PEAPACK GLADSTONE FINANCIAL CORP
Form 10-Q
November 06, 2018
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 September 30, 2018

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)

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

500 Hills Drive, Suite 300

Bedminster, New Jersey 07921-0700

(Address of principal executive offices, including zip code)

(908) 234-0700

(Registrant’s telephone number, including area code)

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

Yes No .

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

Yes No

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

Large accelerated filer	Accelerated filer
Non-accelerated filer	Smaller reporting company
Emerging growth company	

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13 (a) of the Exchange Act.

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

Number of shares of Common Stock outstanding as of November 1, 2018:

19,238,791

PEAPACK-GLADSTONE FINANCIAL CORPORATION

PART 1 FINANCIAL INFORMATION

Item 1	Financial Statements	3
	Consolidated Statements of Condition at September 30, 2018 and December 31, 2017	3
	Consolidated Statements of Income for the three and nine months ended September 30, 2018 and 2017	4
	Consolidated Statements of Comprehensive Income for the three and nine months ended September 30, 2018 and 2017	5
	Consolidated Statement of Changes in Shareholders' Equity for the nine months ended September 30, 2018	6
	Consolidated Statements of Cash Flows for the nine months ended September 30, 2018 and 2017	7
	Notes to Consolidated Financial Statements	8
Item 2	Management's Discussion and Analysis of Financial Condition and Results of Operations	42
Item 3	Quantitative and Qualitative Disclosures about Market Risk	61
Item 4	Controls and Procedures	63

PART 2 OTHER INFORMATION

Item 1	Legal Proceedings	64
Item 1A	Risk Factors	64
Item 2	Unregistered Sales of Equity Securities and Use of Proceeds	64
Item 3	Defaults Upon Senior Securities	64
Item 4	Mine Safety Disclosures	64
Item 5	Other Information	64
Item 6	Exhibits	65

Item 1. Financial Statements (Unaudited)

PEAPACK-GLADSTONE FINANCIAL CORPORATION

CONSOLIDATED STATEMENTS OF CONDITION

(Dollars in thousands, except share and per share data)

	(unaudited) September 30, 2018	(audited) December 31, 2017
ASSETS		
Cash and due from banks	$ 4,792	$ 4,415
Federal funds sold	101	101
Interest-earning deposits	118,111	108,931
Total cash and cash equivalents	123,004	113,447
Securities available for sale	368,554	327,633
Equity security	4,673	—
FHLB and FRB stock, at cost	21,561	13,378
Loans held for sale, at fair value	310	984
Loans held for sale, at lower of cost or fair value	4,002	187
Loans	3,798,590	3,704,440
Less: Allowance for loan and lease losses	37,293	36,440
Net loans	3,761,297	3,668,000
Premises and equipment	27,874	29,476
Other real estate owned	96	2,090
Accrued interest receivable	10,849	9,452
Bank owned life insurance	45,181	44,586
Goodwill	28,107	17,107
Other intangible assets	6,190	6,729
Other assets	34,011	27,478
TOTAL ASSETS	$ 4,435,709	$ 4,260,547
LIABILITIES		
Deposits:		
Noninterest-bearing demand deposits	$ 503,388	$ 539,304
Interest-bearing deposits:		
Interest-bearing deposits checking	1,148,660	1,152,483
Savings	116,391	119,556
Money market accounts	1,097,630	1,091,385
Certificates of deposit - retail	466,791	344,652
Certificates of deposit - listing service	85,241	198,383
Subtotal deposits	3,418,101	3,445,763
Interest-bearing demand - brokered	180,000	180,000
Certificates of deposit - brokered	61,193	72,591
Total deposits	3,659,294	3,698,354
Overnight borrowings	95,190	—
Federal Home Loan Bank advances	84,000	37,898
Capital lease obligation	8,548	9,072
Subordinated debt, net	83,138	83,024

Accrued expenses and other liabilities	51,106	28,521
TOTAL LIABILITIES	3,981,276	3,856,869
SHAREHOLDERS' EQUITY		
Preferred stock (no par value; authorized 500,000 shares; liquidation preference of $1,000 per share)	—	—
Common stock (no par value; stated value $0.83 per share; authorized 42,000,000 shares; issued shares, 19,611,905 at September 30, 2018 and 19,027,812 at December 31, 2017; outstanding shares, 19,203,727 at September 30, 2018 and 18,619,634 at December 31, 2017	16,347	15,858
Surplus	305,253	283,552
Treasury stock at cost, 408,178 shares at both September 30, 2018 and December 31, 2017	(8,988)	(8,988)
Retained earnings	145,034	114,468
Accumulated other comprehensive loss, net of income tax	(3,213)	(1,212)
TOTAL SHAREHOLDERS' EQUITY	454,433	403,678
TOTAL LIABILITIES & SHAREHOLDERS' EQUITY	$ 4,435,709	$ 4,260,547

See accompanying notes to consolidated financial statements

PEAPACK-GLADSTONE FINANCIAL CORPORATION

CONSOLIDATED STATEMENTS OF INCOME

(Dollars in thousands, except share data)

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
INTEREST INCOME				
Interest and fees on loans	$37,250	$35,511	$109,019	$96,640
Interest on investments:				
Taxable	2,385	1,564	6,382	4,545
Tax-exempt	98	117	306	353
Interest on loans held for sale	12	23	28	34
Interest on interest-earning deposits	418	276	1,170	716
Total interest income	40,163	37,491	116,905	102,288
INTEREST EXPENSE				
Interest on savings and interest-bearing deposit accounts	5,922	3,083	14,057	7,215
Interest on certificates of deposit	2,545	1,864	7,024	5,084
Interest on borrowed funds	1,038	439	2,563	1,096
Interest on capital lease obligation	103	112	316	341
Interest on subordinated debt	1,223	783	3,665	2,349
Subtotal - interest expense	10,831	6,281	27,625	16,085
Interest on interest-bearing demand - brokered	796	737	2,280	2,183
Interest on certificates of deposits - brokered	394	481	1,222	1,465
Total interest expense	12,021	7,499	31,127	19,733
NET INTEREST INCOME BEFORE PROVISION FOR LOAN AND LEASE LOSSES	28,142	29,992	85,778	82,555
Provision for loan and lease losses	500	400	2,050	4,200
NET INTEREST INCOME AFTER PROVISION FOR LOAN AND LEASE LOSSES	27,642	29,592	83,728	78,355
OTHER INCOME				
Wealth management fee income	8,200	5,790	24,693	15,694
Service charges and fees	860	816	2,564	2,402
Bank owned life insurance	349	343	1,030	1,015
Gains on loans held for sale at fair value (mortgage banking)	87	141	260	279
Gains on loans held for sale at lower of cost or fair value	-	34	-	34
Fee income related to loan level, back-to-back swaps	854	888	2,006	2,635
Gain on sale of SBA loans	514	493	1,359	790
Other income	444	326	1,465	1,172
Securities losses, net	(325)	—	(439)	-

Total other income	10,983	8,831	32,938	24,021
OPERATING EXPENSES				
Compensation and employee benefits	16,025	13,996	46,430	38,660
Premises and equipment	3,399	2,945	10,075	8,794
FDIC insurance expense	593	583	1,798	1,871
Other operating expense	4,267	4,437	14,259	12,035
Total operating expenses	24,284	21,961	72,562	61,360
INCOME BEFORE INCOME TAX EXPENSE	14,341	16,462	44,104	41,016
Income tax expense	3,617	6,256	10,663	14,888
NET INCOME	$10,724	$10,206	$33,441	$26,128
EARNINGS PER SHARE				
Basic	$0.56	$0.57	$1.77	$1.49
Diluted	$0.56	$0.56	$1.75	$1.47
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING				
Basic	19,053,849	17,800,153	18,865,982	17,478,293
Diluted	19,240,098	18,123,268	19,066,986	17,753,731

