

PUBLIC DISCLOSURE

January 9, 2012

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Peapack-Gladstone Bank
RSSD No. 236706**

**500 Hills Drive
Suite 300
Bedminster, New Jersey 07921**

**FEDERAL RESERVE BANK OF NEW YORK
33 LIBERTY STREET
NEW YORK, NEW YORK 10045**

NOTE: This document is an evaluation of this institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operation of the institution. This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion, or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

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INSTITUTION RATING

Peapack-Gladstone Bank (“Peapack”) is rated “Satisfactory.” The following table indicates the performance level of the institution with respect to the lending, investment and service tests:

PERFORMANCE LEVELS	PERFORMANCE TESTS		
	Lending* Test	Investment Test	Service Test
Outstanding			
High Satisfactory	X		
Low Satisfactory		X	X
Needs to Improve			
Substantial Noncompliance			

* The lending test is weighted more heavily than the investment and service tests in determining the overall rating.

The major factors supporting the institution’s rating follow:

- Lending activity levels reflect good responsiveness to assessment area credit needs.
- A substantial majority of loans are made in Peapack’s assessment area.
- The geographic distribution of loans reflects good penetration throughout the assessment area.
- The distribution of borrowers reflects good penetration among borrowers of different income levels and businesses of different sizes.
- Peapack made a relatively high level of community development loans.
- Peapack made an adequate level of qualified community development investments and grants.
- Peapack provides an adequate level of community development services to its assessment area and delivery systems are reasonably accessible to essentially all portions of the assessment area.

DESCRIPTION OF INSTITUTION

Headquartered in Bedminster, NJ, Peapack is the sole bank subsidiary of Peapack-Gladstone Financial Corporation. Peapack is a full-service commercial bank. As of December 31, 2010, Peapack operated 23 branches in northern and central New Jersey, and reported total assets of \$1.5 billion, net loans and leases of \$918 million, total deposits of \$1.4 billion, and total real estate loans of \$893 million. Of the total dollar amount of real estate loans, 55% (\$495 million) were secured by one- to four-family residential properties.

Peapack's business lines consist of consumer lending, retail deposit services, personal trust and investment services. Consumer products include purchase and refinance residential mortgages, home equity loans and lines, and auto and personal loans. Peapack also offers business services, such as commercial and small business lending, business checking, cash flow management, and accounts receivable collections and disbursements.

There are no financial or legal factors that would prevent Peapack from fulfilling its responsibilities under CRA. Peapack's previous CRA examination, dated January 4, 2010, resulted in a Satisfactory rating.

DESCRIPTION OF ASSESSMENT AREA

Peapack has one assessment area, which is part of MSA 35620 (New York-Northern New Jersey-Long Island, NY-NJ-PA). The assessment area includes the following:

- MD 20764 (Edison-New Brunswick, NJ), which includes all of Somerset County and a portion of Middlesex County in New Jersey; and
- MD 35084 (Newark-Union, NJ-PA), which includes portions of Essex, Hunterdon, Morris, and Union Counties in New Jersey.

Since the prior exam, there has been no change to Peapack's assessment area. The assessment area consists of a total of 249 census tracts, of which two are low-income tracts, 21 are moderate-income tracts, 81 are middle-income, 144 are upper-income, and one tract has no income designation.

Peapack's assessment area is in compliance with the requirements of Section 228.41 of Regulation BB and does not arbitrarily exclude low- and moderate-income ("LMI") geographies. Additional assessment area data can be found in Exhibit I. See Appendix B for a map of the assessment area.

SCOPE OF EXAMINATION

Peapack's CRA performance was evaluated using the Federal Financial Institutions Examination Council's ("FFIEC") CRA Interagency Examination Procedures for Large Retail Institutions ("Interagency CRA large bank procedures"). Peapack's HMDA-related and small business lending performance was evaluated from January 1, 2009 through December 31, 2010, while its community development activities were evaluated from January 1, 2009 through December 31, 2011, in accordance with FFIEC examination procedures. Examiners evaluated home purchase, refinance, home improvement, and small business loans. In addition, examiners reviewed community development loans, investments, and services.

The real estate-related mortgage loans considered in the evaluation were reported under the Home Mortgage Disclosure Act ("HMDA") and the small business loans were reported under CRA. Examiners verified the integrity of the bank's HMDA and CRA reportable loan data.

Lending Analysis

To evaluate geographic distribution of lending, the proportion of HMDA loan originations was compared to the proportion of owner-occupied housing units located in LMI geographies. Geographies were classified on the basis of the U.S. Census Bureau's 2000 income data. For small business loans, the analysis compared the proportion of loan originations to the proportion of businesses located in LMI geographies, as reported by Dun and Bradstreet.

In order to analyze the borrower characteristics of HMDA-related lending, the proportion of originations to LMI borrowers was compared with the proportion of LMI families residing in the assessment area. Income estimates from the U.S. Department of Housing and Urban Development ("HUD") were used to categorize borrower income. For small business lending, Peapack's percentage of loans to businesses with gross annual revenues ("GAR") of \$1 million or less was compared to the percentage of all such businesses located in the assessment area, as reported by Dun and Bradstreet. The size of the small business loan was also used as a proxy to identify lending to businesses with GAR of \$1 million or less.

Peapack's 2009 and 2010 HMDA-related and small business loan performance was compared with the 2009 and 2010 performance of the aggregate of all lenders in the assessment area subject to HMDA and/or CRA small business loan reporting.

