

PEAPACK GLADSTONE FINANCIAL CORP
Form 10-Q
August 09, 2013

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(MARK ONE)

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

For the Quarter Ended June 30, 2013

OR

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

For the transition period from to

Commission File No. 001-16197

PEAPACK-GLADSTONE FINANCIAL CORPORATION

(Exact name of registrant as specified in its charter)

Number of shares of Common Stock outstanding as of August 1, 2013:

9,030,260

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PEAPACK-GLADSTONE FINANCIAL CORPORATION

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Item 1. Financial Statements (Unaudited)

PEAPACK-GLADSTONE FINANCIAL CORPORATION**CONSOLIDATED STATEMENTS OF CONDITION****(Dollars in thousands)**

	(unaudited) June 30, 2013	(audited) December 31, 2012
ASSETS		
Cash and due from banks	\$5,978	\$ 6,733
Federal funds sold	101	100
Interest-earning deposits	60,783	112,395
Total cash and cash equivalents	66,862	119,228
Securities available for sale	270,334	304,479
FHLB and FRB stock, at cost	4,729	4,639
Loans held for sale, at fair value	4,684	6,461
Loans held for sale, at lower of cost or fair value	—	13,749
Loans	1,252,184	1,132,584
Less: Allowance for loan losses	13,438	12,735
Net loans	1,238,746	1,119,849
Premises and equipment	29,021	30,030
Other real estate owned	3,347	3,496
Accrued interest receivable	3,972	3,864
Bank owned life insurance	31,490	31,088
Deferred tax assets, net	8,608	9,478
Other assets	17,797	21,475
TOTAL ASSETS	\$1,679,590	\$ 1,667,836
LIABILITIES		
Deposits:		
Noninterest-bearing demand deposits	\$326,916	\$ 298,095
Interest-bearing deposits:		
Checking	352,196	346,877
Savings	115,823	109,686
Money market accounts	559,439	583,197
Certificates of deposit \$100,000 and over	65,607	68,741
Certificates of deposit less than \$100,000	102,945	109,831
Total deposits	1,522,926	1,516,427
Federal home loan bank advances	12,000	12,218
Capital lease obligation	8,864	8,971

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Accrued expenses and other liabilities	11,687	8,163
TOTAL LIABILITIES	1,555,477	1,545,779
SHAREHOLDERS' EQUITY		
Common stock (no par value; stated value, \$0.83 per share; authorized 21,000,000 shares; issued shares, 9,438,438 at June 30, 2013 and 9,325,977 at December 31, 2012; outstanding shares, 9,030,260 at June 30, 2013 and 8,917,799 at December 31, 2012)	7,849	7,755
Surplus	98,979	97,675
Treasury stock at cost, 408,178 shares at June 30, 2013 and December 31, 2012	(8,988)	(8,988)
Retained earnings	25,321	21,316
Accumulated other comprehensive income, net of income tax	952	4,299
TOTAL SHAREHOLDERS' EQUITY	124,113	122,057
TOTAL LIABILITIES & SHAREHOLDERS' EQUITY	\$1,679,590	\$ 1,667,836

See accompanying notes to consolidated financial statements.

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	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2013	2012	2013	2012
INTEREST INCOME				
Interest and fees on loans	\$ 12,064	\$ 12,098	\$ 23,778	\$ 23,989
Interest on investment securities held to maturity:				
Taxable	—	376	—	811
Tax-exempt	—	46	—	112
Interest on securities available for sale:				
Taxable	1,085	1,394	2,362	3,011
Tax-exempt	195	156	392	321
Interest on loans held for sale	50	18	246	41
Interest-earning deposits	66	14	114	31
Total interest income	13,460	14,102	26,892	28,316
INTEREST EXPENSE				
Interest on savings and interest-bearing deposit accounts	328	360	635	806
Interest on certificates of deposit over \$100,000	212	222	427	449
Interest on other time deposits	274	341	559	710
Interest on borrowed funds	92	168	184	340
Interest on capital lease obligation	106	108	212	217
Total interest expense	1,012	1,199	2,017	2,522
NET INTEREST INCOME BEFORE PROVISION FOR LOAN LOSSES	12,448	12,903	24,875	25,794
Provision for loan losses	500	1,500	1,350	3,000
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	11,948	11,403	23,525	22,794
OTHER INCOME				
Trust department income	3,628	3,259	6,996	6,435
Service charges and fees	688	702	1,364	1,379
Bank owned life insurance	276	264	548	528
Securities gains, net (includes \$238 thousand for the three months ended June 30, 2013, \$107 thousand for the three months ended June 30, 2012; \$527 thousand for the six months ended June 30, 2013 and \$497 thousand for the six months ended June 30, 2012 of net gains reclassified from accumulated other comprehensive income)	238	107	527	497
Gain on loans held for sale at fair value	391	279	861	467

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Gain on loans held for sale at lower of cost or fair value	—	—	522	—
Other income/(loss)	15	60	22	88
Total other income	5,236	4,671	10,840	9,394
OPERATING EXPENSES				
Salaries and employee benefits	7,935	6,408	15,014	12,521
Premises and equipment	2,338	2,413	4,642	4,744
Other operating expenses	3,806	2,883	6,716	5,519
Total operating expenses	14,079	11,704	26,372	22,784
INCOME BEFORE INCOME TAX EXPENSE	3,105	4,370	7,993	9,404
Income tax expense (includes \$84 thousand for the three months ended June 30, 2013, \$40 thousand for the three months ended June 30, 2012; \$204 thousand for the six months ended June 30, 2013 and \$190 thousand for the six months ended June 30, 2012 of income tax expense from reclassification items)	1,096	1,647	3,091	3,598
NET INCOME	2,009	2,723	4,902	5,806
Dividends on preferred stock and accretion	—	—	—	474

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NET INCOME AVAILABLE TO COMMON SHAREHOLDERS	\$2,009	\$2,723	\$4,902	\$5,332
EARNINGS PER COMMON SHARE				
Basic	\$0.23	\$0.31	\$0.55	\$0.61
Diluted	\$0.22	\$0.31	\$0.55	\$0.61
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING				
Basic	8,909,170	8,775,111	8,889,971	8,773,188
Diluted	8,955,384	8,813,162	8,942,267	8,800,469

See accompanying notes to consolidated financial statements.

Index**PEAPACK-GLADSTONE FINANCIAL CORPORATION****CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME/(LOSS)****(Dollars in thousands)**

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2013	2012	2013	2012
Net income	\$ 2,009	\$ 2,723	\$ 4,902	\$ 5,806
Other comprehensive income/(loss):				
Unrealized gains/(losses) on available for sale securities:				
Unrealized holding gains/(losses) arising during the period	(4,414)	1,226	(5,132)	1,119
Less: Reclassification adjustment for gains included in net income	238	107	527	497
	(4,652)	1,119	(5,659)	622
Tax effect	1,900	(458)	2,312	(254)
Net of tax	(2,752)	661	(3,347)	368
Unrealized losses on the noncredit, other-than temporarily impaired held to maturity securities and on securities transferred from available for sale to held to maturity	—	57	—	113
Tax effect	—	(23)	—	(46)
Net of tax	—	34	—	67
Total comprehensive income/(loss)	(2,752)	695	(3,347)	435
Total other comprehensive income/(loss)	\$ (743)	\$ 3,418	\$ 1,555	\$ 6,241

See accompanying notes to consolidated financial statements.

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Six Months Ended June 30, 2013

(In thousands, except per share data)	Common Stock	Surplus	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Income	Total
Balance at January 1, 2013 8,917,799 common shares outstanding	\$ 7,755	\$97,675	\$ (8,988)	\$21,316	\$ 4,299	\$122,057
Net income				4,902		4,902
Net change in accumulated other comprehensive income/(loss)					(3,347)	(3,347)
Issuance of restricted stock 39,474 shares	33	(33)				—
Amortization of restricted stock		197				197
Cash dividends declared on common stock (\$0.05 per share)				(897)		(897)
Common stock option expense		169				169
Common stock options exercised and related tax benefits, 522 shares	1	2				3
Sales of shares (Dividend Reinvestment Program), 72,465 shares	60	969				1,029
Balance at June 30, 2013 9,030,260 common shares outstanding	\$ 7,849	\$98,979	\$ (8,988)	\$25,321	\$ 952	\$124,113

See accompanying notes to consolidated financial statements.

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	Six Months Ended June 30,	
	2013	2012
OPERATING ACTIVITIES:		
Net income:	\$ 4,902	\$ 5,806
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	1,459	1,481
Amortization of premium and accretion of discount on securities, net	999	1,147
Amortization of restricted stock	197	221
Provision for loan losses	1,350	3,000
Provision for OREO losses	930	—
Provision for deferred taxes	3,182	—
Stock-based compensation	169	169
Gains on security sales, available for sale	(527)	(497)
Loans originated for sale	(56,737)	(33,273)
Proceeds from sales of loans	73,646	34,322
Gains on loans sold	(1,383)	(467)
(Gains)/Losses on sale of other real estate owned	(24)	84
Losses/(Gains) on disposal of fixed assets	49	(7)
Increase in cash surrender value of life insurance, net	(402)	(396)
(Increase)/Decrease in accrued interest receivable	(108)	631
Decrease/(Increase) in other assets	3,678	(24)
Increase/(Decrease) in accrued expenses and other liabilities	672	(70)
NET CASH PROVIDED BY OPERATING ACTIVITIES	32,052	12,127
INVESTING ACTIVITIES:		
Maturities of investment securities held to maturity	—	20,588
Maturities of securities available for sale	39,332	45,261
Calls of securities held to maturity	—	136
Calls of securities available for sale	18,115	14,848
Sales of securities available for sale	26,348	22,393
Purchase of investment securities held to maturity	—	(2,821)
Purchase of securities available for sale, including FHLB and FRB stock	(53,126)	(20,317)
Net increase in loans	(122,696)	(61,430)
Sales of other real estate owned	1,692	1,836
Purchases of premises and equipment	(499)	(512)
Purchase of life insurance	—	(2,996)
NET CASH (USED IN)/PROVIDED BY INVESTING ACTIVITIES	(90,834)	16,986
FINANCING ACTIVITIES:		
Net increase/(decrease) in deposits	6,499	(20,807)
Repayments of Federal Home Loan Bank advances	(218)	(1,229)
Redemption of preferred stock	—	(14,341)

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Repurchase of warrants	—	(109)
Cash dividends paid on preferred stock	—	(112)
Cash dividends paid on common stock	(897)	(887)
Exercise of Stock Options	3	—
Sales of shares (DRIP Program)	1,029	82
NET CASH PROVIDED BY/(USED IN) FINANCING ACTIVITIES	6,416	(37,403)
Net decrease in cash and cash equivalents	(52,366)	(8,290)
Cash and cash equivalents at beginning of period	119,228	43,053
Cash and cash equivalents at end of period	\$ 66,862	\$ 34,763

See accompanying notes to consolidated financial statements.

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PEAPACK-GLADSTONE FINANCIAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Certain information and footnote disclosures normally included in the audited consolidated financial statements prepared in accordance with U.S. generally accepted accounting principles have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission. These unaudited consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Annual Report on Form 10-K for the period ended December 31, 2012 for Peapack-Gladstone Financial Corporation (the "Corporation"). In the opinion of the Management of the Corporation, the accompanying unaudited Consolidated Interim Financial Statements contain all adjustments necessary to present fairly the financial position as of June 30, 2013 and the results of operations for the three and six months ended June 30, 2013 and 2012 and cash flows for the six months ended June 30, 2013 and 2012.

Principles of Consolidation: The Corporation considers that all adjustments necessary for a fair presentation of the statement of the financial position and results of operations in accordance with U.S. generally accepted accounting principles for these periods have been made. Results for such interim periods are not necessarily indicative of results for a full year.

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

Securities: 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. Equity securities with readily determinable fair values are classified as available for sale. 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 June 30, 2013 and December 31, 2012, the Corporation no longer had any debt securities classified as held to maturity.

Interest income includes amortization of purchase premium or discount. Premiums and discounts on securities are amortized on the level-yield method without anticipating prepayments, except for mortgage-backed securities where

prepayments are anticipated. Gains and losses on sales are recorded on the trade date and determined using the specific identification method.

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

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

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

The majority of the Corporation's loans are secured by real estate in the State of New Jersey.

Allowance for Loan Losses: The allowance for loan losses is a valuation allowance for probably incurred credit losses. Loan losses are charged against the allowance when Management believes the uncollectability of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance. Management estimates the allowance balance required using past loan loss experience, the nature and volume of the portfolio, information about specific borrower situations and estimated collateral values, economic conditions and other factors. Allocations of the allowance may be made for specific loans, but the entire allowance is available for any loan that, in Management's judgment, should be charged off. The allowance consists of specific and general components. The specific component of the allowance relates to loans that are individually classified as impaired.

A loan is impaired when, based on current information and events, it is probable that the Corporation will be unable to collect all amounts due according to the contractual terms of the loan agreement. Factors considered by Management in determining impairment include payment status, collateral value and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed.