See accompanying notes to consolidated financial statements

PEAPACK-GLADSTONE FINANCIAL CORPORATION

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Dollars in thousands)

(Unaudited)

	Three Months Ended September 30, 2018	Three Months Ended September 30, 2017	Nine Months Ended September 30, 2018	Nine Months Ended September 30, 2017
Net income	$10,724	$10,206	$33,441	$26,128
Comprehensive income:				
Unrealized gains/(losses) on available for sale securities:				
Unrealized holding gains/(losses) arising during the period	(1,576)	99	(5,163)	934
Reclassification adjustment for amounts included in net income	288	—	288	—
	(1,288)	99	(4,875)	934
Tax effect	315	(37)	1,150	(353)
Net of tax	(973)	62	(3,725)	581
Unrealized gains on cash flow hedges:				
Unrealized holding gains/(losses) arising during the period	843	222	2,412	1,023
Reclassification adjustment for amounts included in net income	(31)	—	(93)	—
	812	222	2,319	1,023
Tax effect	(298)	(91)	(722)	(418)
Net of tax	514	131	1,597	605
Total other comprehensive income/(loss)	(459)	193	(2,128)	1,186
Total comprehensive income	$10,265	$10,399	$31,313	$27,314

See accompanying notes to consolidated financial statements

PEAPACK-GLADSTONE FINANCIAL CORPORATION

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(Dollars in thousands)

(Unaudited)

Nine Months Ended September 30, 2018

(In thousands, except per share data)	Common Stock	Surplus	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Loss	Total
Balance at January 1, 2018 18,619,634 common shares outstanding	$ 15,858	$ 283,552	$ (8,988)	$ 114,468	$ (1,212)	$ 403,678
Net income	—	—	—	33,441	—	33,441
Comprehensive loss	—	—	—	—	(2,128)	(2,128)
Cumulative adjustment for equity security (ASU 2016-01)	—	—	—	(127)	127	—
Restricted stock units issued 90,534 shares	75	(75)	—	—	—	—
Restricted stock awards forfeitures, (94,034) shares	(78)	78	—	—	—	—
Restricted stock units/awards repurchased on vesting to pay taxes, (41,125) shares	(34)	(1,392)	—	—	—	(1,426)
Amortization of restricted stock awards/units	—	3,302	—	—	—	3,302
Cash dividends declared on common stock ($0.15 per share)	—	—	—	(2,748)	—	(2,748)
Common stock options exercised, 17,283, net of 2,374 used to exercise, 14,909 shares	14	183	—	—	—	197
Sales of shares (Dividend Reinvestment Program), 467,302 shares	389	14,486	—	—	—	14,875
Issuance of shares for Employee Stock Purchase Plan, 22,194 shares	19	732	—	—	—	751
Issuance of common stock for acquisition 124,313	104	4,387	—	—	—	4,491

shares						
Balance at September 30, 2018 19,203,727						
common shares outstanding	$ 16,347	$ 305,253	$ (8,988)	$ 145,034	$ (3,213)	$ 454,433

See accompanying notes to consolidated financial statements

PEAPACK-GLADSTONE FINANCIAL CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in thousands)

(Unaudited)

	Nine Months Ended September 30,	
	2018	2017
OPERATING ACTIVITIES:		
Net income	$33,441	$26,128
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	2,349	2,473
Amortization of premium and accretion of discount on securities, net	1,093	1,276
Amortization of restricted stock	3,302	2,536
Amortization of intangible assets	540	93
Amortization of subordinated debt costs	114	98
Provision of loan and lease losses	2,050	4,200
Provision for OREO losses	232	—
Deferred tax expense/(benefit)	3,626	(2,087)
Stock-based compensation and employee stock purchase plan expense	143	111
Fair value adjustment for equity security	151	—
Loss on securities available for sale	288	—
Loans originated for sale (1)	(35,442)	(27,925)
Proceeds from sales of loans held for sale (1)	37,562	28,342
Gain on loans held for sale (1)	(1,619)	(1,069)
Gain on loans held for sale at lower of cost or fair value	—	(34)
Loss on OREO sold	32	—
Gain on death benefit	—	(62)
Increase in cash surrender value of life insurance, net	(595)	(612)
(Increase)/decrease in accrued interest receivable	(1,397)	1,350
Decrease in other assets	4,141	8,816
Increase in accrued expenses, capital lease obligations and other liabilities	7,405	973
NET CASH PROVIDED BY OPERATING ACTIVITIES	57,416	44,607
INVESTING ACTIVITIES:		
Principal repayments, maturities and calls of securities available for sale	56,242	51,739
Redemptions for FHLB & FRB stock	71,309	31,568
Proceeds from sales of securities available for sale	19,542	—
Purchase of securities available for sale	(127,835)	(61,805)
Purchase of FHLB & FRB stock	(79,492)	(31,344)
Proceeds from sales of loans held for sale at lower of cost or fair value	—	78,800
Net increase in loans, net of participations sold	(98,989)	(434,449)
Sale of other real estate owned	1,730	534
Purchase of premises and equipment	(747)	(1,934)
Proceeds from death benefit	—	100
Purchase of wealth management company	(3,500)	(10,000)
NET CASH USED IN INVESTING ACTIVITIES	(161,740)	(376,791)

FINANCING ACTIVITIES:		
Net (decrease)/increase in deposits	(39,060)	250,860
Net increase in overnight borrowings	95,190	—
Proceeds from Federal Home Loan Bank advances	70,000	—
Repayments of Federal Home Loan Bank advances	(23,898)	(11,897)
Dividends paid on common stock	(2,748)	(2,635)
Exercise of Stock Options, net of stock swaps	197	335
Restricted stock repurchased on vesting to pay taxes	(1,426)	(1,415)
Sales of common shares (Dividend Reinvestment Program)	14,875	26,077
Issuance of shares for employee saving and investment plan	—	889
Issuance of shares for employee stock purchase plan	751	619
NET CASH PROVIDED BY IN FINANCING ACTIVITIES	113,881	262,833
Net increase/(decrease) in cash and cash equivalents	9,557	(69,351)
Cash and cash equivalents at beginning of period	113,447	162,691
Cash and cash equivalents at end of period	$123,004	$93,340
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the year for:		
Interest	$28,614	$18,402
Income tax, net	2,569	8,107
Acquisition goodwill	11,000	12,000
Transfer of loans to other real estate owned	—	137

(1) Includes mortgage loans originated with the intent to sell which are carried at fair value. In addition, this includes the guaranteed portion of SBA loans which are carried at the lower of cost or fair value.

See accompanying notes to consolidated financial statements

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, 2017 for Peapack-Gladstone Financial Corporation (the "Corporation" or the "Company"). In the opinion of the management of the Corporation, the accompanying unaudited Consolidated Interim Financial Statements contain all adjustments (consisting of normal recurring accruals) necessary to present fairly the financial position as of September 30, 2018, the results of operations and comprehensive income for the three and nine months ended September 30, 2018 and 2017, shareholders' equity for the nine months ended September 30, 2018 and cash flow statements for the nine months ended September 30, 2018 and 2017. The results of operations for the three and nine months ended September 30, 2018 are not necessarily indicative of the results that may be expected for any future period.

