% on primary residences, depending on the combined debt amount, and are not allowed on investment properties. The combined first mortgage and JLL, must be no more than 80 percent of the appraised value of the property when the combined debt is less than or equal to $800,000. For JLL amounts where the combined debt exceeds $800,000, the maximum loan-to-value ratio is 65 percent. All applications for JLLs adhere to the underwriting standards and guidelines that consumer lending is regulated and governed by. Exceptions can be made to these guidelines with compensating factors that address and mitigate the risk associated with the exception. Primary risk characteristics associated with JLLs typically involve major living or lifestyle changes to the borrower, including unemployment or other loss of income; unexpected significant expenses, such as for major medical issues or catastrophic events; and divorce or death. Further, real estate values could drop significantly and cause the value of the property to fall below the loan amount, creating additional potential exposure for the Bank.

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 and rent regulated properties with at least 30 units that are owned and managed by experienced sponsors. As of December 31, 2016, the average property size in the portfolio was 45 units.

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

The Bank's loan policy allows loan to appraised value ratios of up to 75 percent and the overall portfolio average loan to value ratio was at 60.0% at year-end 2016. To obtain the optimum 50% risk capital rating under regulatory guidance, we have modified our underwriting of multifamily loans. The majority of all new originations have a ten year maturity with a five year reprice as contrasted with our former standard of a five year maturity with the borrower having an option to renew for five years at a reprice. For all new originations of refinances, we obtain prior pay history documentation, so that we can document an adequate twelve month pay history. These changes allow us to use a 50% risk rating for multifamily loans as long as other criteria are met.

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

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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). The terms and conditions of all commercial mortgage loans are tailored to the specific attributes of the borrower and any guarantors as well as the nature of the property and loan purpose. In the case of investment commercial real estate properties, the Bank reviews, among other things, the composition and diversity of the underlying tenants, terms and conditions of the underlying tenant lease agreements, the resources and experience of the sponsor, and the condition and location of the subject property.

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

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

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

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. In addition, these loans often include commercial real estate as collateral to strengthen the Bank's position and further mitigate risk. When underwriting business loans, among other things, the Bank evaluates the historical profitability and debt servicing capacity of the borrowing entity and the financial resources and character of the principal owners and guarantors.

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

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