Deriving Overall Conclusions

Before reaching a conclusion about the overall performance regarding geographic distribution and borrower characteristics in the assessment area, examiners weighted loan products by the total retail lending volume in order to determine the influence of performance on the overall conclusion. Peer data was also used for the analysis of community development loans and qualified investments. Local peer banks were selected based on their amounts of assets, deposits and branches and their presence within the assessment area.

Examiners also conducted interviews with representatives of community development organizations in order to gain an understanding of local credit needs.

PERFORMANCE CONTEXT

The following demographic and economic information was obtained from publicly available sources that include U.S. Department of Commerce's Bureau of the Census (2000), the U.S. Department of Labor, the U.S. Department of Housing and Urban Development ("HUD"), the New Jersey Department of Labor, Dun and Bradstreet, and the New Jersey Realtors Association.

Demographic Characteristics

According to the 2000 Census, the total population of Peapack's assessment area is 1,192,305. The assessment area has 428,237 households, of which 74% are families. Less than one percent of the population resides in low-income geographies, while 8% reside in moderate-income geographies, and 92% reside in middle- and upper-income geographies.

Income Characteristics

According to 2000 Census data, the assessment area has 12% of families that are low-income, 14% of families that are moderate-income, and 3% of families living below the poverty level. The assessment area is a high-income area with a significant majority of census tracts and families in the upper-income category. HUD estimated that the 2010 median family income levels for the assessment area range from a low of \$84,300 in Essex County, to a high of \$102,000 in Somerset, Middlesex, and Hunterdon Counties, compared to the State of New Jersey's median family income of \$86,300.

Housing Characteristics

According to the 2000 Census, there are 320,045 owner-occupied housing units in the assessment area, of which less than 1% (163) is located in low-income geographies and 4% (12,791) is in moderate-income geographies.

Housing costs are relatively expensive in the assessment area, although prices have declined due to the nationwide housing crisis. The National Association of Realtors reports the 2010 median sales price of a single family home in MD 20764 was \$345,400, compared to \$365,200 during the last examination. For MD 35084, the 2010 median sales price of a single family home was \$379,200, compared to \$417,200 during the last examination. Housing costs are very expensive for LMI families, with the median housing costs ranging from about seven to nine times the median family income of a low-income borrower and about four to six times the income of a moderate-income borrower. Community contacts indicated that the provision of affordable housing for the LMI population in the assessment area is a critical need.

Labor, Employment and Economic Characteristics

According to the 2010 Dun and Bradstreet data, there are 74,737 businesses operating within the assessment area, of which less than 1% (380) is located in low-income areas, 6% (4,492) is located in moderate-income areas, and 93% is in middle and upper income areas. Of the total number of businesses in the assessment area, 65,286 (87%) are small businesses with GAR of \$1 million or less.

Exhibit I Assessment Area Demographics								
Income Categories	Tract Distribution		Families by Tract Income		Families < Poverty Level as % of Families by Tract		Families by Family Income	
	#	%	#	%	#	%	#	%
Low-income	2	0.8	1,124	0.4	343	30.5	37,134	11.7
Moderate-income	21	8.4	20,636	6.5	2,097	10.2	43,314	13.7
Middle-income	81	32.5	96,971	30.6	3,069	3.2	63,744	20.1
Upper-income	144	57.8	197,896	62.5	2,950	1.5	172,435	54.5
Unknown-income	1	0.4	0	0.0	0	0.0	0	0.0
Total Assessment Area	249	100.0	316,627	100.0	8,459	2.7	316,627	100.0
	Housing	Housing Types by Tract						
	Units by Tract	Owner-Occupied			Rental		Vacant	
		#	%	%	#	%	#	%
Low-income	1,660	163	0.1	9.8	1,401	84.4	96	5.8
Moderate-income	31,064	12,791	4.0	41.2	16,675	53.7	1,598	5.1
Middle-income	147,468	87,668	27.4	59.4	55,733	37.8	4,067	2.8
Upper-income	259,581	219,423	68.6	84.5	34,250	13.2	5,908	2.3
Unknown-income	0	0	0.0	0.0	0	0.0	0	0.0
Total Assessment Area	439,773	320,045	100.0	72.8	108,059	24.6	11,669	2.7
	Total Businesses by Tract	Businesses by Tract & Revenue Size						
	#	%	Less Than or = \$1 Million		Over \$1 Million		Revenue Not Reported	
			#	%	#	%	#	%
Low-income	380	0.5	336	0.5	19	0.3	25	0.6
Moderate-income	4,492	6.0	3,749	5.7	419	7.7	324	8.1
Middle-income	22,827	30.5	19,695	30.2	1,803	33.1	1,329	33.2
Upper-income	47,037	62.9	41,506	63.6	3,204	58.8	2,327	58.1
Unknown-income	1	0.0	0	0.0	0	0.0	1	0.0
Total Assessment Area	74,737	100.0	65,286	100.0	5,445	100.0	4,006	100.0
	Percentage of Total Businesses:			87.4		7.3		5.4

Based on 2010 Dun and Bradstreet and 2000 Census Information.

Between 2009 and 2010, unemployment within the assessment area, as well as throughout the State of New Jersey, increased due to the economic recession experienced in the region and throughout the country. According to the New Jersey Department of Labor, the 2010 unemployment rate for MD 20764 and MD 35084 were 8.8% and 9.3%, respectively, compared to the New Jersey State average of 9.5%. At the end of the last examination, the 2008 unemployment rates for MD 20764 and MD 35084 were 5% and 5.4%, respectively, compared to the New Jersey State average of 5.5%.

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS

LENDING TEST

Peapack's performance under the lending test is rated high satisfactory. Peapack's lending activity, geographic and borrower distributions were good, and a relatively high level of community development loans were made.