All loans are individually evaluated for impairment when loans are classified as substandard by Management. If a loan is considered impaired, a portion of the allowance is allocated so that the loan is reported, net, at the present value of estimated future cash flows using the loan's existing rate or at the fair value of collateral less estimated disposition costs if repayment is expected solely from the collateral. Large groups of smaller balance homogeneous loans, such as consumer and residential real estate loans are collectively evaluated for impairment while they are performing assets. If and when a residential mortgage is placed on nonaccrual status and in the process of collection, such as through a foreclosure action, then they are evaluated for impairment on an individual basis and the loan is reported, net, at the fair value of the collateral less estimated disposition costs.

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A troubled debt restructuring is a renegotiated loan with concessions made by the lender to a borrower who is experiencing financial difficulty. Troubled debt restructurings are impaired and are measured at the present value of estimated future cash flows using the loan's effective rate at inception. If a troubled debt restructuring is considered to be a collateral dependent loan, the loan is reported, net, at the fair value of the collateral, less estimated disposition costs. For troubled debt restructurings that subsequently default, the Corporation determines the amount of reserve in accordance with the accounting policy for the allowance for loan losses.

The general component of the allowance covers non-impaired loans and is based primarily on the Bank's historical loss experience adjusted for current factors. The historical loss experience is determined by portfolio segment and is based on the actual loss history experienced by the Corporation on a weighted average basis over the previous three years. This actual loss experience is adjusted by other qualitative factors based on the risks present for each portfolio segment. These economic factors include consideration of the following: levels of and trends in delinquencies and impaired loans; effects of any changes in risk selection and underwriting standards; other changes in lending policies, procedures and practices; experience, ability and depth of lending management and other relevant staff; national and local economic trends and conditions; industry conditions; and effects of changes in credit concentrations.

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

Primary Residential Mortgages. The Bank originates one to four family residential mortgage loans within or near its primary geographic market area. Loans are secured by first liens on the primary residence or investment property. Primary risk characteristics associated with residential mortgage loans typically involve major living or lifestyle changes to the borrower, including unemployment or other loss of income; unexpected significant expenses, such as for major medical issues or catastrophic events; divorce or death. In addition, residential mortgage loans that have adjustable rates could expose the borrower to higher debt service requirements in a rising interest rate environment. Further, real estate value could drop significantly and cause the value of the property to fall below the loan amount, creating additional potential exposure for the Bank.

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

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

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

Commercial and Industrial Loans. The Bank provides lines of credit and term loans to operating companies for business purposes. The loans are generally secured by business assets such as accounts receivable, inventory and equipment. 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.

Commercial Construction. The Bank has substantially wound down its commercial construction lending activity given the current economic environment. New construction loans would be considered only to experienced and reputable local builders and developers that have the capital and liquidity to carry a project to completion and stabilization. Construction loans are considered riskier than commercial financing on improved and established commercial real estate. The risk of potential loss increases if the original cost estimates or time to complete are significantly underestimated.

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

Stock-Based Compensation: The Corporation’s 2006 Long-Term Stock Incentive Plan and 2012 Long-Term Stock Incentive Plan as amended allow the granting of shares of the Corporation’s common stock as incentive stock options, nonqualified stock options, restricted stock awards and stock appreciation rights to directors, officers, employees and independent contractors of the Corporation and its Subsidiaries. The options granted under these plans are exercisable at a price equal to the fair value of common stock on the date of grant and expire not more than ten years after the date of grant. Stock options may vest during a period of up to five years after the date of grant.

The Corporation recorded total compensation cost for stock options of \$84 thousand for both of the second quarters of 2013 and 2012, with a recognized tax benefit of \$15 thousand for both periods. For both of the six months ended June 30, 2013 and 2012, total compensation cost for stock options was \$169 thousand, with a recognized tax benefit of \$30 thousand for both periods. There was approximately \$665 thousand of unrecognized compensation cost related to non-vested share-based compensation arrangements granted under the Corporation’s stock incentive plans at June 30, 2013. That cost is expected to be recognized over a weighted average period of 1.3 years.

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For the Corporation's stock option plans, changes in options outstanding during the six months ended June 30, 2013 were as follows:

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value (In Thousands)
Balance, January 1, 2013	613,507	\$ 22.37		
Granted during 2013	81,750	14.74		
Exercised during 2013	(1,530)	12.46		
Expired during 2013	(34,285)	26.33		
Forfeited during 2013	(2,650)	13.45		
Balance, June 30, 2013	656,792	\$ 21.27	4.29 years	\$ 610
Vested and expected to vest (1)	621,733	\$ 21.72	4.29 years	\$ 637
Exercisable at June 30, 2013	472,272	\$ 24.37	2.61 years	\$ 76

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

The aggregate intrinsic value represents the total pre-tax intrinsic value (the difference between the Corporation's closing stock price on the last trading day of the second quarter of 2013 and the exercise price, multiplied by the number of in-the-money options). The Corporation's closing stock price on June 28, 2013 was \$17.48.

For the second quarter of 2013, the per share weighted-average fair value of stock options granted was \$5.50 compared to \$5.53 for the same quarter of 2012. The per share weighted-average fair value of stock options granted during the first six months of 2013 and 2012 was \$5.24 and \$3.90, respectively on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions:

	Three Months Ended June 30, 2013		2012		Six Months Ended June 30, 2013		2012	
Dividend Yield	1.16	%	1.29	%	1.31	%	1.47	%
Expected volatility	39	%	39	%	39	%	39	%
Expected life	7 years		7 years		7 years		7 years	
Risk-free interest rate	1.19	%	1.46	%	1.11	%	1.43	%

The Corporation also awards restricted stock to certain executives at a fair value equal to the fair value of the Corporation's common stock on the date of the grant. The awards may vest fully during a period of up to five years after the date of award.

For the three months ended June 30, 2013 and 2012, the Corporation recorded total compensation cost for restricted shares of \$114 thousand and \$110 thousand, respectively. For the six months ended June 30, 2013 and 2012, the Corporation recorded total compensation cost for restricted stock awards of \$197 thousand and \$221 thousand, respectively. As of June 30, 2013, there was approximately \$902 thousand of unrecognized compensation cost related to non-vested restricted stock awards granted under the Corporation's stock incentive plans, which is expected to be recognized over a weighted average period of 1.6 years.

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Changes in non-vested, restricted common shares for 2013 were as follows:

	Number of Shares	Weighted Average Grant Date Fair Value
Balance, January 1, 2013	82,717	\$ 12.87
Granted during 2013	39,474	14.87
Vested during 2013	(19,035)	13.48
Balance, June 30, 2013	103,156	\$ 13.52

Earnings per Common share – Basic and Diluted: The following is a reconciliation of the calculation of basic and diluted earnings per share. Basic net income per common share is calculated by dividing net income available to common shareholders by the weighted average common shares outstanding during the reporting period. Diluted net income per common share is computed similarly to that of basic net income per common share, except that the denominator is increased to include the number of additional common shares that would have been outstanding if all common shares underlying potentially dilutive stock options were issued or restricted stock would vest during the reporting period utilizing the Treasury stock method.

(In thousands, except per share data)	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Net income to common shareholders	\$2,009	\$2,723	\$4,902	\$5,332
Basic weighted-average common shares outstanding	8,909,170	8,775,111	8,889,971	8,773,188
Plus: common stock equivalents	46,214	38,052	52,296	27,281
Diluted weighted-average common shares outstanding	8,955,384	8,813,162	8,942,267	8,800,469
Net income per common share				
Basic	\$0.23	\$0.31	\$0.55	\$0.61
Diluted	0.22	0.31	0.55	0.61

Stock options and restricted stock totaling 490,952 and 570,301 shares were not included in the computation of diluted earnings per share in the second quarters of 2013 and 2012, respectively, because they were considered antidilutive. Stock options and restricted stock totaling 533,216 and 595,018 shares were not included in the computation of diluted earnings per share in the six months ended June 30, 2013 and 2012, respectively, because they were considered antidilutive.

Income Taxes: The Corporation files a consolidated Federal income tax return and separate state income tax returns for each subsidiary based on current laws and regulations.

The Corporation is no longer subject to examination by the U.S. Federal tax authorities for years prior to 2009 or by New Jersey tax authorities for years prior to 2008.

The Corporation recognizes interest related to income tax matters as interest expense and penalties related to income tax matters as other expense. The Corporation did not have any amounts accrued for interest and penalties at June 30, 2013.

Reclassification: Certain reclassifications may have been made in the prior periods' financial statements in order to conform to the 2013 presentation.

Index**2. INVESTMENT SECURITIES AVAILABLE FOR SALE**

A summary of amortized cost and approximate fair value of securities available for sale included in the consolidated statements of condition as of June 30, 2013 and December 31, 2012 follows:

(In thousands)	June 30, 2013			
	Amortized Cost	Gross Unrecognized Gains	Gross Unrecognized Losses	Fair Value
U.S. government-sponsored entities	\$ 15,982	\$ —	\$ (575)	) 15,407
Mortgage-backed securities – residential	191,993	3,256	(838)	) 194,411
State and political subdivisions	54,750	542	(102)	) 55,190
Single-issuer trust preferred security	2,999	—	(614)	) 2,385
CRA investment	3,000	—	(59)	) 2,941
Total	\$268,724	\$ 3,798	\$ (2,188)	) \$270,334

(In thousands)	December 31, 2012			
	Amortized Cost	Gross Unrecognized Gains	Gross Unrecognized Losses	Fair Value
U.S. government-sponsored entities	\$26,647	\$ 200	\$ (2)	) \$26,845
Mortgage-backed securities – residential	215,092	6,366	(18)	) 221,440
State and political subdivisions	49,262	1,372	(2)	) 50,632
Single-issuer trust preferred security	2,999	—	(710)	) 2,289
CRA investment	3,000	62	—	) 3,062
Marketable equity securities	210	1	—	) 211
Total	\$297,210	\$ 8,001	\$ (732)	) \$304,479

The following tables present the Corporation's available for sale securities with continuous unrealized losses and the approximate fair value of these investments as of June 30, 2013 and December 31, 2012.

(In thousands)	June 30, 2013						
	Less than 12 Months		12 Months or Longer		Total		
	Fair Value	Unrecognized Losses	Fair Value	Unrecognized Losses	Fair Value	Unrecognized Losses	
U.S. government sponsored entities	\$15,407	\$ (575)) \$ —	\$ —	\$ 15,407	\$ (575))

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Mortgage-backed securities - residential	51,886	(834)	83	(4)	51,969	(838)
State and political subdivisions	6,351	(102)	—	—		6,351	(102)
Single-issuer trust preferred security	—	—		2,385	(614	)	2,385	(614)
CRA investment	2,941	(59	)	—	—		2,941	(59)
Total	\$76,585	\$ (1,570	)	\$ 2,468	\$ (618	)	\$ 79,053	\$ (2,188)

December 31, 2012

Duration of Unrealized Loss

(In thousands)	Less than 12 Months		12 Months or Longer		Total				
	Fair Value	Unrecognized Losses	Fair Value	Unrecognized Losses	Fair Value	Unrecognized Losses			
U.S. government sponsored Entities	\$4,998	\$ (2	)	\$ —	\$ —	\$4,998	\$ (2)	
Mortgage-backed securities-residential	8,433	(17	)	95	(1	)	8,528	(18)
State and political subdivisions	1,290	(2	)	—	—	1,290	(2)	
Single-issuer trust preferred Security	—	—		2,289	(710)	2,289	(710)
Total	\$14,721	\$ (21)	\$ 2,384	\$ (711)	\$ 17,105	\$ (732)

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Management believes that the unrealized losses on investment securities available for sale are temporary and due to interest rate fluctuations and/or volatile market conditions rather than the creditworthiness of the issuers. As of June 30, 2013, the Corporation does not intend to sell these securities nor is it likely that it will be required to sell the securities before their anticipated recovery; therefore, none of the securities in unrealized loss position were determined to be other-than-temporarily impaired.

At June 30, 2013, the unrealized loss on the single-issuer trust preferred security of \$614 thousand is related to a debt security issued by a large bank holding company that has experienced declines in all its securities due to the turmoil in the financial markets and a merger. The security was downgraded to below investment grade by Moody's and is currently rated Ba1. Management monitors the performance of the issuer on a quarterly basis to determine if there are any credit events that could result in deferral or default of the security. Management believes the depressed valuation is a result of the nature of the security, a trust preferred bond, and the bond's very low yield. As Management does not intend to sell this security nor is it likely that it will be required to sell the security before its anticipated recovery, the security is not considered other-than-temporarily impaired at June 30, 2013.