Principles of Consolidation and Organization: The consolidated financial statements of the Company are prepared on the accrual basis and include the accounts of the Company and its wholly-owned subsidiary, Peapack-Gladstone Bank (the "Bank"). The consolidated statements also include the Bank's wholly-owned subsidiaries, PGB Trust & Investments of Delaware, Peapack Capital Corporation (formed in the second quarter of 2017), Murphy Capital Management ("MCM") (acquired in the third quarter of 2017), Quadrant Capital Management ("Quadrant") (acquired in the fourth quarter of 2017), Lassus Wherley & Associates ("Lassus Wherley") (acquired in the third quarter of 2018), Peapack-Gladstone Mortgage Group, Inc. and Peapack-Gladstone Mortgage Group's wholly-owned subsidiary, PG Investment Company of Delaware, Inc. and its wholly-owned subsidiary, Peapack-Gladstone Realty, Inc., a New Jersey real estate investment company. While the following footnotes include the collective results of the Company and the Bank, these footnotes primarily reflect the Bank's and its subsidiaries' activities. All significant intercompany balances and transactions have been eliminated from the accompanying consolidated financial statements.

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

Segment Information: The Company's business is conducted through two business segments: its banking subsidiary, which involves the delivery of loan and deposit products to customers and the Private Wealth Management Division, which includes asset management and other services provided for individuals and institutions. Management uses certain methodologies to allocate income and expense to the business segments.

The Banking segment includes commercial (includes C&I and equipment financing), commercial real estate, multifamily, residential and consumer lending activities; deposit generation; operation of ATMs; telephone and internet banking services; merchant credit card services and customer support services.

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

financial planning and advisory services. This segment also includes the activities of PGB Trust and Investments of Delaware, MCM, Quadrant and Lassus Wherley. Income is recognized as it is earned.

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

Interest-Earning Deposits in Other Financial Institutions: Interest-earning deposits in other financial institutions mature within one year and are carried at cost.

Securities: All securities are classified as available for sale and are carried at fair value, with unrealized holding gains and losses reported in other comprehensive income, net of tax, with the exception of the Company's investment in a CRA investment fund, which is classified as an equity security. In accordance with ASU 2016-01, "Financial Instruments" (adopted January 1, 2018) unrealized holding gains and losses on equity securities are marked to market through the income statement.

Interest income includes amortization of purchase premiums and discounts. Premiums and discounts on securities are amortized on the level-yield method without anticipating prepayments, except for mortgage-backed securities where prepayments are anticipated and premiums on callable debt securities will be amortized to the earliest call date. 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. For securities in an unrealized loss position, Management considers the extent and duration of the unrealized loss and the financial condition and near-term prospects of the issuer. Management also assesses whether it intends to sell, or it is more likely than not that it will be required to sell, a security in an unrealized loss position before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the entire difference between amortized cost and fair value is recognized as impairment through earnings. For debt securities that do not meet the aforementioned criteria, the amount of impairment is split into two components as follows: 1) other-than-temporary impairment related to credit loss, which must be recognized in the income statement and 2) other-than-temporary impairment related to other factors, which is recognized in other comprehensive income. The credit loss is defined as the difference between the present value of the cash flows expected to be collected and the amortized cost basis.

Federal Home Loan Bank (FHLB) and Federal Reserve Bank (FRB) Stock: The Bank is a member of the FHLB system. Members are required to own a certain amount of FHLB stock, based on the level of borrowings and other factors. FHLB stock is carried at cost, classified as a restricted security and periodically evaluated for impairment based on ultimate recovery of par value. Both cash and stock dividends are reported as income.

The Bank is also a member of the Federal Reserve Bank System and required to own a certain amount of FRB stock. FRB stock is carried at cost and classified as a restricted security. Both cash and stock dividends are reported as income.

Loans Held for Sale: Mortgage loans originated with the intent to sell in the secondary market are carried at fair value, as determined by outstanding commitments from investors.

Mortgage loans held for sale are generally sold with servicing rights released; therefore, no servicing rights are recorded. Gains and losses on sales of mortgage loans, shown as gain on sale of loans at fair value on the Statements of Income, are based on the difference between the selling price and the fair value of the related loan sold.

SBA loans originated with the intent to sell in the secondary market are carried at the lower of cost or fair value. SBA loans are generally sold with the servicing rights retained. Gains and losses on the sale of SBA loans are based on the difference between the selling price and the carrying value of the related loan sold. Total SBA loans serviced totaled $33.1 million and $20.1 million as of September 30, 2018 and December 31, 2017, respectively. SBA loans held for sale totaled $360 thousand and $187 thousand at September 30, 2018 and December 31, 2017, respectively.

Loans originated with the intent to hold and subsequently transferred to loans held for sale are carried at the lower of cost or fair value. These are loans that the Company no longer has the intent to hold for the foreseeable future.

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 on a level-yield method, over the life of the loan as an adjustment to the loan's yield. The definition of recorded investment in loans includes accrued interest receivable and deferred fees/cost, however, for the Company's loan disclosures, accrued interest and deferred fees/cost was excluded as the impact was not material.

Loans are considered past due when they are not paid within 30 days 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 are reversed against interest income. Payments received on nonaccrual loans are recorded as principal payments. A nonaccrual loan is returned to accrual status only when interest and principal payments are brought current and future payments are reasonably assured, generally when the Bank receives contractual payments for a minimum of six months. Commercial loans are generally charged off after an analysis is completed which indicates that collectability of the full principal balance is in doubt. Consumer loans are generally charged off after they become 120 days past due. Subsequent payments are credited to income only if collection of

principal is not in doubt. If principal and interest payments are brought contractually current and future collectability is reasonably assured, loans are returned to accrual status. Nonaccrual mortgage loans are generally charged off when the value of the underlying collateral does not cover the outstanding principal balance. The majority of the Company's loans are secured by real estate in New Jersey and New York.

Allowance for Loan and Lease Losses: The allowance for loan and lease losses is a valuation allowance for credit losses that is management's estimate of losses in the loan portfolio. The process to determine reserves utilizes analytic tools and management judgement and is reviewed on a quarterly basis. When Management is reasonably certain that a loan balance is not fully collectable, an impairment analysis is completed whereby a specific reserve may be established or a full or partial charge off is recorded against the allowance. Subsequent recoveries, if any, are credited to the allowance. Management estimates the allowance balance required using past loan loss experience, the size and composition of the portfolio, information about specific borrower situations, estimated collateral values, economic conditions and other factors. Allocations of the allowance may be made for specific loans via a specific reserve, 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 Bank will be unable to collect all amounts due according to the contractual terms of the loan agreement. Factors considered by Management in determining impairment include payment status, collateral value and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed.

Loans are individually evaluated for impairment when they are classified as substandard by Management. If a loan is considered impaired, a portion of the allowance may be allocated so that the loan is reported, net, at the present value of estimated future cash flows using the loan's existing rate or if repayment is expected solely from the underlying collateral, the loan principal balance is compared to the fair value of collateral less estimated disposition costs to determine the need, if any, for a charge off.

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

The general component of the allowance covers non-impaired loans and is based primarily on the Bank's historical loss experience adjusted for current factors. The historical loss experience is determined by portfolio segment and is based on the actual loss history experience by the Bank 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 qualitative 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; ability and depth of lending management and other relevant staffing and experience; national and local economic trends and conditions; industry conditions; and effects of changes in credit concentrations. For loans that are graded as non-impaired, the Company allocates a higher general reserve percentage than pass-rated loans using a multiple that is calculated annually through a migration analysis. At both September 30, 2018 and at December 31, 2017, the multiple was 3.50 times for non-impaired substandard loans and 2.25 times for

non-impaired special mention loans.