Lending Activity

Peapack's lending levels reflect good responsiveness to assessment area credit needs. Since the prior examination, Peapack increased its HMDA and small business lending within its assessment area by 20%. In comparison, the aggregate's lending within the assessment area decreased by 27%. Peapack was ranked 28th among the aggregate lenders for total HMDA originations and 18th among the aggregate for total small business originations in 2010. Peapack's volume of HMDA-related originations and purchases, as a percentage of the aggregate's volume of HMDA-related originations and purchases, was 0.65%, and its volume of small business originations, as a percentage of the aggregate's volume of small business originations, was 0.54%.

In terms of deposit market share, Peapack had 1.4% of the deposit market share in the combined Counties of Essex, Hunterdon, Middlesex, Morris, Somerset, and Union as of June 30, 2010, with \$1.3 billion in deposits. In terms of deposits, the bank ranked 17th out of 74 banks operating in these counties.

Among four similarly-situated peer banks, Peapack's lending activity was generally stronger. Peapack ranked 2nd in terms of the total HMDA and small business loans per billion dollars of deposits, 1st for HMDA loans per billion dollars of deposits, and 3rd for small business loans per billion dollars of deposits.

Peapack's "Low and Moderate Income Mortgage Program" was found to be responsive to the assessment area's needs by providing flexible terms to assist LMI individuals and individuals residing in LMI geographies to obtain credit. During the examination period, the bank made 161 home mortgage loans through this program. In 2010, a local community development organization recognized Peapack with an award for its outstanding achievement in affordable housing in connection with this program.

Assessment Area Concentration

A substantial majority of Peapack’s total lending, by both number and dollar volume, was originated within the assessment area. Peapack extended 86% of its total loans to individuals residing and businesses operating in the assessment area. In particular, 85% of HMDA loans and 92% of small business loans, by number, were made in Peapack’s assessment area. Lending within the assessment area increased slightly since the prior examination when 84% of Peapack’s total loans were made inside the assessment area. Specifically, home purchase originations within the assessment area increased from 75% last examination to 85% this examination. See Exhibit II below for additional details relating to Peapack’s 2009-2010 lending activity inside and outside of the assessment area.

Exhibit II								
Lending Inside and Outside the Assessment Area								
January 1, 2009 through December 31, 2010								
Loan Types	Inside				Outside			
	#	%	\$(000s)	%	#	%	\$(000s)	%
Home Purchase	182	85.4	\$46,850	83.6	31	14.6	\$9,196	16.4
Refinancing	541	84.1	\$169,565	83.8	102	15.9	\$32,831	16.2
Home Improvement	104	89.7	\$23,579	86.8	12	10.3	\$3,574	13.2
Multi-Family Housing	2	28.6	\$7,450	43.3	5	71.4	\$9,755	56.7
Total HMD- related	829	84.7	\$247,444	81.7	150	15.3	\$55,356	18.3
Small Business	283	91.6	\$43,015	88.4	26	8.4	\$5,643	11.6
TOTAL LOANS	1,112	86.3	\$290,459	82.6	176	13.7	\$60,999	17.4

Geographic Distribution of Loans

Peapack’s overall geographic distribution of loans reflects good penetration throughout the assessment area. This conclusion takes into account the low number of LMI tracts in Peapack’s assessment area and the limited opportunities for loan originations within these tracts, as well as Peapack’s size and competition in the assessment area. An analysis of the lending distribution in each loan category follows:

Home Purchase Loans

Peapack’s distribution of home purchase loans in LMI geographies was excellent. While Peapack did not originate any home purchase loans in low-income tracts in 2010, the aggregate originated less than 1% of home purchase loans in low-income tracts. Opportunities to lend in low-income tracts, however, were very limited, since less than 1%, or only 163, of the owner-occupied units are located in these geographies.

In 2010, Peapack originated 10% of its home purchase loans in moderate-income census tracts, compared to 4% of owner-occupied housing units located in moderate-income geographies. Peapack's performance in moderate-income geographies was significantly above the aggregate, which made 5% of its home purchase loans in moderate-income geographies.

Peapack's home purchase lending performance in 2009, when compared to the level of owner-occupied housing units and to the 2009 aggregate performance, was similar to its 2010 performance.