3. LOANS

Loans outstanding, by general ledger classification, as of June 30, 2013 and December 31, 2012, consisted of the following:

(In thousands)	June 30, 2013	% of Total Loans	December 31, 2012	% of Total Loans
Residential mortgage	\$532,356	42.52 %	\$ 515,014	45.47 %
Commercial mortgage	534,371	42.68	420,086	37.09
Commercial loans	106,598	8.51	115,372	10.19
Construction loans	9,179	0.73	9,328	0.83
Home equity lines of credit	47,583	3.80	49,635	4.38
Consumer loans, including fixed rate home equity loans	19,552	1.56	21,188	1.87
Other loans	2,545	0.20	1,961	0.17
Total loans	\$1,252,184	100.00 %	\$ 1,132,584	100.00 %

In determining an appropriate amount for the allowance, the Bank segments and evaluates the loan portfolio based on federal call report codes. The following portfolio classes have been identified as of June 30, 2013 and December 31, 2012:

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	June 30,	% of	December 31,	% of
(In thousands)	2013	Total	2012	Total
		Loans		Loans
Primary residential mortgage	\$542,442	43.44	% \$ 527,803	46.74 %
Home equity lines of credit	47,694	3.82	49,635	4.40
Junior lien loan on residence	13,712	1.10	11,893	1.05
Multifamily property	254,485	20.38	161,705	14.32
Owner-occupied commercial real estate	82,584	6.61	84,720	7.50
Investment commercial real estate	258,623	20.71	242,586	21.48
Commercial and industrial	26,331	2.11	25,820	2.29
Secured by farmland	203	0.02	207	0.02
Agricultural production loans	12	N/A	14	N/A
Commercial construction loans	9,188	0.74	9,323	0.83
Consumer and other loans	13,362	1.07	15,480	1.37
Total loans	\$1,248,636	100.00%	\$ 1,129,186	100.00%
Net deferred fees	3,548		3,398	
Total loans including net deferred costs	\$1,252,184		\$ 1,132,584	

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Included in the totals above for June 30, 2013 are \$541 thousand of unamortized discount compared to \$543 thousand of unamortized discount for December 31, 2012.

The following tables present the loan balances by portfolio class, based on impairment method, and the corresponding balances in the allowance for loan losses as of June 30, 2013 and December 31, 2012:

June 30, 2013

(In thousands)	Total Loans Individually Evaluated for Impairment	Ending ALLL Attributable to Loans Individually Evaluated for Impairment	Total Loans Collectively Evaluated for Impairment	Ending ALLL Attributable to Loans Collectively Evaluated for Impairment	Total Loans	Total Ending ALLL
Primary residential mortgage	\$ 4,365	\$ 131	\$ 538,077	\$ 2,931	\$ 542,442	\$ 3,062
Home equity lines of credit	209	—	47,485	253	47,694	253
Junior lien loan on residence	245	—	13,467	71	13,712	71
Multifamily property	—	—	254,485	2,159	254,485	2,159
Owner-occupied commercial real estate	3,938	—	78,646	2,414	82,584	2,414
Investment commercial real estate	4,949	348	253,674	3,812	258,623	4,160
Commercial and industrial	500	362	25,831	768	26,331	1,130
Secured by farmland	—	—	203	3	203	3
Agricultural production	—	—	12	—	12	—
Commercial construction	3,771	—	5,417	112	9,188	112
Consumer and other	—	—	13,362	74	13,362	74
Unallocated	—	—	—	—	—	—
Total ALLL	\$ 17,977	\$ 841	\$ 1,230,659	\$ 12,597	\$ 1,248,636	\$ 13,438

December 31, 2012

Total Loans Individually Evaluated	Ending ALLL Attributable To Loans Individually Evaluated	Total Loans Collectively Evaluated	Ending ALLL Attributable To Loans Collectively Evaluated	Total Ending ALLL	Allocation Of Previous	Total
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(In thousands)	For Impairment	For Impairment	For Impairment	For Impairment	Total Loans	Before Allocation	Unallocated ALLL	Ending ALLL
Primary residential mortgage	\$ 7,155	\$ 148	\$ 520,648	\$ 2,789	\$ 527,803	\$ 2,937	\$ 110	\$ 3,047
Home equity lines of credit	110	—	49,525	257	49,635	257	10	267
Junior lien loan on residence	562	240	11,331	71	11,893	311	3	314
Multifamily property	—	—	161,705	1,255	161,705	1,255	50	1,305
Owner-occupied commercial real estate	4,724	—	79,996	2,413	84,720	2,413	96	2,509
Investment commercial real estate	5,173	384	237,413	3,627	242,586	4,011	144	4,155
Commercial and industrial	423	41	25,397	733	25,820	774	29	803
Secured by farmland	—	—	207	3	207	3	—	3
Agricultural production	—	—	14	—	14	—	—	—
Commercial construction	—	—	9,323	231	9,323	231	9	240
Consumer and other	—	—	15,480	89	15,480	89	3	92
Unallocated	—	—	—	454	—	454	(454)	—
Total ALLL	\$ 18,147	\$ 813	\$ 1,111,039	\$ 11,922	\$ 1,129,186	\$ 12,735	\$ —	\$ 12,735

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Impaired loans include nonaccrual loans of \$8.1 million at June 30, 2013 and \$11.7 million at December 31, 2012. Impaired loans also include performing residential, commercial mortgage and commercial troubled debt restructured loans of \$6.1 million at June 30, 2013 and \$6.4 million at December 31, 2012. The allowance allocated to troubled debt restructured loans which are nonaccrual was \$266 thousand at June 30, 2013 and the allowance allocated to troubled debt restructured loans which are nonaccrual was \$240 thousand at December 31, 2012. All accruing troubled debt restructured loans were paying in accordance with restructured terms as of June 30, 2013. The Corporation has not committed to lend additional amounts as of June 30, 2013 to customers with outstanding loans that are classified as loan restructurings.

The following tables present loans individually evaluated for impairment by class of loans as of June 30, 2013 and December 31, 2012:

June 30, 2013

(In thousands)	Unpaid Principal Balance	Recorded Investment	Specific Reserves	Average Impaired Loans	Interest Income Recognized
With no related allowance recorded:					
Primary residential mortgage	\$4,387	\$ 3,383	\$ —	\$5,372	\$ 59
Multifamily property	—	—	—	—	—
Owner-occupied commercial real estate	4,167	3,938	—	4,478	54
Investment commercial real estate	—	—	—	218	3
Commercial and industrial	69	69	—	74	1
Commercial Construction	3,771	3,771	—	—	—
Home equity lines of credit	209	209	—	110	2
Junior lien loan on residence	389	245	—	400	6
Consumer and other	—	—	—	—	—
Total loans with no related allowance	\$12,992	\$ 11,615	\$ —	\$10,652	\$ 125
With related allowance recorded:					
Primary residential mortgage	\$1,047	\$ 982	\$ 131	\$1,435	\$ 38
Owner-occupied commercial real estate	—	—	—	—	—
Investment commercial real estate	4,949	4,949	348	4,949	619
Commercial and industrial	435	431	362	212	3
Junior lien loan on residence	—	—	—	—	—
Total loans with related allowance	\$6,431	\$ 6,362	\$ 841	\$6,596	\$ 660
Total loans individually evaluated for impairment	\$19,423	\$ 17,977	\$ 841	\$17,248	\$ 785

December 31, 2012

(In thousands)	Unpaid Principal Balance	Recorded Investment	Specific Reserves	Average Impaired Loans	Interest Income Recognized
With no related allowance recorded:					
Primary residential mortgage	\$8,605	\$ 6,148	\$ —	\$8,110	\$ 384
Multifamily property	—	—	—	185	16
Owner-occupied commercial real estate	4,971	4,723	—	9,575	570

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Investment commercial real estate	336	—	—	796	51
Commercial and industrial	432	345	—	640	47
Home equity lines of credit	110	110	—	221	11
Junior lien loan on residence	429	236	—	439	30
Total loans with no related allowance	\$ 14,883	\$ 11,562	\$ —	\$ 19,966	\$ 1,109
With related allowance recorded:					
Primary residential mortgage	\$ 1,056	\$ 1,007	\$ 148	\$ 851	\$ 38
Multifamily property	—	—	—	—	—
Owner-occupied commercial real estate	—	—	—	—	—
Investment commercial real estate	5,183	5,173	384	5,013	251
Commercial and industrial	78	78	41	92	74
Junior lien loan on residence	327	327	240	—	8
Commercial construction	—	—	—	194	—
Total loans with related allowance	\$ 6,644	\$ 6,585	\$ 813	\$ 6,150	\$ 371
Total loans individually evaluated for Impairment	\$ 21,527	\$ 18,147	\$ 813	\$ 26,116	\$ 1,480

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The Corporation did not recognize any income on nonaccruing impaired loans for the three months ended June 30, 2013 and 2012.

The following tables present the recorded investment in nonaccrual and loans past due over 90 days still on accrual by class of loans as of June 30, 2013 and December 31, 2012:

	June 30, 2013		
		Loans Past Due Over 90 Days And Still Accruing	
(In thousands)	Nonaccrual	Interest	
Primary residential mortgage	\$ 3,318	\$	—
Home equity lines of credit	209		—
Junior lien loan on residence	245		—
Owner-occupied commercial real estate	3,938		—
Commercial and industrial	365		—
Total	\$ 8,075	\$	—

	December 31, 2012		
		Loans Past Due Over 90 Days And Still Accruing	
(In thousands)	Nonaccrual	Interest	
Primary residential mortgage	\$ 6,519	\$	—
Home equity lines of credit	110		—
Junior lien loan on residence	562		—
Owner-occupied commercial real estate	4,317		—
Investment commercial real estate	224		—
Total	\$ 11,732	\$	—

The following tables present the aging of the recorded investment in past due loans as of June 30, 2013 and December 31, 2012 by class of loans, excluding nonaccrual loans:

	June 30, 2013			
	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days Past Due	Total Past Due
(In thousands)				
Primary residential mortgage	\$ 1,085	\$ 301	\$	— \$ 1,386
Home equity lines of credit	14	—		— 14
Owner-occupied commercial real estate	—	144		— 144
Total	\$ 1,099	\$ 445	\$	— \$ 1,544

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December 31, 2012

	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days Past Due	Total Past Due
(In thousands)				
Primary residential mortgage	\$ 2,513	\$ 203	\$	— \$ 2,716
Home equity lines of credit	25	—		— 25
Junior lien loan on residence	31	—		— 31
Owner-occupied commercial real estate	407	—		— 407
Investment commercial real estate	592	—		— 592
Commercial and industrial	15	—		— 15
Total	\$ 3,583	\$ 203	\$	— \$ 3,786

Credit Quality Indicators:

The Corporation categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. The Corporation analyzes loans individually by classifying the loans as to credit risk. The risk rating analysis of loans is performed (i) when the loan is initially underwritten, (ii) annually for loans in excess of \$500,000, (iii) on a random quarterly basis from either internal reviews with the Senior Credit Officer or externally through an independent loan review firm, or (iv) whenever Management otherwise identifies a potentially negative trend or issue relating to a borrower. In addition, for all loan types, the Corporation evaluates credit quality based on the aging status of the loan, which was previously presented.

The Corporation uses the following definitions for risk ratings:

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

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

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

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Loans not meeting the criteria above that are analyzed individually as part of the above described process are considered to be pass-rated loans. As of June 30, 2013, and based on the most recent analysis performed, the risk category of loans by class of loans is as follows:

(In thousands)	Pass	Special Mention	Substandard	Doubtful
Primary residential mortgage	\$536,351	\$1,407	\$ 4,684	\$ —
Home equity lines of credit	47,485	—	209	—
Junior lien loan on residence	13,436	—	276	—
Multifamily property	254,485	—	—	—
Farmland	203	—	—	—
Owner-occupied commercial real estate	72,027	87	10,470	—
Investment commercial real estate	236,190	10,241	12,192	—
Agricultural production loans	12	—	—	—
Commercial and industrial	25,786	24	521	—
Commercial construction	3,863	1,554	3,771	—
Consumer and other loans	12,496	866	—	—
Total	\$1,202,334	\$14,179	\$ 32,123	\$ —

As of December 31, 2012, and based on the most recent analysis performed, the risk category of loans by class of loans is as follows:

(In thousands)	Pass	Special Mention	Substandard	Doubtful
Primary residential mortgage	\$517,336	\$3,152	\$ 7,315	\$ —
Home equity lines of credit	49,525	—	110	—
Junior lien loan on residence	11,294	37	562	—
Multifamily property	161,229	476	—	—
Owner-occupied commercial real estate	73,809	334	10,577	—
Investment commercial real estate	216,394	13,237	12,955	—
Agricultural production loans	14	—	—	—
Commercial and industrial	25,191	134	495	—
Secured by farmland	207	—	—	—
Commercial construction	3,999	5,324	—	—
Consumer and other loans	15,480	—	—	—
Total	\$1,074,478	\$22,694	\$ 32,014	\$ —

At June 30, 2013, \$18.0 million of the \$32.1 million of the substandard loans were also considered impaired compared to December 31, 2012, when \$18.1 million of the \$32.0 million of the substandard loans were also impaired.