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

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

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

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

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

Commercial and Industrial Loans. The Bank provides lines of credit and term loans to operating companies for business purposes. The loans are generally secured by business assets such as accounts receivable, inventory, business vehicles and equipment as well as the stock of the company, if privately held. Commercial and industrial loans are typically repaid first by the cash flows 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' profitability include, but are not limited to, demand for its products or services, quality and depth of management, degree of competition, regulatory changes, and general economic conditions. Commercial and industrial loans are generally secured by business assets; however, the ability of the Bank to foreclose and realize sufficient value from the assets is often highly uncertain. To mitigate the risk characteristics of commercial and industrial loans, these loans often include commercial real estate as collateral to strengthen the Bank's position and the Bank will often require more frequent reporting requirements from the borrower in order to better monitor its business performance.

Leasing and Equipment Finance. Peapack Capital Corporation ("PCC"), a subsidiary of the Bank, offers a range of finance solutions nationally. PCC provides term loans and leases secured by assets financed for U.S. based mid-size and large companies. Facilities tend to be fully drawn under fixed rate terms. PCC serves a broad range of industries including transportation, manufacturing, heavy construction and utilities.

Asset risk in PCC's portfolio is generally recognized through changes to loan income, or though changes to lease related income streams due to fluctuations in lease rates. Changes to lease income can occur when the existing lease contract expires, the asset comes off lease or the business seeks to enter a new lease agreement. Asset risk may also

change depreciation, resulting from changes in the residual value of the operating lease asset or through impairment of the asset carrying value, which can occur at any time during the life of the asset.

Credit risk in PCC's portfolio generally results from the potential default of borrowers or lessees, which may be driven by customer specific or broader industry related conditions. Credit losses can impact multiple parts of the income statement including loss of interest/lease/rental income and/or via higher costs and expenses related to the repossession, refurbishment, re-marketing and or re-leasing of assets.

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.

Derivatives: At the inception of a derivative contract, the Company designates the derivative as one of three types based on the Company's intentions and belief as to likely effectiveness as a hedge. These three types are (1) a hedge of the fair value of a recognized asset or liability or of an unrecognized firm commitment ("fair value hedge"), (2) a hedge of a forecasted transaction or the variability of cash flows to be received or paid related to a recognized asset or liability ("cash flow hedge"), or (3) an instrument with no hedging designation. For a fair value hedge, the gain or loss on the derivative, as well as the offsetting loss or gain on the hedged item, are recognized in current earnings as fair values change. For a cash flow hedge, the gain or loss on the derivative is reported in other comprehensive income and is reclassified into earnings in the same periods during which the hedged transaction affects earnings. For both types of hedges, changes in the fair value of derivatives that are not highly effective in hedging the changes in fair value or expected cash flows of the hedged item are recognized immediately in current earnings. Changes in the fair value of derivatives that do not qualify for hedge accounting are reported currently in earnings, as non-interest income.

Net cash settlements on derivatives that qualify for hedge accounting are recorded in interest income or interest expense, based on the item being hedged. Net cash settlements on derivatives that do not qualify for hedge accounting are reported in non-interest income. Cash flows on hedges are classified in the cash flow statement the same as the cash flows of the items being hedged.

The Company formally documents the relationship between derivatives and hedged items, as well as the risk-management objective and the strategy for undertaking hedge transactions at the inception of the hedging relationship. This documentation includes linking fair value or cash flow hedges to specific assets and liabilities on the balance sheet or to specific firm commitments or forecasted transactions. The Company discontinues hedge accounting when it determines that the derivative is no longer effective in offsetting changes in the fair value or cash flows of the hedged item, the derivative is settled or terminated, a hedged forecasted transaction is no longer probable, a hedged firm commitment is no longer firm, or treatment of the derivative as a hedge is no longer appropriate or intended.

When hedge accounting is discontinued, subsequent changes in fair value of the derivative are recorded as non-interest income. When a cash flow hedge is discontinued but the hedged cash flows or forecasted transactions are still expected to occur, gains or losses that were accumulated in other comprehensive income are amortized into earnings over the same periods which the hedged transactions will affect earnings.

Stock-Based Compensation: The Company's 2006 Long-Term Stock Incentive Plan and 2012 Long-Term Stock Incentive Plan allow the granting of shares of the Company's common stock as incentive stock options, nonqualified stock options, restricted stock awards, restricted stock units and stock appreciation rights to directors, officers and employees of the Company and its subsidiaries. The options granted under these plans are, in general, exercisable not earlier than one year after the date of grant, at a price equal to the fair value of common stock on the date of grant and expire not more than ten years after the date of grant. Stock options may vest during a period of up to five years after the date of grant. Some options granted to officers at or above the senior vice president level were immediately exercisable at the date of grant. The Company has a policy of using authorized but unissued shares to satisfy option exercises.

Upon adoption of Accounting Standards Update ("ASU") 2016-09, "Compensation - Stock Compensation (Topic 718), Improvements to Employee Share-Based Payment Accounting," the Company has elected to account for forfeitures as they occur, rather than estimate expected forfeitures.

For the three and nine months ended September 30, 2018, there was no unrecognized compensation cost related to non-vested share-based compensation arrangements granted under the Company's stock incentive plans. For the three months ended September 30, 2017, the Company recorded less than $1 thousand of unrecognized compensation cost related to non-vested share-based compensation arrangements granted under the Company's stock incentive plans. There was no recognized tax benefit for the quarter ended September 30, 2017. The Company recorded total compensation cost for stock options for the nine months ended September 30, 2017 of $6 thousand. There was no recognized tax benefit for the nine months ended September 30, 2017.

For the Company's stock option plans, changes in options outstanding during the nine months ended September 30, 2018 were as follows:

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value (In thousands)
Balance, January 1, 2018	120,083	$ 14.41		
Exercised during 2018	(17,283)	16.20		
Expired during 2018	(715)	19.95		
Forfeited during 2018	(3,475)	24.33		
Balance, September 30, 2018	98,610	$ 13.71	2.96 years	$ 1,694
Vested and expected to vest	98,610	$ 13.71	2.96 years	$ 1,694
Exercisable at September 30, 2018	98,610	$ 13.71	2.96 years	$ 1,694

The aggregate intrinsic value represents the total pre-tax intrinsic value (the difference between the Company's closing stock price on the last trading day of the third quarter of 2018 and the exercise price, multiplied by the number of in-the-money options). The Company's closing stock price on September 28, 2018 was $30.89.

There were no stock options granted in the three or nine months ended September 30, 2018.

The Company has previously granted performance-based and service-based restricted stock awards/units. Service-based awards/units vest ratably over a, three or five-year period. There were no restricted stock units granted in the third quarter of 2018.

The performance-based awards that were granted in previous periods were dependent upon the Company meeting certain performance criteria and, to the extent the performance criteria were met, were to cliff vest at the end of the performance period. The Company did not meet the performance criteria by the end of the performance period at end of 2017. Therefore, as of March 31, 2018, the Company forfeited 92,767 performance-based awards.