Exhibit III Peapack-Gladstone Bank Loan Distribution Table (2010) In Assessment Area										
Income Categories	HMDA									
	By Tract Income					By Borrower Income				
	Bank		Aggregate			Bank		Aggregate		
	#	%	% \$(000s)	%	% \$(000s)	#	%	% \$(000s)	%	% \$(000s)
Home Purchase										
Low	0	0.0%	0.0%	0.1%	0.1%	15	16.3%	7.5%	3.6%	1.4%
Moderate	9	9.8%	7.9%	5.1%	3.0%	34	37.0%	26.1%	16.2%	9.5%
Middle	17	18.5%	15.3%	25.4%	18.8%	7	7.6%	7.3%	23.1%	18.5%
Upper	66	71.7%	76.9%	69.4%	78.2%	35	38.0%	58.8%	47.9%	61.9%
Unknown	0	0.0%	0.0%	0.0%	0.0%	1	1.1%	0.3%	9.2%	8.8%
Total	92	100.0%	100.0%	100.0%	100.0%	92	100.0%	100.0%	100.0%	100.0%
Refinance										
Low	0	0.0%	0.0%	0.1%	0.0%	7	2.9%	0.9%	2.0%	1.0%
Moderate	9	3.7%	2.2%	1.9%	1.3%	25	10.3%	5.0%	8.5%	5.2%
Middle	18	7.4%	5.0%	21.2%	16.3%	42	17.3%	10.9%	18.7%	14.6%
Upper	216	88.9%	92.8%	76.8%	82.4%	159	65.4%	77.5%	56.5%	65.6%
Unknown	0	0.0%	0.0%	0.0%	0.0%	10	4.1%	5.8%	14.3%	13.6%
Total	243	100.0%	100.0%	100.0%	100.0%	243	100.0%	100.0%	100.0%	100.0%
Home Improvement										
Low	0	0.0%	0.0%	0.0%	0.0%	3	5.8%	1.2%	5.8%	1.8%
Moderate	1	1.9%	2.4%	2.4%	1.4%	9	17.3%	7.5%	15.3%	8.3%
Middle	4	7.7%	4.5%	25.9%	16.8%	6	11.5%	6.9%	23.9%	17.7%
Upper	47	90.4%	93.1%	71.7%	81.8%	32	61.5%	83.1%	50.0%	64.3%
Unknown	0	0.0%	0.0%	0.0%	0.0%	2	3.8%	1.3%	5.1%	7.9%
Total	52	100.0%	100.0%	100.0%	100.0%	52	100.0%	100.0%	100.0%	100.0%
Multi-Family										
Low	0	0.0%	0.0%	3.3%	1.2%	0	0.0%	0.0%	0.0%	0.0%
Moderate	0	0.0%	0.0%	21.7%	6.7%	0	0.0%	0.0%	0.0%	0.0%
Middle	1	100.0%	100.0%	53.3%	51.6%	0	0.0%	0.0%	0.0%	0.0%
Upper	0	0.0%	0.0%	21.7%	40.4%	0	0.0%	0.0%	0.0%	0.0%
Unknown	0	0.0%	0.0%	0.0%	0.0%	1	100.0%	100.0%	100.0%	100.0%
Total	1	100.0%	100.0%	100.0%	100.0%	1	100.0%	100.0%	100.0%	100.0%
HMDA Totals										
Low	0	0.0%	0.0%	0.1%	0.1%	25	6.4%	2.1%	2.4%	1.1%
Moderate	19	4.9%	3.1%	2.7%	1.8%	68	17.5%	9.0%	10.5%	6.3%
Middle	40	10.3%	12.4%	22.4%	17.4%	55	14.2%	9.2%	19.9%	15.5%
Upper	329	84.8%	84.5%	74.8%	80.7%	226	58.2%	70.0%	54.2%	63.7%
Unknown	0	0.0%	0.0%	0.0%	0.0%	14	3.6%	9.7%	13.0%	13.5%
Total	388	100.0%	100.0%	100.0%	100.0%	388	100.0%	100.0%	100.0%	100.0%
SMALL BUSINESS										
By Tract Income										
	#	Bank			Aggregate					
		%	% \$(000s)		%	% \$(000s)				
Low	0	0.0%	0.0%		0.2%	0.3%				
Moderate	20	12.8%	5.3%		4.5%	5.4%				
Middle	15	9.6%	14.9%		26.1%	30.7%				
Upper	121	77.6%	79.7%		68.6%	63.4%				
Unknown	0	0.0%	0.0%		0.0%	0.0%				
Tract Unknown	0	0.0%	0.0%		0.6%	0.2%				
Total	156	100.0%	100.0%		100.0%	100.0%				
By Revenue										
\$1 Million or Less	85	54.5%			39.4%			23.9%	29.4%	
By Loan Size										
\$100,000 or less	101	64.7%			16.7%			94.6%	36.8%	
\$100,001-\$250,000	26	16.7%			18.9%			2.4%	13.0%	
\$250,001-\$1 Million	29	18.6%			64.4%			3.0%	50.2%	
Total	156	100.0%	100.0%		100.0%	100.0%		100.0%	100.0%	

Originations and Purchases

Refinance Loans

Peapack's overall distribution of refinance loans was good. Opportunities to make refinance loans in low-income tracts were very limited, since less than 1% of the owner-occupied units are located in these geographies. In 2010, Peapack did not originate any refinance loans in low-income tracts, compared to the aggregate, which made less than 1% of its refinance loans in low-income tracts.

Peapack originated 4% of its refinance loans in moderate-income tracts, compared to the demographics, which show that 4% of owner-occupied housing units are located in moderate-income geographies. Peapack's refinance lending in moderate-income geographies was significantly above the aggregate, which made 2% of its refinance loans in moderate-income geographies.

Peapack's refinance lending performance in 2009, when compared to the level of owner-occupied housing units and to the 2009 aggregate performance, was similar to its 2010 performance.

Home Improvement Loans

Peapack's overall distribution of home improvement loans was adequate. Opportunities to make home improvement loans in low-income tracts were very limited, since less than 1% of the owner-occupied units are located in these geographies. In 2010, Peapack did not make any home improvement loans in low-income tracts, similar to the aggregate, which also did not make any home improvement loans in low-income tracts.

Peapack originated 2% of its home improvement loans in moderate-income tracts, compared to 4% owner-occupied housing units located in moderate-income geographies. Peapack's home improvement lending in moderate-income geographies was similar to the aggregate, which also made 2% of its home improvement loans in moderate-income geographies.

Peapack's home improvement lending performance in 2009, when compared to the level of owner-occupied housing units and to the 2009 aggregate performance, was similar to its 2010 performance.