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The activity in the allowance for loan losses for the three months ended June 30, 2013 is summarized below:

	April 1, 2013 Beginning				June 30, 2013 Ending
(In thousands)	ALLL	Charge-Offs	Recoveries	Provision	ALLL
Primary residential mortgage	\$ 3,340	\$ (393)	\$ 1	\$ 114	\$3,062
Home equity lines of credit	260	—	—	(7)	253
Junior lien loan on residence	63	—	—	8	71
Multifamily property	1,562	—	—	597	2,159
Owner-occupied commercial real estate	2,428	—	19	(33)	2,414
Investment commercial real estate	4,272	—	6	(118)	4,160
Agricultural production loans	—	—	—	—	—
Commercial and industrial	1,147	—	27	(44)	1,130
Secured by farmland	3	—	—	—	3
Commercial construction	114	—	—	(2)	112
Consumer and other loans	90	(2)	1	(15)	74
Total ALLL	\$ 13,279	\$ (395)	\$ 54	\$ 500	\$ 13,438

The activity in the allowance for loan losses for the six months ended June 30, 2013 is summarized below:

	January 1, 2013 Beginning				June 30, 2013 Ending
(In thousands)	ALLL	Charge-Offs	Recoveries	Provision	ALLL
Primary residential mortgage	\$ 3,047	\$ (456)	\$ 13	\$ 458	\$3,062
Home equity lines of credit	267	—	—	(14)	253
Junior lien loan on residence	314	(295)	7	45	71
Multifamily property	1,305	—	11	843	2,159
Owner-occupied commercial real estate	2,509	—	38	(133)	2,414
Investment commercial real estate	4,155	—	12	(7)	4,160
Agricultural production loans	—	—	—	—	—
Commercial and industrial	803	(15)	37	305	1,130
Secured by farmland	3	—	—	—	3
Commercial construction	240	—	1	(129)	112
Consumer and other loans	92	(4)	4	(18)	74
Total ALLL	\$ 12,735	\$ (770)	\$ 123	\$ 1,350	\$ 13,438

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The activity in the allowance for loan losses for the three months ended June 30, 2012 is summarized below:

	April 1, 2012 Beginning				June 30, 2012 Ending
(In thousands)	ALLL	Charge-Offs	Recoveries	Provision	ALLL
Primary residential mortgage	\$ 2,414	\$ (988)	\$ 1	\$ 1,175	\$ 2,602
Home equity lines of credit	204	(91)	—	95	208
Junior lien loan on residence	64	(57)	4	44	55
Multifamily property	705	(375)	—	509	839
Farmland	—	—	—	3	3
Owner-occupied commercial real estate	3,108	(916)	126	1,100	3,418
Investment commercial real estate	4,181	(56)	9	650	4,784
Agricultural production loans	1	—	—	—	1
Commercial and industrial	1,291	(112)	4	(266)	917
Commercial construction	669	(72)	—	(363)	234
Consumer and other loans	78	(20)	6	13	77
Unallocated	508	—	—	40	548
Total ALLL	\$ 13,223	\$ (2,687)	\$ 150	\$ 3,000	\$ 13,686

The activity in the allowance for loan losses for the six months ended June 30, 2012 is summarized below:

	January 1, 2012 Beginning				June 30, 2012 Ending
(In thousands)	ALLL	Charge-Offs	Recoveries	Provision	ALLL
Primary residential mortgage	\$ 2,414	\$ (988)	\$ 1	\$ 1,175	\$ 2,602
Home equity lines of credit	204	(91)	—	95	208
Junior lien loan on residence	64	(57)	4	44	55
Multifamily property	705	(375)	—	509	839
Farmland	—	—	—	3	3
Owner-occupied commercial real estate	3,108	(916)	126	1,100	3,418
Investment commercial real estate	4,181	(56)	9	650	4,784
Agricultural production loans	1	—	—	—	1
Commercial and industrial	1,291	(112)	4	(266)	917
Commercial construction	669	(72)	—	(363)	234
Consumer and other loans	78	(20)	6	13	77
Unallocated	508	—	—	40	548
Total ALLL	\$ 13,223	\$ (2,687)	\$ 150	\$ 3,000	\$ 13,686

Troubled Debt Restructurings:

The Corporation has allocated \$502 thousand and \$483 thousand of specific reserves, on accruing TDR's, to customers whose loan terms have been modified in troubled debt restructurings as of June 30, 2013 and December 31, 2012, respectively. There were no unfunded commitments to lend additional amounts to customers with outstanding loans that are classified as troubled debt restructurings.

During the six month period ending June 30, 2013 and 2012, the terms of certain loans were modified as troubled debt restructurings. The modification of the terms of such loans included one or a combination of the following: a reduction of the stated interest rate of the loan; an extension of the maturity date at a stated rate of interest lower than the current market rate for new debt with similar risk; or a permanent reduction of the recorded investment in the loan.

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The following table presents loans by class modified as troubled debt restructurings that occurred during the three month period ending June 30, 2013:

(Dollars in thousands)	Number of Contracts	Pre- Modification Outstanding Recorded Investment	Post- Modification Outstanding Recorded Investment
Primary residential mortgage	1	\$ 160	\$ 160
Total	1	\$ 160	\$ 160

The following table presents loans by class modified as troubled debt restructurings that occurred during the six month period ending June 30, 2013:

(Dollars in thousands)	Number of Contracts	Pre- Modification Outstanding Recorded Investment	Post- Modification Outstanding Recorded Investment
Primary residential mortgage	3	\$ 482	\$ 482
Total	3	\$ 482	\$ 482

The identification of the troubled debt restructured loans did not have a significant impact on the allowance for loan losses. The following table presents loans by class modified as troubled debt restructurings that occurred during the three month period ending June 30, 2012:

	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Primary Residential Mortgage	2	\$ 260	\$ 260
Total	2	\$ 260	\$ 260

The following table presents loans by class modified as troubled debt restructurings that occurred during the six month period ending June 30, 2012:

	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Primary Residential Mortgage	4	\$ 610	\$ 610
Junior Lien on Residence	1	249	249
Owner-Occupied Commercial Real Estate	1	2,197	2,197

Total	6	\$ 3,056	\$ 3,056
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The following table presents loans by class modified as troubled debt restructurings for which there was a payment default, within twelve months of modification, during the six month period ended June 30, 2013:

(Dollars in thousands)	Number of Contracts	Recorded Investment
Owner-occupied commercial real estate	1	406
Commercial and industrial	1	\$ 270
Total	2	\$ 676

The following table presents loans by class modified as troubled debt restructurings for which there was a payment default, within twelve months of modification, during the six-month period ended June 30, 2012:

	Number of Contracts	Recorded Investment
Owner-Occupied Commercial Real Estate	1	\$ 412
Total	1	\$ 412

The defaults that occurred during the three and six months ended June 30, 2013 and 2012 did not have a significant impact on the allowance for loan losses.

In order to determine whether a borrower is experiencing financial difficulty, an evaluation is performed of the probability that the borrower will be in payment default on any of its debt in the foreseeable future without the modification. This evaluation is performed under the Corporation's internal underwriting policy. At the time a loan is restructured, the Bank performs a full re-underwriting analysis, which includes, at a minimum, obtaining current financial statements and tax returns, copies of all leases, and an updated independent appraisal of the property. A loan will continue to accrue interest if it can be reasonably determined that the borrower should be able to perform under the modified terms, that the loan has not been chronically delinquent (both to debt service and real estate taxes) or in nonaccrual status since its inception, and that there have been no charge-offs on the loan. Restructured loans with previous charge-offs would not accrue interest at the time of the troubled debt restructuring. At a minimum, six months of contractual payments would need to be made on a restructured loan before returning a loan to accrual status. Once a loan is classified as a TDR, the loan is reported as a TDR until the loan is paid in full, sold or charged-off. In rare circumstances, a loan may be removed from TDR status, if it meets the requirements of ASC 310-40-50-2.

4. FEDERAL HOME LOAN BANK ADVANCES AND OTHER BORROWINGS

Advances from the Federal Home Loan Bank of New York (FHLB) totaled \$12.0 million and \$12.2 million at June 30, 2013 and December 31, 2012, respectively, with a weighted average interest rate of 3.05 and 3.03 percent, respectively. At June 30, 2013, the \$12.0 million are variable rate advances, with a weighted average interest rate of 3.01 percent, that are noncallable for two or three years and then callable quarterly with final maturities of ten years from the original date of the advance. All of these advances are beyond their initial noncallable periods and are secured by pledges of investment securities totaling \$12.8 million at June 30, 2013.

There were no overnight borrowings at June 30, 2013 and December 31, 2012.

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The final maturity dates of the advances and other borrowings are scheduled as follows:

(In thousands)	
2013	\$—
2014	—
2015	—
2016	—
2017	3,000
Over 5 years	9,000
Total	\$12,000

5. BUSINESS SEGMENTS

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

Banking

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

PGB Trust & Investments

PGB Trust & Investments includes asset management services provided for individuals and institutions; personal trust services, including services as executor, trustee, administrator, custodian and guardian; corporate trust services including services as trustee for pension and profit sharing plans; and other financial planning and advisory services.

The following table presents the statements of income and total assets for the Corporation's reportable segments for the three and six months ended June 30, 2013 and 2012.

(In thousands)	Three Months Ended June 30, 2013		
	Banking	PGB Trust & Investments	Total
Net interest income	\$ 11,673	\$ 775	\$ 12,448
Noninterest income	1,536	3,700	5,236
Total income	13,209	4,475	17,684
Provision for loan losses	500	—	500
Salaries and benefits	6,699	1,236	7,935
Premises and equipment expense	2,193	145	2,338
Other noninterest expense	2,746	1,060	3,806
Total noninterest expense	12,138	2,441	14,579
Income before income tax expense	1,071	2,034	3,105
Income tax expense	350	746	1,096

Net income	\$ 721	\$ 1,288	\$ 2,009
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Three Months Ended June 30, 2012

(In thousands)	PGB Trust		
	Banking	& Investments	Total
Net interest income	\$ 12,070	\$ 833	\$ 12,903
Noninterest income	1,351	3,320	4,671
Total income	13,421	4,153	17,574
Provision for loan losses	1,500	—	1,500
Salaries and benefits	5,060	1,348	6,408
Premises and equipment expense	2,263	150	2,413
Other noninterest expense	1,863	1,020	2,883
Total noninterest expense	10,686	2,518	13,204
Income before income tax expense	2,735	1,635	4,370
Income tax expense	1,030	617	1,647
Net income	\$ 1,705	\$ 1,018	\$ 2,723

Six Months Ended June 30, 2013

(In thousands)	PGB Trust		
	Banking	& Investments	Total
Net interest income	\$23,065	\$ 1,810	\$24,875
Noninterest income	3,624	7,216	10,840
Total income	26,689	9,026	35,715
Provision for loan losses	1,350	—	1,350
Salaries and benefits	12,489	2,525	15,014
Premises and equipment expense	4,350	292	4,642
Other noninterest expense	4,418	2,298	6,716
Total noninterest expense	22,607	5,115	27,722
Income before income tax expense	4,082	3,911	7,993
Income tax expense	1,579	1,512	3,091
Net income	\$2,503	\$ 2,399	\$4,902
Total assets for period end	\$1,678,270	\$ 1,320	\$1,679,590

Six Months Ended June 30, 2012

(In thousands)	PGB Trust		
	Banking	& Investments	Total
Net interest income	\$24,105	\$ 1,689	\$25,794
Noninterest income	2,826	6,568	9,394
Total income	26,931	8,257	35,188
Provision for loan losses	3,000	—	3,000
Salaries and benefits	9,935	2,586	12,521
Premises and equipment expense	4,455	289	4,744
Other noninterest expense	3,558	1,961	5,519
Total noninterest expense	20,948	4,836	25,784
Income before income tax expense	5,983	3,421	9,404

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Income tax expense	2,289	1,309	3,598
Net income	\$3,694	\$ 2,112	\$5,806
Total assets for period end	\$1,577,237	\$ 1,368	\$1,578,605

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6. FAIR VALUE

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

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect a company's own assumptions about the assumptions that market participants would use in pricing as asset or liability.

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

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

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

Loans Held for Sale, at Lower of Cost or Fair Value: The fair value of this category of loans held for sale is determined using the lower of book value or estimated sale price as calculated by a third-party broker for each loan (Level 2).

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

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

Appraisals for both collateral-dependent impaired loans and other real estate owned are performed by certified general appraisers (for commercial properties) or certified residential appraisers (for residential properties) whose qualifications and licenses have been reviewed and verified by Management. Once received, a member of the Credit Department reviews the assumptions and approaches utilized in the appraisal, as well as, the overall resulting fair value in comparison with independent data sources such as recent market data or industry-wide statistics. Appraisals on collateral dependent impaired loans and other real estate owned (consistent for all loan types) are obtained on an annual basis, unless a significant change in the market or other factors warrants a more frequent appraisal. On an annual basis, Management compares the actual selling price of any collateral that has been sold to the most recent appraised value to determine what additional adjustment should be made to the appraisal value to arrive at fair value for other properties. The most recent analysis performed indicated that a discount up to 15 percent should be applied to appraisals on properties. The discount is determined based on the nature of the underlying properties, aging of appraisal and other factors. For each collateral dependent impaired loans we consider other factors, such as certain indices or other market information, as well as property specific circumstances to determine if an adjustment to the appraised value is needed. In situations where there is evidence of change in value, the Bank will determine if there is need for an adjustment to the specific reserve on the collateral dependent impaired loans. When the Bank applies an interim adjustment, it generally shows the adjustment as an incremental specific reserve against the loan until it has received the full updated appraisal. As of June 30, 2013, all collateral dependent impaired loans and other real estate owned valuations were supported by an appraisal less than 12 months old.