Changes in non-vested shares dependent on performance criteria for the nine months ended September 30, 2018 were as follows:

	Number of Shares	Weighted Average Grant Date Fair Value
Balance, January 1, 2018	92,767	$ 18.12
Forfeited during 2018	(92,767)	18.12
Balance, September 30, 2018	—	$ —

Changes in service-based restricted stock awards/units for the nine months ended September 30, 2018 were as follows:

	Number of Shares	Weighted Average Grant Date Fair Value
Balance, January 1, 2018	308,625	$ 23.96
Granted during 2018	228,697	35.12
Vested during 2018	(145,176)	22.19
Forfeited during 2018	(19,203)	28.38
Balance, September 30, 2018	372,943	$ 31.26

As of September 30, 2018, there was $187 thousand of total unrecognized compensation cost related to service-based awards. That cost is expected to be recognized over a weighted average period of 0.42 years. As of September 30, 2018, there was $8.1 million of total unrecognized compensation cost related to service-based units. That cost is expected to be recognized over a weighted average period of 1.26 years. Stock compensation expense recorded for the third quarters of 2018 and 2017 totaled $1.1 million and $864 thousand, respectively. Stock compensation expense recorded for the nine months ended September 30, 2018 and 2017 totaled $3.5 million and $2.5 million, respectively.

Employee Stock Purchase Plan (“ESPP”): The ESPP provides for the granting of rights to purchase up to 150,000 shares of Corporation common stock. Subject to certain eligibility requirements and restrictions, the ESPP allows employees to purchase shares during four three-month offering periods (“Offering Periods”). Each participant in the Offering Period is granted an option to purchase a number of shares and may contribute between 1% and 15% of their compensation. At the end of each Offering Period on the purchase date, the number of shares to be purchased by the employee is determined by dividing the employee’s contributions accumulated during the Offering Period by the applicable purchase price. The purchase price is an amount equal to 85% of the closing market price of a share of Company common stock on the purchase date. Participation in the ESPP is voluntary and employees can cancel their purchases at any time during the Offering Period without penalty. The fair value of each share purchase right is determined using the Black-Scholes option pricing model.

The Company recorded $31 thousand and $33 thousand of expense in salaries and employee benefits expense for the three months ended September 30, 2018 and 2017, respectively, related to the ESPP. Total shares issued under the ESPP during the third quarters of 2018 and 2017 were 6,704 and 6,987, respectively.

The Company recorded $143 thousand and $105 thousand of expense in salaries and employee benefits expense for the nine months ended September 30, 2018 and 2017, respectively related to the ESPP. Total shares issued under the ESPP for the nine months ended September 30, 2018 and 2017 were 22,194 and 19,820, respectively.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars in thousands, except per share data)	2018	2017	2018	2017
Net income to shareholders	$10,724	$10,206	$33,441	$26,128
Basic weighted-average shares outstanding	19,053,849	17,800,153	18,865,982	17,478,293
Plus: common stock equivalents	186,249	323,115	201,004	275,438
Diluted weighted-average shares outstanding	19,240,098	18,123,268	19,066,986	17,753,731
Net income per share				
Basic	$0.56	$0.57	$1.77	$1.49
Diluted	0.56	0.56	1.75	1.47

As of September 30, 2018, stock options and restricted stock units totaling 219,733 were not included in the computation of diluted earnings per share because they were antidilutive. As of September 30, 2017, all stock options

and warrants were included in the computation of diluted earnings per share because they were all dilutive, meaning that the exercise price of the stock option was greater than the average market price for the period.

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

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

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

The Company is no longer subject to examination by the U.S. Federal tax authorities for years prior to 2014 or by New Jersey tax authorities for years prior to 2013.

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

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

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

Comprehensive Income: Comprehensive income consists of net income and the change during the period in the Company's net unrealized gains or losses on securities available for sale and unrealized gains and losses on cash flow hedge, net of tax, less adjustments for realized gains and losses.

Transfers of Financial Assets: Transfers of financial assets are accounted for as sales, when control over the assets has been relinquished. Control over transferred assets is deemed to be surrendered when the assets have been isolated from the Company, the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Goodwill and Other Intangible Assets: Goodwill is generally determined as the excess of the fair value of the consideration transferred, plus the fair value of any noncontrolling interests in the acquiree (if any), over the fair value of the net assets acquired and liabilities assumed as of the acquisition date. Goodwill and intangible assets acquired in a purchase business combination and determined to have an indefinite useful life are not amortized but tested for impairment at least annually or more frequently if events and circumstances exist that indicate that a goodwill impairment test should be performed. The Company has selected September 30 as the date to perform the annual impairment test. Intangible assets with definite useful lives are amortized over their estimated useful lives to their estimated residual values. Goodwill and assembled workforce are the intangible assets with an indefinite life on our balance sheet.

Other intangible assets, which primarily consist of customer relationship intangible assets arising from acquisition, are amortized on an accelerated method over their estimated useful lives, which range from 5 to 15 years.

2. INVESTMENT SECURITIES

A summary of amortized cost and approximate fair value of investment securities available for sale included in the consolidated statements of condition as of September 30, 2018 and December 31, 2017 follows:

	September 30, 2018			
(In thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. government-sponsored agencies	$101,646	$ 3	$ (2,391)	$99,258
Mortgage-backed securities –residential	249,011	228	(5,343)	243,896
SBA pool securities	4,229	—	(47)	4,182
State and political subdivisions	18,343	27	(197)	18,173

Corporate bond	3,000	45	—	3,045
Total	$376,229	$ 303	$ (7,978)	$368,554

15

	December 31, 2017			
(In thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. government-sponsored agencies	$44,476	$ —	$ (775)	$43,701
Mortgage-backed securities – residential	244,913	583	(2,380)	243,116
SBA pool securities	5,262	—	(57)	5,205
State and political subdivisions	24,910	87	(129)	24,868
Corporate bond	3,000	82	—	3,082
Single-issuer trust preferred security	2,999	—	(162)	2,837
CRA investment fund	5,000	—	(176)	4,824
Total	$330,560	$ 752	$ (3,679)	$327,633

The following tables present the Company's available for sale securities in a continuous unrealized loss position and the approximate fair value of these investments as of September 30, 2018 and December 31, 2017.

	September 30, 2018					
	Duration of Unrealized Loss					
	Less Than 12 Months		12 Months or Longer		Total	
	Approximate		Approximate		Approximate	
(In thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. government-sponsored agencies	$53,581	$ (1,100)	$35,699	$ (1,291)	$89,280	$ (2,391)
Mortgage-backed securities-residential	130,938	(2,033)	94,037	(3,310)	224,975	(5,343)
SBA pool securities	—	—	4,182	(47)	4,182	(47)
State and political subdivisions	1,727	(4)	7,258	(193)	8,985	(197)
Total	$186,246	$ (3,137)	$141,176	$ (4,841)	$327,422	$ (7,978)

	December 31, 2017					
	Duration of Unrealized Loss					
	Less Than 12 Months		12 Months or Longer		Total	
	Approximate		Approximate		Approximate	
(In thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. government-sponsored agencies	$32,166	$ (317)	$11,535	$ (458)	$43,701	$ (775)
Mortgage-backed securities-residential	116,774	(1,000)	71,646	(1,380)	188,420	(2,380)
SBA pool securities	—	—	5,205	(57)	5,205	(57)
State and political subdivisions	5,628	(97)	3,760	(32)	9,388	(129)
Single-issuer trust preferred security	—	—	2,837	(162)	2,837	(162)
CRA investment fund	—	—	4,824	(176)	4,824	(176)
Total	$154,568	$ (1,414)	$99,807	$ (2,265)	$254,375	$ (3,679)

Management believes that the unrealized losses on investment securities available for sale are temporary and are due to interest rate fluctuations and/or volatile market conditions rather than the creditworthiness of the issuers. As of

September 30, 2018, the Company does not intend to sell these securities nor is it likely that it will be required to sell the securities before their anticipated recovery; therefore, none of the securities in an unrealized loss position were determined to be other-than-temporarily impaired.