Small Business Loans

Peapack's overall distribution of small business loans was excellent. While Peapack did not originate any small business loans in low-income tracts in 2010, opportunities to make small business loans in low-income tracts were very limited, since less than 1% of businesses in the assessment area are located in the low-income geographies. Peapack's small business lending performance in low-income geographies was below the aggregate, which only made less than 1% of small business loans in low-income geographies.

Peapack originated 13% of its small business loans in moderate-income census tracts in 2010, compared to 6% of businesses in the area located in moderate-income geographies. Peapack's small business lending performance was significantly above the aggregate, which made 5% of its small business loans in moderate-income geographies.

Peapack's small business lending performance in 2009 was similar to its 2010 performance, when compared to the proportion of businesses in LMI geographies and to the 2009 aggregate performance.

Lending to Borrowers of Different Incomes and to Businesses of Different Sizes

Peapack's overall distribution of loans among borrowers of different income levels (including LMI individuals) and businesses of different sizes reflects good performance. In making this conclusion, consideration was given to the high cost of housing in the assessment area. The following summarizes Peapack's borrower distribution performance for each loan product.

Home Purchase Loans

Peapack's overall distribution of home purchase loans to LMI borrowers was excellent. In 2010, Peapack originated 16% of its home purchase loans to low-income borrowers, compared to 12% of low-income families residing in the assessment area. Peapack's home purchase lending to low-income borrowers significantly exceeded the aggregate, which originated 4% of its home purchase loans to low-income borrowers.

Peapack originated 37% of its home purchase loans to moderate-income borrowers in 2010, compared to 14% of moderate-income families residing in the area. Home purchase lending to moderate-income borrowers again significantly exceeded the aggregate, which originated 16% of its home purchase loans to moderate-income borrowers.

Peapack's home purchase lending performance to LMI borrowers in 2009, when compared to the level of LMI families residing in the area and to the 2009 aggregate performance, was comparable to its 2010 performance.

Refinance Loans

Peapack's overall distribution of refinance loans to LMI borrowers was good. In 2010, Peapack originated 3% of its refinance loans to low-income borrowers, compared to 12% of low-income families residing in the assessment area. Peapack's refinance lending to low-income borrowers however exceeded the aggregate, which originated 2% of its refinance loans to low-income borrowers.

Peapack made 10% of its refinance loans to moderate-income borrowers, compared to 14% of moderate-income families residing in the area. Peapack's refinance lending to moderate-income borrowers was slightly above the aggregate, which originated 9% of its refinance loans to moderate-income borrowers.

Peapack's refinance lending performance to LMI borrowers in 2009, when compared to the level of LMI families residing in the area and to the 2009 aggregate performance, was more favorable than its 2010 performance.

Home Improvement Loans

Peapack's overall distribution of home improvement loans to LMI borrowers was good. In 2010, Peapack originated 6% of its home improvement loans to low-income borrowers, compared to 12% of low-income families residing in the assessment area. Peapack's home improvement lending to low-income borrowers was similar to the aggregate, which also originated 6% of its home improvement loans to low-income borrowers.

Peapack made 17% of its home improvement loans to moderate-income borrowers, compared to 14% of moderate-income families residing in the area. Peapack's home improvement lending to moderate-income borrowers was above the aggregate, which originated 15% of its home improvement loans to moderate-income borrowers.

Peapack's home improvement lending performance to LMI borrowers in 2009, when compared to the level of LMI families residing in the area and to the 2009 aggregate performance, was similar to its 2010 performance.

Lending to Businesses of Different Sizes

Peapack's overall distribution of loans to businesses of different sizes was good. In 2010, Peapack made 55% of its business loans to businesses with GAR of \$1 million or less, compared to 87% of such businesses in the assessment area. Peapack's small business lending performance exceeded the aggregate, which made 24% of its loans to businesses with GAR of \$1 million or less. Of the small business loans originated by Peapack, 65% were in amounts of \$100,000 or less, compared to the aggregate, which originated 95% of its small business loans in amounts of \$100,000 or less.

Peapack's small business lending performance in 2009, when compared to the proportion of businesses with GAR of \$1 million or less in the assessment area and to the 2009 aggregate performance, was similar to its 2010 performance.

Community Development Lending

Peapack made a relatively high level of community development loans. Peapack made \$22.4 million in community development loans, which represents 1% of Peapack's total assets. On an annualized basis, Peapack's community development lending more than doubled since the prior evaluation period, when Peapack originated \$6.2 million in community development loans.

A total of \$16.5 million or 74% of Peapack’s community development loans made during this review period were new commitments, compared to the prior examination when 37% of Peapack’s community development loans represented new commitments. Of the total community development loans extended, 54% were inside the assessment area. Peapack received credit for qualified community development loans made outside of its assessment area because under the CRA, if a bank has adequately addressed the needs of its assessment area(s), then consideration can be given to community development loans that benefit the broader statewide or regional area that includes the assessment area. All loans made outside of Peapack’s assessment area were to borrowers located in the state of New Jersey.

Exhibit IV Summary of Community Development Lending January 1, 2009 – December 31, 2011		
Designation	\$ (thousands)	%
Affordable Housing	\$14,866	67%
Revitalization and Stabilization	\$7,059	32%
Community Services	\$325	1%
Economic Development	\$100	<1%
TOTAL Community Development Lending	\$22,350	100%

In terms of dollar volume, loans for affordable housing represented 67% of total community development lending. Community contacts identified affordable housing as a primary community need for LMI individuals, making these loans particularly responsive to the assessment area’s needs.

When compared to four similarly-situated banks operating in the assessment area, Peapack’s level of total annualized community development lending, as a percentage of average assets, assessment area deposits, and Tier 1 capital was generally above its peers.