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

Assets Measured on a Recurring Basis

(In thousands)	June 30, 2013	Fair Value Measurements Using		
		Quoted Prices in Active Markets For Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Available for sale:				
U.S. government-sponsored entities	\$ 15,407	\$ —	\$ 15,407	\$ —
Mortgage-backed securities- residential	194,411	—	194,411	—
State and political subdivisions	55,190	—	55,190	—
Single-Issuer Trust Preferred	2,385	—	2,385	—
CRA investment fund	2,941	2,941	—	—
Total	\$ 270,334	\$ 2,941	\$ 267,393	\$ —

(In thousands)	December 31, 2012			
Assets:				
Available for sale:				
U.S. government-sponsored entities	\$ 26,845	\$—	\$26,845	\$—
Mortgage-backed securities- residential	221,440	—	221,440	—
State and political subdivisions	50,632	—	50,632	—
Single-Issuer Trust Preferred	2,289	—	2,289	—
CRA investment fund	3,062	3,062	—	—
Marketable equity securities	211	211	—	—
Total	\$ 304,479	\$3,273	\$301,206	\$—

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Residential loans held for sale, at fair value, totaled \$4.7 million and \$6.5 million as of June 30, 2013 and December 31, 2012, respectively, and were determined to be Level 2.

There were no transfers between Level 1 and Level 2 during the three or six months ended June 30, 2013.

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

Assets Measured on a Non-Recurring Basis

(In thousands)	June 30, 2013	Fair Value Measurements Using		
		Quoted Prices in Active Markets For Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Impaired loans:				
Primary residential mortgage	\$ 346	\$ —	\$ —	\$ 346
OREO	1,060	—	—	1,060

(In thousands)	December 31, 2012			
Assets:				
Impaired loans:				
Primary residential mortgage	\$ 346	\$—	\$—	\$346
Investment commercial real estate	160	—	—	160
Loans held for sale:				
Primary residential mortgage	592	—	592	—
Multifamily	282	—	282	—
Owner-occupied commercial mortgage	5,960	—	5,960	—
Investment commercial real estate	6,652	—	6,652	—
Commercial and industrial	263	—	263	—
OREO	1,990	—	—	1,990

Impaired loans that are measured for impairment using the fair value of the collateral for collateral dependent loans, had a recorded investment of \$419 thousand, with a valuation allowance of \$73 thousand at June 30, 2013. Impaired loans that are measured for impairment using the fair value of the collateral for collateral dependent loans, had a recorded investment of \$596 thousand, with a valuation allowance of \$90 thousand at December 31, 2012.

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At both June 30, 2013 and December 31, 2012, OREO at fair value represents one commercial property. The Corporation recorded a provision of REO of \$930 thousand at June 30, 2013 and \$145 at December 31, 2012.

The carrying amounts and estimated fair values of financial instruments at June 30, 2013 are as follows:

(In thousands)	Carrying Amount	Fair Value Measurements at June 30, 2013 Using				Total
		Level 1	Level 2	Level 3		
Financial assets						
Cash and cash equivalents	\$66,862	\$64,864	\$1,998	\$—		\$66,862
Securities available for sale	270,334	2,941	267,393	—		270,334
FHLB and FRB stock	4,729	—	—	—		N/A
Loans held for sale	4,684	—	4,684	—		4,684
Loans, net of allowance for loan losses	1,238,746	—	—	1,228,287		1,228,287
Accrued interest receivable	3,972	—	860	3,112		3,972
Financial liabilities						
Deposits	\$1,522,926	\$1,354,374	\$169,330	\$—		\$1,523,704
Federal home loan bank advances	12,000	—	12,962	—		12,962
Accrued interest payable	292	42	250	—		292

The carrying amounts and estimated fair values of financial instruments at December 31, 2012 are as follows:

(In thousands)	Carrying Amount	Fair Value Measurements at December 31, 2012 Using				Total
		Level 1	Level 2	Level 3		
Financial assets						
Cash and cash equivalents	\$119,228	\$116,284	\$2,944	\$—		\$119,228
Securities available for sale	304,479	3,273	301,206	—		304,479
FHLB and FRB stock	4,639	—	—	—		N/A
Loans held for sale	20,210	—	20,210	—		20,210
Loans, net of allowance for loan losses	1,119,849	—	—	1,120,537		1,120,537
Accrued interest receivable	3,864	—	958	2,906		3,864
Financial liabilities						
Deposits	\$1,516,427	\$1,337,855	\$180,505	\$—		\$1,518,360
Federal home loan bank advances	12,218	—	13,518	—		13,518
Accrued interest payable	306	37	269	—		306

The methods and assumptions, not previously presented, used to estimate fair values are described as follows:

Cash and cash equivalents: The carrying amounts of cash and short-term instruments approximate fair values and are classified as either Level 1 or Level 2.

FHLB and FRB stock: It is not practicable to determine the fair value of FHLB or FRB stock due to restrictions placed on its transferability.

Loans: For variable rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying values resulting in a Level 3 classification. Fair values for other loans are estimated using discounted cash flow analyses, using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality resulting in a Level 3 classification. Impaired loans are valued at the lower of cost or fair value as described previously. The methods utilized to estimate the fair value of loans do not necessarily represent an exit price.

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

Overnight borrowings: The carrying amounts of overnight borrowings, generally maturing within ninety days, approximate their fair values resulting in a Level 2 classification.

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

Accrued interest receivable/payable: The carrying amounts of accrued interest approximate fair value resulting in a Level 2 or Level 3 classification.

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

7. OTHER OPERATING EXPENSES

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

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
(In thousands)	2013	2012	2013	2012
FDIC assessment	\$ 280	\$ 290	\$ 560	\$ 642
Trust department expense	407	459	901	854
Professional and legal fees	429	253	930	486
Loan expense	155	321	348	505
Provision for ORE losses	930	—	930	—
Other operating expenses	1,605	1,560	3,047	3,032
Total other operating expenses	\$ 3,806	\$ 2,883	\$ 6,716	\$ 5,519

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The following is a summary of the accumulated other comprehensive income balances, net of tax, for the three months ended June 30, 2013 and 2012:

(In thousands)	Balance at March 31, 2013	Current Quarter Change	Balance at June 30, 2013
Unrealized gains on securities available for sale	\$ 3,704	\$ (2,752)	\$ 952
Other-than-temporary impairment on securities held to maturity and securities transferred from available for sale to held to maturity	—	—	—
Total	\$ 3,704	\$ (2,752)	\$ 952

(In thousands)	Balance at March 31, 2012	Current Quarter Change	Balance at June 30, 2012
Unrealized gains on securities available for sale	\$ 2,913	\$ 661	\$ 3,574
Other-than-temporary impairment on securities held to maturity and securities transferred from available for sale to held to maturity	(3,069)	34	(3,035)
Total	\$ (156)	\$ 695	\$ 539

The following is a summary of the accumulated other comprehensive income balances, net of tax, for the six months ended June 30, 2013 and 2012:

(In thousands)	Balance at December 31, 2012	Current Six-Month Change	Balance at June 30, 2013
Unrealized gains on securities available for sale	\$ 4,299	\$ (3,347)	\$ 952
Other-than-temporary impairment on securities held to maturity and securities transferred from available for sale to held to maturity	—	—	—
Total	\$ 4,299	\$ (3,347)	\$ 952

	Balance at December 31, 2011	Current Six-Month Change	Balance at June 30, 2012
Unrealized Gains/(Losses) on Securities Available for Sale	\$ 3,206	\$ 368	\$ 3,574
Other-Than-Temporary Impairment on Securities Held to Maturity and Transfer of securities From Available for Sale to Held to Maturity	(3,102)	67	(3,035)

Total	\$ 104	\$ 435	\$ 539
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Item 2

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

AND RESULTS OF OPERATIONS

GENERAL: The following discussion and analysis contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements are not historical facts and include expressions about Management's view of future interest income and net loans, Management's confidence and strategies and Management's expectations about new and existing programs and products, relationships, opportunities and market conditions. These statements may be identified by such forward-looking terminology as "expect", "look", "believe", "anticipate", "may", "will", or similar statements or variations of such terms. Actual results may differ materially from such forward-looking statements. Factors that may cause actual results to differ materially from those contemplated by such forward-looking statements include, among others, those risk factors identified in the Corporation's Form 10-K for the year ended December 31, 2012 and the following:

- a continued or unexpected decline in the economy, in particular in our New Jersey market area;
- declines in our net interest margin caused by the low interest rate environment and highly competitive market;
- declines in value in our investment portfolio;
- higher than expected increases in our allowance for loan losses;
- higher than expected increases in loan losses or in the level of nonperforming loans;
- unexpected changes in interest rates;
- inability to successfully grow our business and implement our strategic plan including an inability to generate revenues to offset the increased personnel and other costs related to the strategic plan;
- inability to manage our growth;
- a continued or unexpected decline in real estate values within our market areas;
- legislative and regulatory actions (including the impact of the Dodd-Frank Wall Street Reform and Consumer Protection Act, Basel III and related regulations) subject us to additional regulatory oversight which may result in increased compliance costs;
- successful cyber-attacks against our IT infrastructure or that of our IT providers;
- higher than expected FDIC insurance premiums;
- lack of liquidity to fund our various cash obligations;
- reduction in our lower-cost funding sources;
- our inability to adapt to technological changes;
- claims and litigation pertaining to fiduciary responsibility, environmental laws and other matters; and
- other unexpected material adverse changes in our operations or earnings.

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

CRITICAL ACCOUNTING POLICIES AND ESTIMATES: Management's Discussion and Analysis of Financial Condition and Results of Operations is based upon the Corporation'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 Corporation to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. Note 1 to the Corporation's Audited Consolidated Financial Statements for the year ended December 31, 2012, contains a summary of the Corporation's significant accounting policies.

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Management believes that the Corporation'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 requires assumptions or estimates about highly uncertain matters. Changes in these judgments, assumptions or estimates could materially impact results of operations. This critical policy and its application are periodically reviewed with the Audit Committee and the Board of Directors.

The provision for loan losses is based upon Management's evaluation of the adequacy of the allowance, including an assessment of known and inherent risks in the portfolio, giving consideration to the size and composition of the loan portfolio, actual loan loss experience, level of delinquencies, detailed analysis of individual loans for which full collectability may not be assured, the existence and estimated fair value of any underlying collateral and guarantees securing the loans, and current economic and market conditions.

Although Management uses the best information available, the level of the allowance for loan losses remains an estimate, which is subject to significant judgment and short-term change. Various regulatory agencies, as an integral part of their examination process, periodically review the Corporation's allowance for loan losses. Such agencies may require the Corporation to make additional provisions for loan losses based upon information available to them at the time of their examination. Furthermore, the majority of the Corporation's loans are secured by real estate in the State of New Jersey. Accordingly, the collectability of a substantial portion of the carrying value of the Corporation's loan portfolio is susceptible to changes in local market conditions and may be adversely affected should real estate values continue to decline or New Jersey experience continuing adverse economic conditions. Future adjustments to the allowance for loan losses may be necessary due to economic, operating, regulatory and other conditions beyond the Corporation's control.

The Corporation accounts for its securities in accordance with "Accounting for Certain Investments in Debt and Equity Securities," which was codified into 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. Equity securities with readily determinable fair values are classified as available for sale. 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 June 30, 2013 and December 31, 2012, the Corporation no longer had debt securities classified as held to maturity.

For declines in the fair value of securities below their cost that are other-than-temporary, the amount of impairment is split into two components – other-than-temporary impairment related to other factors, which is recognized in other comprehensive income and other-than-temporary impairment related to credit loss, which must be recognized in the income statement. The credit loss is defined as the difference between the present value of the cash flows expected to be collected and the amortized cost basis. In estimating other-than-temporary losses on a quarterly basis, Management considers the length of time and extent that fair value has been less than cost; the financial condition and near-term prospects of the issuer; and whether the Corporation has the intent to sell these securities or it is likely that it will be required to sell the securities before their anticipated recovery.

Securities are evaluated on at least a quarterly basis to determine whether a decline in their values is other-than-temporary. To determine whether a loss in value is other-than-temporary, Management utilizes criteria such as the reasons underlying the decline, the magnitude and the duration of the decline and whether the Corporation intends to sell or is likely to be required to sell the security before its anticipated recovery. "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. The Corporation recognized no other-than-temporary impairment charges in the six months ended June 30, 2013 and 2012.

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EXECUTIVE SUMMARY: For the second quarter of 2013, the Corporation recorded net income of \$2.0 million compared to \$2.7 million for the same quarter of 2012. Diluted earnings per common share were \$0.22 and \$0.31 for the second quarters of 2013 and 2012, respectively. For the second quarter of 2013, annualized return on average assets was 0.48 percent and annualized return on average common equity was 6.41 percent. The 2013 quarter included a \$930 thousand provision for REO on one property, resulting in an after-tax charge of approximately \$600 thousand, or approximately \$0.07 per fully diluted share. For the 2013 quarter, net income includes increases in trust fee income, gain on sale of loans and gains on sales of securities and a decline in the provision for loan losses, more than offset by a decrease in net interest income and an increase in operating expenses, principally due to implementation of the Company's strategic plan.