During the first quarter of 2018, the Company adopted ASU 2016-01 “Financial Instruments” which resulted in the reclassification of the Company’s investment in the CRA investment fund from available for sale to equity securities, which resulted in a loss of $37 thousand and $151 thousand for the three months and nine months ended September 30, 2018. This amount is included in securities losses on the Consolidated Statements of Income.

3. LOANS

Loans outstanding, excluding those held for sale, by general ledger classification, as of September 30, 2018 and December 31, 2017, consisted of the following:

(Dollars in thousands)	September 30, 2018	% of Totals Loans	December 31, 2017	% of Total Loans
Residential mortgage	$ 562,620	14.81 %	$ 576,356	15.56 %
Multifamily mortgage	1,285,816	33.85	1,388,958	37.49
Commercial mortgage	644,900	16.98	626,656	16.92
Commercial loans (including equipment financing)	1,180,414	31.08	958,294	25.87
Home equity lines of credit	59,930	1.58	67,497	1.82
Consumer loans, including fixed rate home equity loans	64,478	1.69	86,277	2.33
Other loans	432	0.01	402	0.01
Total loans	$ 3,798,590	100.00 %	$ 3,704,440	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 September 30, 2018 and December 31, 2017:

(Dollars in thousands)	September 30, 2018	% of Totals Loans	December 31, 2017	% of Total Loans
Primary residential mortgage	$ 592,283	15.61 %	$ 605,569	16.35 %
Home equity lines of credit	59,929	1.58	67,497	1.82
Junior lien loan on residence	7,531	0.20	7,073	0.19
Multifamily property	1,285,816	33.88	1,388,958	37.51
Owner-occupied commercial real estate	249,170	6.57	253,492	6.85
Investment commercial real estate	901,820	23.76	874,098	23.61
Commercial and industrial	479,763	12.64	316,294	8.54
Lease financing	151,189	3.98	90,052	2.43
Farmland/agricultural production	152	—	160	0.01
Commercial construction loans	88	—	92	0.01
Consumer and other loans	67,489	1.78	99,247	2.68
Total loans	$ 3,795,230	100.00 %	$ 3,702,532	100.00 %
Net deferred costs	3,360		1,908	
Total loans including net deferred costs	$ 3,798,590		$ 3,704,440	

The following tables present the loan balances by portfolio class, based on impairment method, and the corresponding balances in the allowance for loan and lease losses (ALLL) as of September 30, 2018 and December 31, 2017:

	September 30, 2018					
(Dollars in thousands)	Total Loans Individually Evaluated For Impairment	Ending ALLL Attributable To Loans Individually Evaluated for Impairment	Total Loans Collectively Evaluated For Impairment	Ending ALLL Attributable To Loans Collectively Evaluated for Impairment	Total Loans	Total Ending ALL
Primary residential mortgage	$9,103	$ 358	$583,180	$ 3,774	$592,283	$4,132
Home equity lines of credit	266	—	59,663	197	59,929	197
Junior lien loan on residence	44	—	7,487	16	7,531	16
Multifamily property	1,269	385	1,284,547	7,270	1,285,816	7,655
Owner-occupied commercial real estate	1,934	—	247,236	2,387	249,170	2,387
Investment commercial real estate	18,729		883,091	12,791	901,820	12,791
Commercial and industrial	—	—	479,763	8,185	479,763	8,185
Lease financing	—	—	151,189	1,549	151,189	1,549
Farmland/agricultural production	—	—	152	2	152	2
Commercial construction loans	—	—	88	1	88	1
Consumer and other loans	—	—	67,489	378	67,489	378
Total ALLL	$31,345	$ 743	$3,763,885	$ 36,550	$3,795,230	$37,293

	December 31, 2017					
(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	$9,802	$ 482	$595,767	$ 3,603	$605,569	$4,085
Home equity lines of credit	27	—	67,470	221	67,497	221
Junior lien loan on residence	52	—	7,021	12	7,073	12
Multifamily property	—	—	1,388,958	10,007	1,388,958	10,007
Owner-occupied commercial real estate	2,503	—	250,989	2,385	253,492	2,385
Investment commercial real estate	10,681	40	863,417	11,893	874,098	11,933
Commercial and industrial	—	—	316,294	6,563	316,294	6,563
Lease financing	—	—	90,052	884	90,052	884
Farmland/agricultural production	—	—	160	—	160	-
Commercial construction loans	—	—	92	1	92	1
Consumer and other loans	—	—	99,247	349	99,247	349
Total ALLL	$23,065	$ 522	$3,679,467	$ 35,918	$3,702,532	$36,440

Impaired loans include nonaccrual loans of $10.7 million at September 30, 2018 and $13.5 million at December 31, 2017. Impaired loans also include performing TDR loans of $19.3 million at September 30, 2018 and $9.5 million at

December 31, 2017. At September 30, 2018, the allowance allocated to TDR loans totaled $267 thousand, of which $164 thousand was allocated to nonaccrual loans. At December 31, 2017, the allowance allocated to TDR loans totaled $423 thousand of which $173 thousand was allocated to nonaccrual loans. All accruing TDR loans were paying in accordance with restructured terms as of September 30, 2018. The Company has not committed to lend additional amounts as of September 30, 2018 to customers with outstanding loans that are classified as TDR loans.

The following tables present loans individually evaluated for impairment by class of loans as of September 30, 2018 and December 31, 2017 (The average impaired loans on the following tables represent year to date impaired loans.):

(In thousands)	September 30, 2018 Unpaid Principal Balance	Recorded Investment	Specific Reserves	Average Impaired Loans
With no related allowance recorded:				
Primary residential mortgage	$9,287	$ 7,985	$ —	$7,909
Owner-occupied commercial real estate	2,768	1,934	—	2,102
Investment commercial real estate	20,254	18,729	—	12,444
Home equity lines of credit	268	266	—	79
Junior lien loan on residence	106	44	—	47
Total loans with no related allowance	$32,683	$ 28,958	$ —	$22,581
With related allowance recorded:				
Primary residential mortgage	$1,139	$ 1,118	$ 358	$1,136
Multifamily property	1,269	1,269	385	141
Total loans with related allowance	$2,408	$ 2,387	$ 743	$1,277
Total loans individually evaluated for Impairment	$35,091	$ 31,345	$ 743	$23,858

(In thousands)	December 31, 2017 Unpaid Principal Balance	Recorded Investment	Specific Reserves	Average Impaired Loans
With no related allowance recorded:				
Primary residential mortgage	$9,607	$ 8,388	$ —	$10,847
Owner-occupied commercial real estate	3,238	2,503	—	1,568
Investment commercial real estate	9,564	9,500	—	9,971
Home equity lines of credit	29	27	—	38
Junior lien loan on residence	110	52	—	92
Total loans with no related allowance	$22,548	$ 20,470	$ —	$22,516
With related allowance recorded:				
Primary residential mortgage	$1,435	$ 1,414	$ 482	$1,399
Investment commercial real estate	1,181	1,181	40	1,198
Total loans with related allowance	$2,616	$ 2,595	$ 522	$2,597
Total loans individually evaluated for impairment	$25,164	$ 23,065	$ 522	$25,113

Interest income recognized on impaired loans for the quarters ended September 30, 2018 and 2017 was not material. The Company did not recognize any income on nonaccruing impaired loans for the three and nine months ended September 30, 2018 and 2017.