Community development loans include:

- A \$2.3 million term loan to finance 34 affordable rental units in a housing development in Somerset County.
- A \$3.2 million commercial mortgage to finance two apartment buildings, with 79 rental units in a moderate-income geography of Union County. Funds will be used, in part, to renovate both properties.
- A \$325 thousand term loan to a non-profit organization located in Somerset County that provides community development services for LMI adolescent children that have been neglected, abused, or abandoned. Funds were used to construct eight affordable housing units for abandoned children.

- A \$3.5 million commercial mortgage to finance the acquisition of a 64-unit affordable housing project in a low-income tract in Monmouth County, outside of Peapack’s assessment area, but part of the larger regional or state-wide area that includes Peapack’s assessment area.

INVESTMENT TEST

Peapack’s performance under the investment test is rated low satisfactory based on an adequate level of qualified community development investments and grants made in Peapack’s assessment area. Peapack’s community development investment activity exhibited adequate responsiveness in light of the limited opportunities for qualified community development investments in its assessment area. Peapack’s assessment area is a relatively high income area, which makes it challenging for Peapack to find qualified investment opportunities. During the examination period, Peapack made a total of \$5.4 million in qualified investments. On an annualized basis, Peapack’s level of qualified investments decreased by 49% since the prior examination, when Peapack made \$7 million in qualified investments.

A total of \$4.1 million or 76% of Peapack’s qualified investments were new investments made since the prior examination, compared to the prior examination, when 61% were new investments. Of the total new investments, \$221 thousand were grants and/or donations to organizations providing community development services throughout Peapack’s assessment area. Additionally, 81% of Peapack’s qualified investments were dedicated inside of the assessment area. Peapack received credit for qualified investments made outside of its assessment area because under the CRA, if a bank has adequately addressed the needs of its assessment area(s), then consideration can be given to qualified investments that benefit the broader statewide or regional area that includes the assessment area. All qualified investments made outside of Peapack’s assessment area supported projects located in the state of New Jersey.

Community development investments were primarily dedicated to affordable housing, which is a prominent need in the assessment area, as identified by local community contacts.

Exhibit V Summary of Qualified Investments January 1, 2009 – December 31, 2011		
Designation	\$ (thousands)	%
Affordable Housing	\$4,896	91%
Economic Development	\$369	7%
Community Services	\$85	2%
TOTAL ACTIVITY	\$5,350	100%

Peapack made occasional use of complex investments to support community development initiatives. In terms of dollar volume, 91% of Peapack's total qualified investments consisted of mortgage-backed securities, collateralized by loans targeted to LMI individuals. While mortgage-backed securities are qualified investments that provide some liquidity to the market, they are viewed qualitatively as less responsive to community development needs of LMI communities than direct investments.

When compared to four similarly-situated banks operating in the assessment area, Peapack's level of total annualized qualified investments, as a percentage of average assets, assessment area deposits, and Tier 1 capital was generally below its peers.

SERVICE TEST

Peapack's performance under the service test is rated low satisfactory. Peapack provides an adequate level of retail and community development services.

Retail Services

Peapack's delivery systems are reasonably accessible to essentially all geographies and individuals of various income levels in its assessment area. During the examination period, Peapack operated 23 branches, all of which are located in middle- or upper-income census tracts. While all of Peapack's branches are located in middle- or upper-income census tracts, three branches (or 13% of total branches) are located in close proximity to moderate-income census tracts, providing some access to those residing in LMI areas. In comparison, 8% of the assessment area population resides in LMI areas, based on the 2000 Census data.

Peapack's record of opening and closing branches generally did not adversely affect the accessibility of Peapack's delivery systems to LMI geographies and LMI individuals. During the examination period, Peapack opened one new branch in an upper-income census tract, but closed its employee branch, which was located at its previous headquarter building in Gladstone, NJ, also in an upper-income census tract.

All branch offices provide similar products and services, and branch hours do not vary in a way that inconveniences any portion of the assessment area. At 21 of the 23 branches, extended and/or Saturday hours are available.

Alternative delivery systems did not materially impact the accessibility of Peapack's services for LMI individuals or geographies. Peapack has ATMs at 22 of its 23 branch locations as well as three off-site ATMs located in Hunterdon and Somerset Counties. Peapack offers Internet, telephone, and bank-by-mail services. No service is specifically targeted to LMI customers.

Community Development Services

Peapack provides an adequate level of community development services to its assessment area. During the examination period, Peapack conducted 27 financially-related community development service events, which consisted of a financial literacy seminar, residential mortgage and first-time homebuyers counseling seminars, as well as the provision of technical assistance to small businesses and to non-profit applicants of the Federal Home Loan Bank Affordable Housing Program (“FHLB-AHP”). During the last examination period, Peapack reported 18 residential mortgage and/or small business seminars.

Examples of the community development services provided by Peapack include:

- Peapack participated in the FHLB-AHP and sponsored two applications during two funding rounds. Members of Peapack’s management provided technical assistance to non-profit organizations applying for the FHLB-AHP in order to secure grants for non-profit partners.
- On five occasions, Peapack’s local branches hosted a housing coalition in Somerset County, which conducted first-time homebuyer seminars targeted to LMI persons. Peapack employees served as instructors for the housing seminars.

Exhibit VI Summary of Community Development Services January 1, 2009– December 31, 2011	
Activity Type	Current Examination Total
Residential Mortgage/First-time Homebuyers Seminars	15
Small Business Seminars	9
Technical Assistance for Federal Home Loan Bank Affordable Housing Program	2
Financial Literacy	1
TOTAL	27

- Peapack held numerous small business seminars in conjunction with small business development corporations on building and financing a small business, lending products available to small businesses, and the small business loan application process.