Net interest income, on a fully tax-equivalent basis, was \$12.6 million for the second quarter of 2013 compared to \$13.1 million for the same quarter of 2012, a decline of \$461 thousand or 3.5 percent. The net interest margin, on a fully tax-equivalent basis, was 3.22 percent and 3.52 percent, for the three months ended June 30, 2013 and 2012, respectively.

For the second quarter of 2013, loans averaged \$1.20 billion, increasing \$98.1 million, or 8.9 percent, from \$1.10 billion for the same quarter of 2012. The yield on loans was 4.03 percent and 4.40 percent for the second quarters of 2013 and 2012, respectively, declining 37 basis points from the 2012 quarter to the 2013 quarter.

Average deposits for the second quarters of 2013 and 2012, were \$1.50 billion and \$1.42 billion, respectively, increasing \$87.3 million or 6.2 percent. The average cost of interest-bearing deposits was 0.27 percent for the second quarter of 2013, compared to 0.33 percent for the same quarter in 2012, a decline of six basis points.

The Corporation recorded net income of \$4.9 million for the first six months of 2013 compared to \$5.8 million for the same period of 2012. For the six months ended June 30, 2013, diluted earnings per common share were \$0.55 compared to \$0.61 for the same period in 2012, after giving effect for the preferred dividend in 2012. Annualized return on average assets was 0.60 percent and annualized return on average common equity was 7.89 percent for the first six months of 2013. As noted above, the six months ended June 30, 2013 included a \$930 thousand provision for REO on one property, resulting in an after-tax charge of approximately \$600 thousand, or approximately \$0.07 per fully diluted share. The 2013 year-to-date net income includes a decline in the provision for loan losses and increases in trust fee income, gain on sale of loans and gains on sales of securities, more than offset by a decrease in net interest income and an increase in operating expenses, principally due to implementation of the Company's strategic plan.

For the six months ended June 30, 2013 and 2012, net interest income, on a fully tax-equivalent basis, was \$25.2 million and \$26.1 million, respectively, a decrease of \$951 thousand or 3.6 percent. The net interest margin, on a fully tax-equivalent basis, was 3.25 percent for the first six months of 2013 compared to 3.53 for the same period of 2012.

Loans averaged \$1.17 billion for the first half of 2013, increasing \$94.3 million or 8.8 percent, from the \$1.08 billion average for the same period of 2012. For the first six months of 2013 and 2012, the yield on loans was 4.07 percent and 4.46 percent, respectively, declining 39 basis points from the 2012 year-to-date compared to the 2013 year-to-date.

For the six months ended June 30, 2013, deposits averaged \$1.49 billion compared to \$1.42 billion for the same period of 2012, increasing \$76.0 million or 5.4 percent. The average cost of interest-bearing deposits was 0.27 percent and 0.35 percent for the first halves of 2013 and 2012, respectively.

CONTRACTUAL OBLIGATIONS: For a discussion of our contractual obligations, see the information set forth in the Corporation's 2012 Annual Report on Form 10-K under the heading "Management's Discussion and Analysis – Contractual Obligations" which is incorporated herein by reference.

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OFF-BALANCE SHEET ARRANGEMENTS: For a discussion of our off-balance sheet arrangements, see the information set forth in the Corporation's 2012 Annual Report on Form 10-K under the heading "Management's Discussion and Analysis – Off-Balance Sheet Arrangements" which is incorporated herein by reference.

EARNINGS ANALYSIS

NET INTEREST INCOME: For the second quarter of 2013, the Corporation recorded net interest income, on a tax-equivalent basis, of \$12.6 million compared to \$13.1 million for the same period of 2012, a decline of \$461 thousand or 3.5 percent. The net interest margin was 3.22 percent and 3.52 percent, for the second quarters of 2013 and 2012, respectively. For the second quarter of 2013, net interest income and the net interest margin reflected declines from the same period last year, due to the effect of the lower market yields, which compressed asset yields more than deposit costs. This was partially offset by the positive effect of increased loans funded by cash flows from lower yielding investment securities, which benefitted both net interest income and margin in the 2013 quarter. Additionally, a much higher overnight cash balance position maintained during the second quarter of 2013 also contributed to the compressed margin.

Interest-earning deposits averaged \$92.3 million for the second quarter of 2013 compared to an average of \$22.3 million for the same quarter of 2012, reflecting an increase of \$70.0 million, as the Company maintained a higher overnight cash position in the 2013 period in anticipation of funding future loan volumes. For the second quarter of 2013, average investments declined \$86.5 million or 24.2 percent, to \$271.4 million, from the \$357.9 million recorded for the same quarter of 2012. The decline in investments primarily funded loan growth.

Average loans totaled \$1.20 billion for the second quarter of 2013 compared to \$1.10 billion for the same quarter of 2012, increasing \$98.1 million, or 8.9 percent, when comparing the 2013 quarter to the 2012 quarter. Much of the growth was in the commercial mortgage portfolio which increased \$115.1 million, or 31.1 percent, from the year ago period, averaging \$485.3 million for the second quarter of 2013. The Corporation has increased its emphasis on multifamily lending, as well as continuing to provide mortgage loans on a variety of properties to creditworthy borrowers. While the Company utilizes attractive pricing techniques to generate additional volume, credit standards have not been compromised.

The residential mortgage portfolio increased nearly \$5.0 million to an average of \$535.5 million, or 0.9 percent, for the second quarter of 2013 compared to the same quarter of 2012. While residential mortgage originations continued to be very strong due to the lower interest rate environment and related refinancing activity, the Company sells a large portion of its originations.

The commercial construction portfolio has continued to decline, averaging \$9.2 million in the second quarter of 2013, declining \$2.5 million, or 21.1 percent, from the same quarter in 2012, due to the conversion of some loans to permanent loans and also due to the resolution of some problem loans. For the second quarters of 2013 and 2012, the commercial loan portfolio averaged \$101.8 million and \$118.9 million, respectively, a decline of \$17.1 million, or 14.4 percent, when comparing the two quarters. The above changes in the loan portfolios are due in part to the Corporation's transfer of \$19.2 million of classified loans to loans held for sale at the end of 2012. The loans were subsequently sold in the first quarter of 2013, resulting in a gain of approximately \$522 thousand.

For the three months ended June 30, 2013, average deposits totaled \$1.50 billion compared to \$1.42 billion for the same period in 2012, an increase of \$87.3 million, or 6.2 percent. Interest-bearing checking accounts averaged \$356.1 million and \$326.9 million for the second quarters of 2013 and 2012, respectively, increasing by \$29.1 million, or 8.9 percent from the 2012 period. For the second quarter of 2013, noninterest-bearing demand deposits increased \$18.8 million, or 6.4 percent, over the second quarter of 2012 to an average of \$311.2 million for the second quarter of 2013. Checking growth is attributable to the Company's continued focus on business and personal core deposit growth.

Savings accounts averaged \$114.0 million for the second quarter of 2013, increasing \$14.1 million or 14.1 percent from the same quarter of 2012. Money market accounts averaged \$551.2 million for the second quarter of 2013 compared to \$505.5 million for the same period in 2012, increasing \$45.6 million, or 9.0 percent from the 2013 quarter to the 2012 quarter. Overall, the Corporation has seen an increase in savings and money market accounts as customers tend to "park funds" in a lower or uncertain interest rate environment, to wait for a higher or a more certain rate environment. For the second quarters of 2013 and 2012, average certificates of deposit totaled \$171.9 million and \$192.3 million, respectively, decreasing \$20.3 million, or 10.6 percent, over the 2012 quarter. The Corporation has opted not to pay higher rates on maturing certificates of deposit. The Corporation believes it has ample liquidity from core deposits, principal paydowns on loans and maturing or called investments.

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There were no average overnight borrowings for the second quarter of 2013 from the Federal Home Loan Bank of New York while they averaged \$19.6 million for the same quarter of 2012. Average other borrowings totaled \$12.0 million for the three months ended June 30, 2013, declining \$5.0 million, or 29.2 percent when compared to the same quarter of 2012, as maturing borrowings were not replaced.

Average yields on interest-earning assets, on a tax-equivalent basis, declined 37 basis points to 3.48 percent for the second quarter of 2013 from 3.85 percent for the same quarter of 2012. For the second quarters of 2013 and 2012, average yields earned on investments securities were 2.07 percent and 2.35 percent, respectively, a decline of 28 basis points. The average yield on the loan portfolio declined 37 basis points to 4.03 percent for the second quarter of 2013, from the same quarter in 2012. Asset yields continue to experience downward pressure due to competitive pressures and the lower rate environment.

For the second quarter of 2013, the cost of funds, including the effect of noninterest-earning demand deposits, was 27 basis points compared to 33 basis points for the same 2012 quarter, decreasing six basis points. The average cost of interest-bearing checking deposits was eight basis points and 11 basis points for the second quarters of 2013 and 2012, respectively, a decline of three basis points. The cost of money market products averaged 17 basis points for the second quarter of 2013 compared to 20 basis points for the same quarter of 2012, declining three basis points when comparing the 2013 quarter to the 2012 quarter. Certificates of deposit costs averaged 1.13 percent in the second quarter of 2013, compared to 1.17 percent for the same quarter of 2012, declining four basis points, from the prior year period. The continued lower rate environment contributed to the declines in costs of deposits.

The Corporation recorded net interest income, on a tax-equivalent basis, of \$25.2 million for the first six months of 2013 compared to \$26.1 million for the same period of 2012, a decline of \$951 thousand or 3.6 percent. For the six months ended June 30, 2013, the net interest margin was 3.25 percent compared to 3.53 percent for the same period of 2012. As with the comparison for the quarter, net interest income and the net interest margin reflected declines from the same period last year, due to the effect of the lower market yields, which compressed asset yields more than deposit costs. This was partially offset by the positive effect of increased loans funded by cash flows from lower yielding investment securities, which benefitted both net interest income and margin in 2013. Additionally, a much higher overnight cash balance position maintained during the first half of 2013 also contributed to the compressed margin as rates remained low on invested cash.

Interest-earning deposits averaged \$85.0 million and \$22.1 million for the first six months of 2013 and 2012, respectively, reflecting an increase of \$62.9 million, as the Company maintained a higher overnight cash position in the 2013 period in anticipation of funding future loan volumes. Average investments were \$284.8 million for the six months ended June 30, 2013 compared to \$379.0 million for the same period of 2012, declining \$94.2 million or 24.9 percent. The decline in investments primarily funded loan growth in the first six months of 2013.

For the six months ended June 30, 2013 and 2012, average loans totaled \$1.17 billion and \$1.08 billion, respectively, increasing \$94.3 million, or 8.8 percent, when comparing the 2013 period to the 2012 period. The commercial mortgage portfolio reflected most of the growth, increasing \$104.3 million, or 29.5 percent, from the year ago period, to an average of \$458.4 million for the first six months of 2013. The Corporation has increased its emphasis on multifamily lending, as well as continuing to provide mortgage loans on a variety of properties to creditworthy borrowers. While the Company utilizes attractive pricing techniques to generate additional volume, credit standards have not been compromised.

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The residential mortgage portfolio averaged \$528.6 million for the first six months of 2013, increasing \$7.4 million, or 1.4 percent, when compared to the same period in 2012. While residential mortgage originations continued to be very strong due to the lower interest rate environment and related refinancing activity, the Company sells a large portion of its originations.

For the six months ended June 30, 2013 and 2012, the commercial loan portfolio averaged \$106.6 million and \$119.7 million, respectively, a decline of \$13.1 million, or 10.9 percent, when comparing the two periods. The commercial construction portfolio declined \$3.3 million, or 26.4 percent, averaging \$9.2 million in the first half of 2013 compared to the same period in 2012, due to the conversion of some loans to permanent loans and also due to the resolution of some problem loans. As noted above, the changes in the loan portfolios are due in part to the Corporation's transfer of \$19.2 million of classified loans to loans held for sale at the end of 2012. The loans were subsequently sold in the first quarter of 2013, resulting in a gain of approximately \$522 thousand.

Average deposits totaled \$1.49 billion for the six months ended June 30, 2013, compared to \$1.42 billion for the same period in 2012, an increase of \$76.0 million, or 5.4 percent. For the first half of 2013 and 2012, interest-bearing checking accounts averaged \$353.3 million and \$331.7 million, respectively, increasing by \$21.6 million, or 6.5 percent from the 2012 period. Noninterest-bearing demand deposits increased \$17.3 million, or 6.1 percent, over the first half of 2012 to an average of \$301.1 million for the first six months of 2013. Checking growth is attributable to the Corporation's continued focus on business and personal core deposit growth. For the six months ended June 30, 2013, savings accounts averaged \$112.4 million, increasing \$15.0 million or 15.4 percent from \$97.3 million for the same period of 2012. Money market accounts averaged \$552.0 million for the first six months of 2013 compared to \$510.9 million for the same period in 2012, increasing \$41.1 million, or 8.0 percent from the 2012 period to the 2013 period. Overall, the Corporation has seen an increase in savings and money market accounts as customers tend to "park funds" in a lower or uncertain interest rate environment, to wait for a higher or a more certain rate environment. Average certificates of deposit totaled \$174.2 million and \$193.1 million, for the first six months of 2013 and 2012, respectively, decreasing \$18.9 million, or 9.8 percent, over the 2012 year to date. The Corporation has opted not to pay higher rates on maturing certificates of deposit. The Corporation believes it has ample liquidity from core deposits, principal paydowns on loans and maturing or called investments.