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 September 30, 2018 and December 31, 2017:

September 30, 2018

(In thousands)	Nonaccrual	Loans Past Due Over 90 Days And Still Accruing Interest
Primary residential mortgage	$ 5,045	$ —
Home equity lines of credit	246	—
Junior lien loan on residence	44	—
Owner-occupied commercial real estate	1,934	—
Investment commercial real estate	3,453	—
Total	$ 10,722	$ —

	December 31, 2017	
(In thousands)	Nonaccrual	Loans Past Due Over 90 Days And Still Accruing Interest
Primary residential mortgage	$ 6,056	$ —
Home equity lines of credit	6	—
Junior lien loan on residence	52	—
Owner-occupied commercial real estate	2,503	—
Investment commercial real estate	4,913	—
Total	$ 13,530	$ —

The following tables present the aging of the recorded investment in past due loans as of September 30, 2018 and December 31, 2017 by class of loans, excluding nonaccrual loans:

	September 30, 2018			
(In thousands)	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days Past Due	Total Past Due
Primary residential mortgage	$1,492	$669	$ —	$2,161
Commercial and industrial	353	—	—	353
Consumer and other	14	—	—	14
Total	$1,859	$669	$ —	$2,528

	December 31, 2017			
(In thousands)	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days Past Due	Total Past Due
Primary residential mortgage	$216	$ —	$ —	$216
Consumer and other loans	30	—	—	30
Total	$246	$ —	$ —	$246

Credit Quality Indicators:

The Company places all commercial loans into various credit risk rating categories based on an assessment of the expected ability of the borrowers to properly service their debt. The assessment considers numerous factors including, but not limited to, debt service capacity, current financial information on the borrower, historical payment experience,

strength of any guarantor, nature of and value of any collateral, acceptability of the loan structure and documentation, relevant public information and current economic trends. This credit risk rating analysis is performed when the loan is initially underwritten and then annually based on set criteria in the loan policy.

In addition, the Bank has engaged an independent loan review firm to validate risk ratings and to ensure compliance with our policies and procedures. This review of the following types of loans is performed quarterly:

- A majority of relationships or new lending to existing relationships greater than $1,000,000;
- All criticized and classified rated borrowers with relationship exposure of more than $500,000;
- A random sample of borrowers with relationships less than $1,000,000;
- All leveraged loans;
- At least two borrowing relationships managed by each commercial banker;
- Any new Regulation “O” loan commitments over $1,000,000;
- Any other credits requested by Bank senior management or a member of the Board of Directors and any borrower for which the reviewer determines a review is warranted based upon knowledge of the portfolio, local events, industry stresses etc.

The Company uses the following regulatory definitions for criticized and classified risk ratings:

Special Mention: These loans have a potential weakness that deserves Management's close attention. If left uncorrected, the 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: These loans 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: These loans have all the weaknesses inherent in those classified as substandard, with the added characteristic that the weaknesses make collection or liquidation in full highly questionable and improbable, based on currently existing facts, conditions and values.

Loans not meeting the criteria above that are analyzed individually as part of the above described process are considered to be pass-rated loans.

Loans that are considered to be impaired are individually evaluated for potential loss and allowance adequacy. Loans not deemed impaired are collectively evaluated for potential loss and allowance adequacy.

As of September 30, 2018, 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	$582,172	$952	$ 9,159	$ —
Home equity lines of credit	59,663	—	266	—
Junior lien loan on residence	7,487	—	44	—
Multifamily property	1,275,518	6,444	3,854	—
Owner-occupied commercial real estate	242,898	574	5,698	—
Investment commercial real estate	851,037	19,051	28,279	3,453
Commercial and industrial	471,323	7,046	1,394	—
Lease financing	151,189	—	—	—
Farmland/agricultural production	152	—	—	—
Commercial construction loans	—	88	—	—
Consumer and other loans	67,253	—	236	—
Total	$3,708,692	$34,155	$ 48,930	$ 3,453

As of December 31, 2017, 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	$594,846	$866	$ 9,857	$ —
Home equity lines of credit	67,470	—	27	—

Junior lien loan on residence	7,021	—	52	—
Multifamily property	1,371,825	16,755	378	—
Owner-occupied commercial real estate	249,003	837	3,652	—
Investment commercial real estate	827,558	23,377	23,163	—
Commercial and industrial	306,341	7,488	2,465	—
Lease financing	90,052	—	—	—
Farmland/agricultural production	160	—	—	—
Commercial construction loans	—	92	—	—
Consumer and other loans	97,135	—	2,112	—
Total	$3,611,411	$49,415	$ 41,706	$ —

21

At September 30, 2018, $27.8 million of substandard loans were also considered impaired compared to December 31, 2017, when $21.8 million of substandard loans were also impaired.

The activity in the allowance for loan and lease losses for the three months ended September 30, 2018 is summarized below:

(In thousands)	July 1, 2018 Beginning ALLL	Charge-offs	Recoveries	Provision (Credit)	September 30, 2018 Ending ALLL
Primary residential mortgage	$ 4,382	$ (10)	$ —	$ (240)	$ 4,132
Home equity lines of credit	190	—	3	4	197
Junior lien loan on residence	17	—	6	(7)	16
Multifamily property	8,259	—	—	(604)	7,655
Owner-occupied commercial real estate	2,525	—	—	(138)	2,387
Investment commercial real estate	13,659	(1,335)	4	463	12,791
Commercial and industrial	7,356	—	85	744	8,185
Lease financing	1,311	—	—	238	1,549
Farmland/agricultural production	2	—	—	—	2
Commercial construction loans	1	—	—	—	1
Consumer and other loans	364	(27)	1	40	378
Total ALLL	$ 38,066	$ (1,372)	$ 99	$ 500	$ 37,293

The activity in the allowance for loan and lease losses for the three months ended September 30, 2017 is summarized below:

(In thousands)	July 1, 2017 Beginning ALLL	Charge-offs	Recoveries	Provision (Credit)	September 30, 2017 Ending ALLL
Primary residential mortgage	$ 4,223	$ (261)	$ 59	$ 323	$ 4,344
Home equity lines of credit	211	—	2	16	229
Junior lien loan on residence	14	—	6	(7)	13
Multifamily property	11,606	—	—	(360)	11,246
Owner-occupied commercial real estate	2,147	(30)	—	153	2,270
Investment commercial real estate	11,727	—	1	229	11,957
Commercial and industrial	5,333	—	9	(107)	5,235
Lease financing	178	—	—	97	275
Farmland/agricultural production	2	—	—	—	2
Commercial construction loans	1	—	—	—	1
Consumer and other loans	309	(24)	2	56	343
Total ALLL	$ 35,751	$ (315)	$ 79	$ 400	$ 35,915

22

The activity in the allowance for loan and lease losses for the nine months ended September 30, 2018 is summarized below:

(In thousands)	January 1, 2018 Beginning ALLL	Charge-offs	Recoveries	Provision (Credit)	September 30, 2018 Ending ALLL
Primary residential mortgage	$ 4,085	$ (87)	$ 139	$ (5)	$ 4,132
Home equity lines of credit	221	—	7	(31)	197
Junior lien loan on residence	12	—	61	(57)	16
Multifamily property	10,007	—	—	(2,352)	7,655
Owner-occupied commercial real estate	2,385	(64)	66	-	2,387
Investment commercial real estate	11,933	(1,335)	4	2,189	12,791
Commercial and industrial	6,563	(46)	107	1,561	8,185
Lease financing	884	—	—	665	1,549
Farmland/agricultural production	—	—	—	2	2
Commercial construction loans	1	—	—	—	1
Consumer and other loans	349	(52)	3	78	378
Total ALLL	$ 36,440	$ (1,584)	$ 387	$ 2,050	$ 37,293