Eight bank representatives participated on the board or as committee members of nine community development organizations on an on-going basis, compared with eight such organizations identified at the last examination. These community development organizations include:

- A consortium of public, private, and community leaders who work in partnership to promote economic development for Somerset County. This organization provides services related to economic and community development, small business, and workforce needs of the community.
- A non-profit organization that provides advocacy, support, information, education, training and referral for LMI seniors and their caregivers in Morris County.
- An organization that serves LMI women, primary in Hunterdon and Somerset Counties, who are recovering from drug or alcohol addiction.
- An organization that provides meals, shelter, clothing and other short-term services to LMI individuals in Hunterdon County. This organization also offers programs that complement or augment government healthcare assistance, including prevention and awareness programs for illnesses, including drug/alcohol abuse. It also provides parenting classes, family counseling and domestic violence prevention programs.

FAIR LENDING OR OTHER ILLEGAL CREDIT PRACTICES REVIEW

Peapack is in compliance with the substantive provisions of the anti-discrimination laws and regulations. No evidence of discriminatory or other illegal credit practices was identified as being inconsistent with helping to meet the credit needs of the assessment area.

CRA APPENDIX A

GLOSSARY

Aggregate lending: The number of loans originated and purchased by all reporting lenders in specified income categories as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the metropolitan area/assessment area.

Census tract: A small, relatively permanent statistical subdivision of a county or statistically equivalent entity delineated for data presentation purposes by a local group of census data users or the geographic staff of a regional census center in accordance with Census Bureau guidelines. Designed to be relatively homogeneous units with respect to population characteristics, economic status, and living conditions at the time they are established, census tracts generally contain between 1,000 and 8,000 people, with an optimum size of 4,000 people. Census tract boundaries are delineated with the intention of being stable over many decades, so they generally follow relatively permanent visible features. However, they may follow governmental unit boundaries and other invisible features in some instances; the boundary of a state or county (or statistically equivalent entity) is always a census tract boundary.

Community development: Affordable housing (including multifamily rental housing) for low- or moderate-income individuals; community services targeted to low- or moderate-income individuals; activities that promote economic development by financing businesses or farms that meet the size eligibility standards of the Small Business Administration's Development Company or Small Business Investment Company programs (13 CFR 121.301) or have gross annual revenues of \$1 million or less; activities that revitalize or stabilize low- or moderate-income geographies; or loans, investments or services that (i) Support, enable or facilitate projects or activities that meet the "eligible uses" criteria described in Section 2301c of the Housing and Economic Recovery Act of 2008 ("HERA"), Public Law 110-289, 122 Stat. 2654, as amended, and are conducted in designated target areas identified in plans approved by the United States Department of Housing and Urban Development in accordance with the Neighborhood Stabilization Program ("NSP"); (ii) Are provided no later than two years after the last date funds appropriated for the NSP are required to be spent by grantees; (iii) Benefit low-, moderate- and middle-income individuals and geographies in the bank's assessment area(s) or geographies outside the bank's assessment area(s) provided the bank has adequately addressed the community development needs of its assessment area(s).

Effective September 1, 2005, the Board of Governors of the Federal Reserve System, Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation have adopted the following additional language as part of the revitalize or stabilize definition of community development. Activities that revitalize or stabilize-

- (i) Low-or moderate-income geographies;
- (ii) Designated disaster areas; or
- (iii) Distressed or underserved nonmetropolitan middle-income geographies designated by the Board, Federal Deposit Insurance Corporation, and Office of the Comptroller of the Currency, based on-
 - a. Rates of poverty, unemployment, and population loss; or

b. Population size, density, and dispersion. Activities that revitalize and stabilize geographies designated based on population size, density, and dispersion if they help to meet essential community needs, including needs of low- and moderate-income individuals.

Consumer loan(s): A loan(s) to one or more individuals for household, family, or other personal expenditures. A consumer loan does not include a home mortgage, small business, or small farm loan. This definition includes the following categories: motor vehicle loans, credit card loans, home equity loans, other secured consumer loans, and other unsecured consumer loans.

Family: A family is a group of two or more people related by birth, marriage, or adoption and residing together; all such people (including related subfamily members) are considered as members of one family.

Geography: A census tract delineated by the United States Bureau of the Census in the most recent decennial census.

Home Mortgage Disclosure Act (“HMDA”): The statute that requires certain mortgage lenders that do business or have banking offices in a metropolitan statistical area to file annual summary reports of their mortgage lending activity. The reports include such data as the race, gender, and income of applicants, the amount of loan requested, and the disposition of the application (e.g., approved, denied, and withdrawn).

Home mortgage loans: Includes home purchase and home improvement loans as defined in the HMDA regulation. This definition also includes multifamily (five or more families) dwelling loans, loans for the purchase of manufactured homes, and refinancings of home improvement and home purchase loans.

Household: A household consists of all the people who occupy a housing unit. A household includes the related family members and all the unrelated people, if any, such as lodgers, foster children, wards, or employees who share the housing unit. A person living alone in a housing unit, or a group of unrelated people sharing a housing unit such as partners or roomers, is also counted as a household. The count of households excludes group quarters.

Low-income: Individual income that is less than 50% of the area median income, or a median family income that is less than 50%, in the case of a geography.

Metropolitan Statistical Area (“MSA”): A geographic entity defined by the federal Office of Management and Budget for use by federal statistical agencies, based on the concept of a core area with a large population nucleus, plus adjacent communities having a high degree of economic and social integration with that core.