For the first six months of 2013, there were no average overnight borrowings from the Federal Home Loan Bank of New York while they averaged \$19.6 million for the same period of 2012. Average other borrowings totaled \$12.1 million for the six months ended June 30, 2013, declining \$5.2 million, or 30.1 percent when compared to the same period of 2012, as maturing borrowings were not replaced.

On a tax-equivalent basis, average yields on interest-earning assets were 3.51 percent for the first six months of 2013, declining 36 basis points from 3.87 percent for the same period of 2012. Average yields earned on investments securities were 2.11 percent and 2.39 percent, for the six months ended June 30, 2013 and 2012, respectively, a decline of 28 basis points. The average yield on the loan portfolio declined 39 basis points to 4.07 percent for the first half of 2013, from 4.46 for the same period in 2012. Asset yields continue to experience downward pressure due to competitive pressures and the lower rate environment.

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The cost of funds, including the effect of noninterest-earning demand deposits, was 27 basis points for the first six months of 2013, compared to 34 basis points for the same 2012 period, decreasing seven basis points. The average cost of interest-bearing checking deposits was nine basis points for the six months ended June 30, 2013 compared to 12 basis points for the same period of 2012, a decline of three basis points. The cost of money market products averaged 16 basis points and 22 basis points for the first six months of 2013 and 2012, respectively, declining six basis points when comparing the 2013 period to the 2012 period. For the six months ended June 30, 2013, certificates of deposit costs averaged 1.13 percent, compared to 1.20 percent for the same period of 2012, declining seven basis points, from the prior year period. The continued lower rate environment contributed to the declines in costs of deposits.

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The following tables reflect the components of net interest income for the periods indicated:

Average Balance Sheet

Unaudited

Three Months Ended

(Tax-Equivalent Basis, Dollars in Thousands)

	June 30, 2013			June 30, 2012		
	Average Balance	Income/ Expense	Yield	Average Balance	Income/ Expense	Yield
ASSETS:						
Interest-earning assets:						
Investments:						
Taxable (1)	\$220,954	\$1,085	1.96 %	\$312,362	\$1,770	2.27 %
Tax-exempt (1) (2)	50,479	322	2.55	45,556	332	2.92
Loans held for sale	2,512	50	8.12	1,137	18	6.57
Loans (2) (3)	1,199,235	12,087	4.03	1,101,095	12,124	4.40
Federal funds sold	101	—	0.10	100	—	0.10
Interest-earning deposits	92,319	66	0.29	22,306	14	0.26
Total interest-earning assets	1,565,600	13,610	3.48 %	1,482,556	14,258	3.85 %
Noninterest-earning assets:						
Cash and due from banks	5,865			5,846		
Allowance for loan losses	(13,523)			(13,990)		
Premises and equipment	29,248			31,284		
Other assets	71,862			76,469		
Total noninterest-earning assets	93,452			99,609		
Total assets	\$1,659,052			\$1,582,165		
LIABILITIES:						
Interest-bearing deposits:						
Checking	\$356,060	\$74	0.08 %	\$326,920	\$90	0.11 %
Money markets	551,150	239	0.17	505,532	257	0.20
Savings	114,028	15	0.05	99,958	13	0.05
Certificates of deposit	171,931	486	1.13	192,261	563	1.17
Total interest-bearing deposits	1,193,169	814	0.27	1,124,671	923	0.33
Borrowings	12,025	92	3.06	36,586	168	1.84
Capital lease obligation	8,884	106	4.77	9,093	108	4.75
Total interest-bearing liabilities	1,214,078	1,012	0.33	1,170,350	1,199	0.41
Noninterest-bearing liabilities:						
Demand deposits	311,227			292,459		
Accrued expenses and other liabilities	8,298			6,438		
Total noninterest-bearing liabilities	319,525			298,897		

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Shareholders' equity	125,449		112,918	
Total liabilities and shareholders' equity	\$1,659,052		\$1,582,165	
Net interest income (tax-equivalent basis)		12,598		13,059
Net interest spread			3.15 %	3.44 %
Net interest margin (4)			3.22 %	3.52 %
Tax equivalent adjustment		(150)		(156)
Net interest income		\$12,448		\$12,903

(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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Unaudited

Six Months Ended

(Tax-Equivalent Basis, Dollars in Thousands)

	June 30, 2013			June 30, 2012		
	Average Balance	Income/ Expense	Yield	Average Balance	Income/ Expense	Yield
ASSETS:						
Interest-earning assets:						
Investments:						
Taxable (1)	\$234,721	\$2,362	2.01 %	\$331,334	\$3,822	2.31 %
Tax-exempt (1) (2)	50,116	646	2.58	47,699	714	2.99
Loans held for sale	9,661	246	5.10	1,370	41	6.00
Loans (2) (3)	1,171,300	23,825	4.07	1,077,028	24,041	4.46
Federal funds sold	101	—	0.10	100	—	0.10
Interest-earning deposits	85,006	114	0.27	22,147	31	0.28
Total interest-earning assets	1,550,905	27,193	3.51 %	1,479,678	28,649	3.87 %
Noninterest-earning assets:						
Cash and due from banks	5,849			6,766		
Allowance for loan losses	(13,300)			(13,872)		
Premises and equipment	29,526			31,518		
Other assets	73,475			77,369		
Total noninterest-earning assets	95,550			101,781		
Total assets	\$1,646,455			\$1,581,459		
LIABILITIES:						
Interest-bearing deposits:						
Checking	\$353,286	\$153	0.09 %	\$331,731	\$203	0.12 %
Money markets	552,003	454	0.16	510,944	561	0.22
Savings	112,354	28	0.05	97,345	42	0.09
Certificates of deposit	174,228	986	1.13	193,127	1,159	1.20
Total interest-bearing deposits	1,191,871	1,621	0.27	1,133,147	1,965	0.35
Borrowings	12,082	184	3.05	36,912	340	1.84
Capital lease obligation	8,910	212	4.76	9,119	217	4.76
Total interest-bearing liabilities	1,212,863	2,017	0.33	1,179,178	2,522	0.43
Noninterest-bearing liabilities:						
Demand deposits	301,087			283,808		
Accrued expenses and other liabilities	8,199			6,166		
Total noninterest-bearing liabilities	309,286			289,974		
Shareholders' equity	124,306			112,307		
Total liabilities and						

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shareholders' equity	\$1,646,455		\$1,581,459	
Net interest income				
(tax-equivalent basis)	25,176		26,127	
Net interest spread		3.18 %		3.44 %
Net interest margin (4)		3.25 %		3.53 %
Tax equivalent adjustment	(301)		(333)	
Net interest income	\$24,875		\$25,794	

(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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OTHER INCOME: For the second quarter of 2013 and 2012, other income, excluding fee income from the Bank's wealth management division, totaled \$1.6 million and \$1.4 million, respectively, an increase of \$196 thousand or 13.9 percent. The second quarter of 2013 included \$391 thousand of income from the sale of newly originated, longer-duration residential mortgage loans, compared to \$279 thousand in the same 2012 quarter, an increase of \$122 thousand or 40.1 percent, which was due to increased production and a management decision to retain less longer-duration loans in the portfolio, as well as a decision to target a higher sale price. For the second quarter of 2013, net securities gains from strategic sale of securities was \$238 thousand, compared to \$107 thousand for the same quarter of 2012. The Corporation also recorded a net loss of \$49 thousand in the second quarter of 2013 on the retirement of various fixed assets that were located in the Bethlehem, Pennsylvania, office that was closed in May 2013.

The Corporation recorded other income, excluding fee income from the Bank's wealth management division, of \$3.8 million and \$3.0 million for the six months ended June 30, 2013 and 2012, respectively, an increase of \$885 thousand or 29.9 percent. For the first half of 2013, gain on sale of loans was \$1.4 million, compared to \$467 thousand for the same period in 2012. The increase was largely due to a \$522 thousand gain reported on the sale of classified loans in the first quarter of 2013 and the increased sales of newly originated longer duration residential mortgage loans.

OPERATING EXPENSES: The Corporation recorded operating expenses of \$14.1 million and \$11.7 million, for the second quarters of 2013 and 2012, respectively, an increase of \$2.4 million or 20.3 percent. In the second quarter of 2013, the Company recorded an additional \$930 thousand in provision for REO on an other real estate owned property as additional information was gathered relating to the use of the property." Salary and benefit expense was \$7.9 million for the second quarter of 2013, compared to \$6.4 million in the same quarter of 2012, an increase of \$1.5 million or 23.9 percent. Salary and benefits increased due to additions to staff as we begin to implement the Strategic Plan; increased commissions related to residential loan originations; normal salary increases; and increased bonus/incentive and profit-sharing accruals. Professional and legal fees totaled \$430 thousand and \$253 thousand, for the second quarters of 2013 and 2012, respectively, an increase of \$177 thousand due to various training and consulting expenses, some of which was associated with the Strategic Plan. Loan expense for the second quarters of 2013 and 2012 were \$154 thousand and \$321 thousand, respectively, a decrease of \$166 thousand. This is attributed to a decline in problem loan expense.

The Corporation recorded operating expenses of \$26.4 million for the first half of 2013 compared to \$22.8 million for the same period of 2012, an increase of \$3.6 million or 15.8 percent. As noted above, the Company recorded a \$930 thousand provision for REO on one large property held in other real estate owned. Salary and benefit expense was \$15.0 million and \$12.5 million for the six months ended June 30, 2013 and 2012, respectively, an increase of \$2.5 million or 19.9 percent due to additions to staff as we begin to implement the Strategic Plan; increased commissions related to loan originations; normal salary increases; and increased bonus/incentive and profit-sharing accruals. For the first six months of 2013, professional and legal fees increased approximately \$444 thousand, or 91.4 percent, to \$930 thousand from \$486 thousand for the six months ended June 30, 2012 due to various professional and other fees associated with the Delaware subsidiary; the Amended Stock Incentive Plan; the filing of the Corporation's registration statement with the SEC; and various training and consulting, some of which was associated with the Strategic Plan. For the six months ended June 30, 2013 loan expense, which includes costs associated with problem loan expense, decreased by approximately \$157 thousand or 31.1 percent compared to the same period in 2012. The Corporation also recorded expense on other real estate owned of \$72 thousand and \$227 thousand for the six months ended June 30, 2013 and 2012, respectively. The Company expected higher operating expenses in the first six months of 2013 and expects that trend to continue as it implements its Strategic Plan. The Company also expects revenue and related profitability associated with the Strategic Plan to generally lag expenses by several quarters.

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

(In thousands)	Three Months Ended		Six Months Ended	
	June 30, 2013	2012	June 30, 2013	2012
Salaries and employee benefits	\$ 7,935	\$ 6,408	\$ 15,014	\$ 12,521
Premises and equipment	2,338	2,413	4,642	4,744
FDIC assessment	280	290	560	642
Trust department expense	407	459	901	854
Professional and legal fees	429	253	930	486
Loan expense	155	321	348	505
Telephone	186	183	358	303
Advertising	158	129	263	247
Postage	99	78	204	164
Other real estate owned expense	42	78	72	227
Provision for ORE losses	930	—	930	—
Other expense	1,120	1,092	2,150	2,091
Total operating expenses	\$ 14,079	\$ 11,704	\$ 26,372	\$ 22,784

PEAPACK-GLADSTONE BANK TRUST & INVESTMENTS: Peapack-Gladstone Bank Trust & Investments, a division of the Bank, has served in the roles of executor and trustee while providing investment management, custodial, tax, retirement and financial services to its growing client base. Officers from Peapack-Gladstone Bank Trust & Investments are available to provide trust and investment services at the Bank's corporate headquarters in Bedminster, at two branch locations, Morristown and Summit, New Jersey and at the Bank's new subsidiary, PGB Trust & Investments of Delaware in Greenville, Delaware.

The market value of trust assets under administration for Peapack-Gladstone Bank Trust & Investments was approximately \$2.52 billion at June 30, 2013 compared to \$2.06 billion at June 30, 2012.

Peapack-Gladstone Bank Trust & Investments generated fee income of \$3.6 million for the second quarter of 2013 compared to \$3.3 million for the same quarter of 2012, an increase of \$369 thousand or 11.3 percent. The increase reflects increased relationships, a greater mix of higher margin business and an improvement in the market value of assets under management.

While the "Operating Expenses" section above offers an overall discussion of the Corporation's expenses including Peapack-Gladstone Bank Trust & Investments, other expenses relative to Peapack-Gladstone Bank Trust & Investments totaled \$2.4 million and \$2.5 million for the second quarters of 2013 and 2012, respectively, a decrease of \$77 thousand or 3.1 percent. For the second quarter of 2013, salaries and benefits expense decreased \$112 thousand, or 8.3 percent when compared to the same period in 2012. During the same time periods, total operating expenses increased \$40 thousand, or 3.9 percent, due in part to increased system expenses related to increased volume.