The activity in the allowance for loan and lease losses for the nine months ended September 30, 2017 is summarized below:

(In thousands)	January 1, 2017 Beginning ALLL	Charge-offs	Recoveries	Provision (Credit)	September 30, 2017 Ending ALLL
Primary residential mortgage	$ 3,666	$ (591)	$ 128	$ 1,141	$ 4,344
Home equity lines of credit	233	(23)	61	(42)	229
Junior lien loan on residence	16	(57)	19	35	13
Multifamily property	11,192	—	—	54	11,246
Owner-occupied commercial real estate	1,774	(30)	—	526	2,270
Investment commercial real estate	10,909	—	23	1,025	11,957
Commercial and industrial	4,164	(25)	61	1,035	5,235
Lease financing	—	—	—	275	275
Farmland/agricultural production	2	—	—	—	2
Commercial construction loans	9	—	—	(8)	1
Consumer and other loans	243	(62)	3	159	343
Total ALLL	$ 32,208	$ (788)	$ 295	$ 4,200	$ 35,915

Troubled Debt Restructurings:

The Company has allocated $267 thousand and $423 thousand of specific reserves on TDRs to customers whose loan terms have been modified in TDRs as of September 30, 2018 and December 31, 2017, respectively. There were no unfunded commitments to lend additional amounts to customers with outstanding loans that are classified as TDRs.

The terms of certain loans were modified as TDRs when one or a combination of the following occurred: a reduction of the stated interest rate of the loan was reduced; the maturity date was extended; or some other modification or extension occurred which would not be readily available in the market.

The following table presents loans by class modified as TDRs during the three-month period ended September 30, 2018:

(Dollars in thousands)	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Primary residential mortgage	1	$ 766	$ 766
Total	1	$ 766	$ 766

The following table presents loans by class modified as TDRs during the nine-month period ended September 30, 2018:

(Dollars in thousands)	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Primary residential mortgage	1	$ 766	$ 766
Investment commercial real estate	1	15,351	15,351
Total	2	$ 16,117	$ 16,117

There were no loans modified as TDRs during the three-month period ended September 30, 2017.

The following table presents loans by class modified as TDRs during the nine-month period ended September 30, 2017:

(Dollars in thousands)	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Primary residential mortgage	5	$ 1,148	$ 1,148
Total	5	$ 1,148	$ 1,148

The identification of the TDRs did not have a significant impact on the allowance for loan and lease losses.

There were no loans that were modified as TDRs for which there was a payment default, within twelve months of modification, during the three and nine months ended September 30, 2018 and September 30, 2017.

In order to determine whether a borrower is experiencing financial difficulty, an evaluation is performed of the probability that the borrower will be in payment default on any of its debt in the foreseeable future without the modification. This evaluation is performed under the Company’s internal underwriting policy. The modification of the terms of such loans may include one or more of the following: (1) a reduction of the stated interest rate of the loan to a rate that is lower than the current market rate for new debt with similar risk; (2) an extension of an interest only period for a predetermined period of time; (3) an extension of the maturity date; or (4) an extension of the amortization period over which future payments will be computed. 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 TDR. At a minimum, six months of contractual payments would need to be made on a restructured loan before returning it 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. DEPOSITS

Certificates of deposit, excluding brokered certificates of deposit over $250,000, totaled $139.3 million and $160.0 million at September 30, 2018 and December 31, 2017, respectively.

The following table sets forth the details of total deposits as of September 30, 2018 and December 31, 2017:

	September 30, 2018		December 31, 2017	
(Dollars in thousands)	$	%	$	%
Noninterest-bearing demand deposits	$503,388	13.76 %	$539,304	14.59 %
Interest-bearing checking (1)	1,148,660	31.39	1,152,483	31.16
Savings	116,391	3.18	119,556	3.23
Money market	1,097,630	29.99	1,091,385	29.51
Certificates of deposit - retail	466,791	12.76	344,652	9.32
Certificates of deposit - listing service	85,241	2.33	198,383	5.36
Subtotal deposits	3,418,101	93.41	3,445,763	93.17
Interest-bearing demand - Brokered	180,000	4.92	180,000	4.87
Certificates of deposit - Brokered	61,193	1.67	72,591	1.96
Total deposits	$3,659,294	100.00 %	$3,698,354	100.00 %

(1) Interest-bearing checking includes $418.8 million at September 30, 2018 and $359.9 million at December 31, 2017 of reciprocal balances in the Reich & Tang or Promontory Demand Deposit Marketplace program.

The scheduled maturities of certificates of deposit, including brokered certificates of deposit, as of September 30, 2018 are as follows:

(In thousands)	
2018	$67,578
2019	338,859
2020	90,111
2021	35,719
2022	15,189
Over 5 Years	65,769
Total	$613,225

5. FEDERAL HOME LOAN BANK ADVANCES AND OTHER BORROWINGS

Advances from the FHLB totaled $84.0 million with a weighted average interest rate of 2.93 percent and $37.9 million with a weighted average interest rate of 2.20 percent at September 30, 2018 and December 31, 2017, respectively.

At September 30, 2018, advances totaling $84.0 million with a weighted average interest rate of 2.93 percent had fixed maturity dates. The fixed maturity date advances at December 31, 2017 totaled $28.9 million with a weighted average interest rate of 1.96 percent. The fixed rate advances are secured by blanket pledges of certain 1-4 family residential mortgages totaling $497.1 million and multifamily mortgages totaling $1.0 billion at September 30, 2018, while at December 31, 2017, the fixed rate advances are secured by blanket pledges of certain 1-4 family residential mortgages totaling $550.0 million and multifamily mortgages totaling $1.1 billion.

At December 31, 2017, the Company had $9.0 million in variable rate advances, with a weighted average interest rate of 2.95 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.

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

(In thousands)	
2018	$ 11,000
2019	3,000
2020	-
2021	60,000
2022	10,000
Total	$ 84,000

There were overnight borrowings of $95.2 million as of September 30, 2018 with a weighted average rate of 2.38 percent at the FHLB. There were no overnight borrowings as of December 31, 2017. At September 30, 2018, unused short-term overnight borrowing commitments totaled $1.3 billion from FHLB, $22.0 million from correspondent banks and $903.7 million at the FRB.

6. BUSINESS SEGMENTS

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

Banking

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

Private Wealth Management Division

Peapack-Gladstone Bank's Private Wealth Management Division, including PGB Trust & Investments of Delaware, MCM, Quadrant and Lassus Wherley, 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 tables present the statements of income and total assets for the Corporation's reportable segments for the three and nine months ended September 30, 2018 and 2017.

	Three Months Ended September 30, 2018		
(In thousands)	Banking	Wealth Management Division	Total
Net interest income	$27,032	$ 1,110	$28,142
Noninterest income	2,570	8,413	10,983
Total income	29,602	9,523	39,125
Provision for loan and lease losses	500	—	500
Compensation and benefits	11,257	4,768	16,025
Premises and equipment expense	2,967	432	3,399
FDIC expense	593	—	593
Other noninterest expense	2,202	2,065	