Metropolitan Division: A county or group of counties within a **Metropolitan Statistical Area** that contains a population of at least 2.5 million and represents an employment center(s) associated through commuting ties.

Middle-income: Individual income that is at least 80% and less than 120% of the area median income, or a median family income that is at least 80% and less than 120%, in the case of a geography.

Moderate-income: Individual income that is at least 50% and less than 80% of the area median income, or a median family income that is at least 50% and less than 80%, in the case of a geography.

Owner-occupied units: Includes units occupied by the owner or co-owner, even if the unit has not been fully paid for or is mortgaged.

Qualified investment: A qualified investment is defined as any lawful investment, deposit, membership share or grant that has as its primary purpose community development.

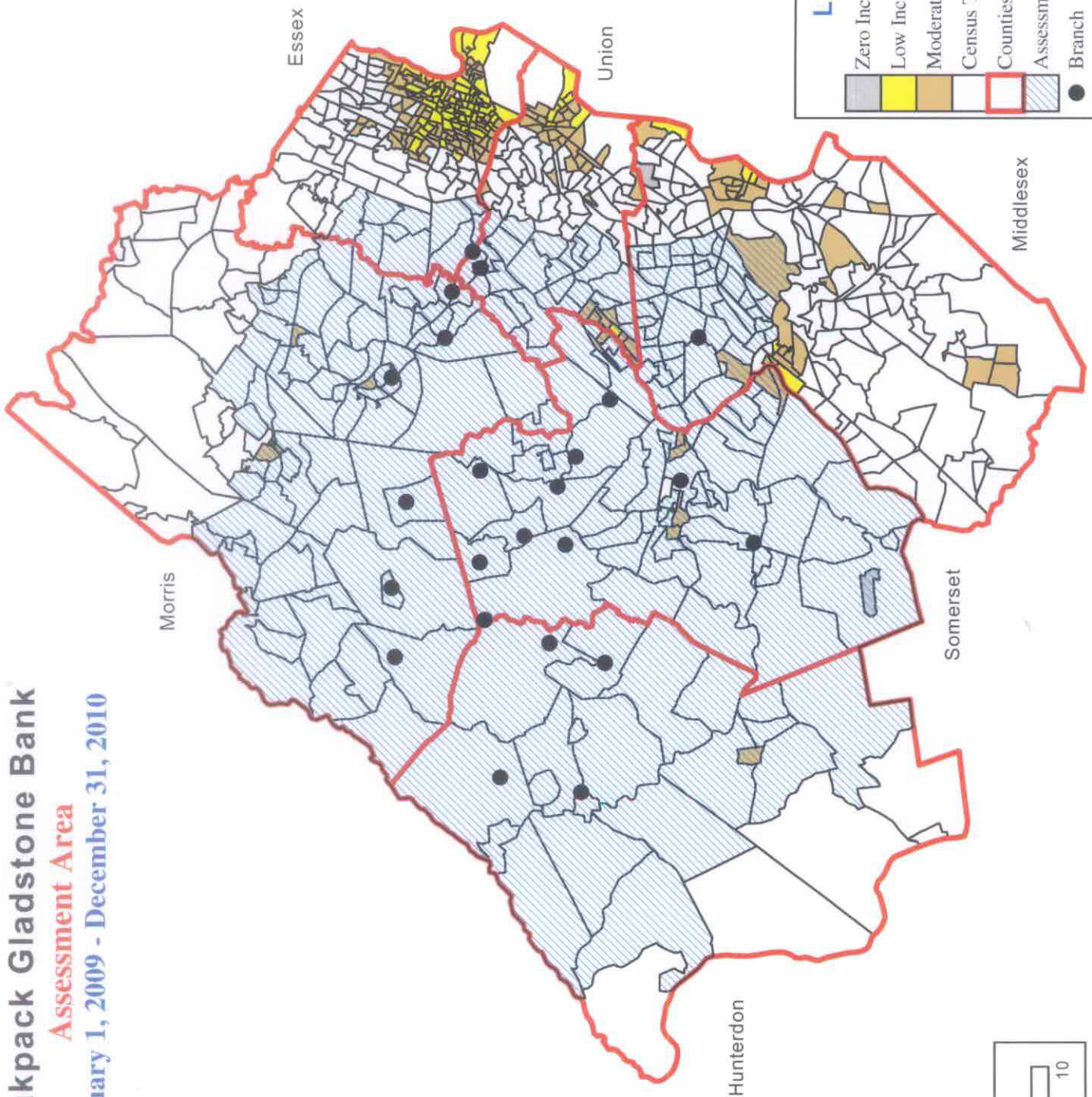
Small loan(s) to business(es): A loan included in “loans to small businesses” as defined in the Consolidated Report of Condition and Income (“Call Report”) and the Thrift Financial Reporting (“TFR”) instructions. These loans have original amounts of \$1 million or less and typically are either secured by nonfarm or nonresidential real estate or are classified as commercial and industrial loans. However, thrift institutions may also exercise the option to report loans secured by nonfarm residential real estate as "small business loans" if the loans are reported on the TFR as nonmortgage, commercial loans.

Upper-income: Individual income that is more than 120% of the area median income, or a median family income that is more than 120%, in the case of a geography.

Peakpack Gladstone Bank

Assessment Area

January 1, 2009 - December 31, 2010



Legend

- Zero Income Tracts
- Low Income Tracts
- Moderate Income Tracts
- Census Tracts
- Counties
- Assessment Area
- Branch