For the first six months of 2013, Peapack-Gladstone Bank Trust and Investments generated fee income of \$7.0 million, an increase of \$561 thousand, or 8.7 percent, when compared to \$6.4 million for the same 2012 period. The increase reflects increased relationships and a greater mix of higher margin business, in addition to an improvement in the market value of assets under management.

For the six months ended June 30, 2013, other expenses for Peapack-Gladstone Bank Trust and Investments totaled \$5.1 million compared to \$4.8 million for the same period in 2012, an increase of \$279 thousand, or 5.8 percent. For

the six months ended June 30, 2013, salaries and benefits expense decreased \$61 thousand, or 2.4 percent to \$1.2 million when compared to the same period in 2012, while other operating expenses increased \$337 thousand, or 17.2 percent for the six months ended June 30, 2013 when compared to the same period in 2012.

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Peapack-Gladstone Bank Trust & Investments currently generates adequate revenue to support the salaries, benefits and other expenses of the Division; however, Management believes that the Bank generates adequate liquidity to support the expenses of the Division should it be necessary.

NONPERFORMING ASSETS: Other real estate owned (OREO), loans past due in excess of 90 days and still accruing, and nonaccrual loans are considered nonperforming assets. These assets totaled \$11.4 million and \$15.2 million at June 30, 2013 and December 31, 2012, respectively.

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

	June 30, 2013	March 31, 2013	December 31, 2012	September 30, 2012	June 30, 2012
Loans past due over 90 days and still accruing	\$—	\$—	\$—	\$—	\$—
Nonaccrual loans	8,075	11,290	11,732	16,958	19,011
Other real estate owned	3,347	4,141	3,496	3,392	3,073
Total nonperforming assets	\$ 11,422	\$ 15,431	\$ 15,228	\$ 20,350	\$ 22,084
Accruing TDR's	\$ 6,131	\$ 5,986	\$ 6,415	\$ 7,625	\$ 7,647
Loans past due 30 through 89 days and still accruing	\$ 1,544	\$ 1,791	\$ 3,786	\$ 2,536	\$ 2,836
Classified loans (A)	\$ 32,123	\$ 35,945	\$ 32,014	\$ 47,017	\$ 47,102
Impaired loans (A)	\$ 17,977	\$ 21,046	\$ 18,147	\$ 24,584	\$ 26,658
Nonperforming loans as a % of total loans	0.64 %	0.97 %	1.04 %	1.55 %	1.72 %
Nonperforming assets as a % of total assets	0.68 %	0.94 %	0.91 %	1.29 %	1.40 %
Nonperforming assets as a % of total loans plus other real estate owned	0.91 %	1.32 %	1.34 %	1.85 %	1.99 %

(A) Classified loans include all impaired loans. Impaired loans include all nonaccrual loans and all TDRs.

We do not hold, have not made nor invested in subprime loans or "Alt-A" type mortgages.

PROVISION FOR LOAN LOSSES: The provision for loan losses was \$500 thousand and \$1.5 million for the second quarters of 2013 and 2012, respectively. The provision for loan losses was \$1.4 million for the first six months of 2013 compared to \$3.0 million for the same 2012 period. The amount of the loan loss provision and the level of the allowance for loan losses are based upon a number of factors including Management's evaluation of probable losses inherent in the portfolio, after consideration of appraised collateral values, financial condition and past credit history of the borrowers as well as prevailing economic conditions. Commercial credits carry a higher risk profile, which is reflected in Management's determination of the proper level of the allowance for loan losses.

The provision for loan losses of \$500 thousand in the second quarter of 2013 was primarily related to the changes in the specific reserves on impaired loans, net charge-offs and for the impact of the net charge-off trends and environmental factors on the general reserve.

The overall allowance for loan losses was \$13.4 million as of June 30, 2013 compared to \$12.7 million at December 31, 2012. As a percentage of loans, the allowance for loan losses was 1.07 percent as of June 30, 2013 and 1.12 percent as of December 31, 2012. The specific reserves on impaired loans have increased to \$841 thousand at June 30, 2013 compared to \$813 thousand as of December 31, 2012. Total impaired loans were \$18.0 million and \$18.1 million as of June 30, 2013 and December 31, 2012, respectively. The general component of the allowance increased from \$11.9 million at December 31, 2012 to \$12.6 million at June 30, 2013. As a percentage of non-impaired loans, the general reserve remained relatively stable and was 1.02 percent and 1.07 percent at June 30, 2013 and December 31, 2012, respectively. Although the Company has experience loan growth, there has been a shift in the loan portfolio to less risky loans, such as multi-family, from the riskier construction and commercial loans that carried higher general reserves.

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

(In thousands)	June 30, 2013	March 31, 2013	Dec 31, 2012	Sept 30, 2012	June 30, 2012
Allowance for loan losses:					
Beginning of period	\$ 13,279	\$ 12,735	\$ 13,893	\$ 13,686	\$ 13,496
Provision for loan losses	500	850	4,525	750	1,500
Charge-offs, net	(341)	(306)	(5,683)	(543)	(1,310)
End of period	\$ 13,438	\$ 13,279	\$ 12,735	\$ 13,893	\$ 13,686

Allowance for loan losses as a % of total loans	1.07 %	1.14 %	1.12 %	1.27 %	1.24 %
Allowance for loan losses as a % of nonperforming loans	166.41 %	117.62 %	108.55 %	81.93 %	71.99 %

INCOME TAXES: For the second quarters of 2013 and 2012, income tax expense as a percentage of pre-tax income was 35 percent and 38 percent, respectively. Income tax expense as a percentage of pre-tax income for the first six months of 2013 was 39 percent compared to 38 percent for the same period in 2012.

CAPITAL RESOURCES: The Corporation's total shareholders' equity at June 30, 2013, was \$124.1 million compared to \$122.1 million at December 31, 2012. The primary reason for the increase is due to an increase in the Corporation's retained earnings in the first half of 2013, offset by a decline in accumulated other comprehensive income.

The Corporation, through the Bank, is subject to various regulatory capital requirements administered by the Federal banking regulatory agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Corporation and the Bank's consolidated financial statements.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios of Total and Tier 1 capital to risk-weighted assets and of Tier 1 Capital to average assets. For the second quarter of 2013, the Bank's capital ratios met or exceeded the minimum to be categorized as well capitalized under the regulatory framework for prompt corrective action. Tier 1 Capital consists of common stock, retained earnings, minority interests in the equity accounts of consolidated subsidiaries, non-cumulative preferred stock, and cumulative preferred stock issued to the U.S. Treasury in the Capital Purchase Program, less goodwill and certain other intangibles. The remainder of capital may consist of other preferred stock, certain other instruments and a portion of the allowance for loan loss. At June 30, 2013, the Bank's Tier 1 Capital and Total Capital ratios to risk-weighted assets were 11.61 percent and 12.86 percent, respectively, both in excess of the well-capitalized standards of 6.0 percent and 10.0 percent, respectively.

In addition, the Federal Reserve Board has established minimum leverage ratio guidelines. At June 30, 2013, the Bank's leverage ratio was 7.25 percent, in excess of the well-capitalized standard of 5.0 percent.

At June 30, 2013, the Corporation's Tier 1 Capital and Total Capital ratios to risk-weighted assets were 11.85 percent and 13.10 percent, respectively, while the Corporation's leverage ratio was 7.39 percent.

In addition, the Corporation's common equity ratio at June 30, 2013, was 7.39 percent compared to 7.32 percent at December 31, 2012 and 7.24 percent at June 30, 2012.

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As previously announced, on July 18, 2013, the Board of Directors declared a regular cash dividend of \$0.05 per share payable on August 15, 2013 to shareholders of record on August 1, 2013.

On July 2, 2013, the Federal Reserve Board approved the final rules implementing the Basel Committee on Banking Supervision's capital guidelines for U.S. banks. The rules included a new common equity Tier 1 capital to risk-weighted assets ratio of 4.5 percent and a common equity Tier 1 capital conservation buffer of 2.5 percent of risk-weighted assets. The final rules also raise the minimum ratio of Tier 1 capital to risk-weighted assets from 4.0 percent to 6.0 percent and require a minimum leverage ratio of 4.0 percent. The final rules also implement strict eligibility criteria for regulatory capital instruments. The phase-in period for the final rules will begin for the Corporation on January 1, 2015, with full compliance with all of the final rule's requirements phased in over a multi-year schedule. Management is currently evaluating the provisions of the final rules and their expected impact to the Corporation.

LIQUIDITY: Liquidity refers to an institution's ability to meet short-term requirements including loan fundings, deposit withdrawals and maturing obligations. Principal sources of liquidity include cash, temporary investments, securities available for sale, deposit inflows and loan repayments.

Management actively monitors and manages the Corporation's liquidity position and feels it is sufficient to meet future needs. Cash and cash equivalents, including federal funds sold and interest-earning deposits, totaled \$66.9 million at June 30, 2013. In addition, the Corporation has \$270.3 million in securities designated as available for sale at June 30, 2013. These securities can be sold in response to liquidity concerns. In addition, the Corporation generates significant liquidity from scheduled and unscheduled principal repayments of loans and mortgage-backed securities.

Another source of liquidity is borrowing capacity. At June 30, 2013, unused short-term or overnight borrowing commitments totaled \$491.7 million from the FHLB and \$29.6 million from correspondent banks.

RECENT ACCOUNTING PRONOUNCEMENTS:

In February 2013, the FASB issued an Accounting Standards Update ("ASU") to finalize the reporting requirements for reclassifications of amounts out of accumulated other comprehensive income ("AOCI"). Items reclassified out of AOCI to net income in their entirety must have the effect of the reclassification disclosed according to the respective income statement line item. This information must be provided either on the face of the financial statements by income statement line item, or in a footnote. For public companies, the amendments in the update became effective for interim and annual periods beginning on or after December 15, 2012. As of March 31, 2013, the Corporation enhanced its disclosure on the statement of income to comply with this ASU.

ITEM 3. Quantitative and Qualitative Disclosures about Market Risk

There have been no material changes to information required regarding quantitative and qualitative disclosures about market risk from the end of the preceding fiscal year to the date of the most recent interim financial statements (June 30, 2013).

ITEM 4. Controls and Procedures

The Corporation's Chief Executive Officer and Chief Financial Officer, with the assistance of other members of the corporation's management, have evaluated the effectiveness of the Corporation's disclosure controls and procedures (as defined in Rule 13a-15(e) or Rule 15d-15(e) under the Exchange Act) as of the end of the period covered by this Quarterly Report on Form 10-Q. Any controls and procedures, no matter how well designed and operated, can only provide reasonable assurance of achieving the desired control objectives. Based on such evaluation, the Corporation's

Chief Executive Officer and Chief Financial Officer have concluded that the Corporation's disclosure controls and procedures are effective.

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The Corporation's Chief Executive Officer and Chief Financial Officer have also concluded that there have not been any changes in the Corporation's internal control over financial reporting during the quarter ended June 30, 2013 that have materially affected, or are reasonable likely to materially affect, the Corporation's internal control over financial reporting.

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

PART II. OTHER INFORMATION

ITEM 1A. Risk Factors

There were no material changes in the Corporation's risk factors during the six months ended June 30, 2013 from the risk factors disclosed in Part I, Item 1A of the Corporation's Annual Report on Form 10-K for the year ended December 31, 2012.

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

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

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ITEM 6. Exhibits

- 3 Articles of Incorporation and By-Laws:
A. Certificate of Incorporation of the Registrant, as amended, incorporated herein by reference to the Registrant's Quarterly Report on Form 10-Q filed on November 9, 2009.
B. By-Laws of the Registrant, incorporated herein by reference to the Registrant's Current Report on Form 8-K filed on April 23, 2007 (File No. 001-16197).

31.1 Certification of Douglas L. Kennedy, Chief Executive Officer of the Corporation, pursuant to Securities Exchange Act Rule 13a-14(a).

31.2 Certification of Jeffrey J. Carfora, Chief Financial Officer of the Corporation, pursuant to Securities Exchange Act Rule 13a-14(a).

32 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, signed by Douglas L. Kennedy, Chief Executive Officer of the Corporation, and Jeffrey J. Carfora, Chief Financial Officer of the Corporation.

101 Interactive Data File *

* As provided in Rule 406T of Regulation S-T, this information is deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 and 12 of the Securities Act of 1933 and is deemed not filed for the purposes of Section 18 of the Securities Exchange Act of 1934, and otherwise is not subject to liability under these sections.

SIGNATURES

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

PEAPACK-GLADSTONE FINANCIAL CORPORATION
(Registrant)

DATE: August 9, 2013 By: /s/ Douglas L. Kennedy
Douglas L. Kennedy
President and Chief Executive Officer

DATE: August 9, 2013 By: /s/ Jeffrey J. Carfora
Jeffrey J. Carfora
Executive Vice President and Chief Financial Officer and
Chief Accounting Officer

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