Schoenhut Frederick W
Form 4
February 10, 2010

FORM 4

Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. *See* Instruction 1(b).

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

OMB APPROVAL
OMB Number: 3235-0287
Expires: January 31, 2005
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(Print or Type Responses)

1. Name and Address of Reporting Person *
Schoenhut Frederick W

(Last) (First) (Middle)

2100 RIVEREDGE PARKWAY, SUITE 500

(Street)

ATLANTA, GA 30328

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
INTERCONTINENTALEXCHANGE INC [ICE]

3. Date of Earliest Transaction (Month/Day/Year)
02/09/2010

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

__X__ Director _____ 10% Owner
_____ Officer (give title below) _____ Other (specify below)

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			
Common Stock	02/09/2010		S (1)		400	D	$ 97.75	9,079 (2)	I	Copia Trading Company Ltd.

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474 (9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)		5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)		6. Date Exercisable and Expiration Date (Month/Day/Year)		7. Title and Amount of Underlying Securities (Instr. 3 and 4)		8. Price of Derivative Security (Instr. 5)	9. Nu Deriv Secur Bene Owne Follo Repo Trans (Instr
				Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares		

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
Schoenhut Frederick W 2100 RIVEREDGE PARKWAY SUITE 500 ATLANTA, GA 30328	X			

Signatures

/s/ Andrew J. Surdykowski, Attorney-in-fact	02/10/2010
**Signature of Reporting Person	Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) The sales reported in this Form 4 were effected pursuant to a pre-arranged trading plan established in accordance with Rule 10b5-1 of the Securities Act of 1934, as amended.

(2) The reporting person owns shares of common stock directly and owns shares of common stock indirectly through his spouse and Copia Trading Company Ltd.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
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$

75,575

Interest expense

44,523

27,586

20,613

14,690

7,681

Net interest income

115,163

111,141

96,435

84,452

67,894

Provision for loan losses

3,550

5,850

7,500

7,100

4,875

Net interest income after provision for loan losses

111,613

105,291

88,935

Explanation of Responses:

77,352

63,019

Wealth management income

33,245

23,183

18,240

17,039

Explanation of Responses:

15,242

Other income, exclusive of securities (losses)/gains,
net

11,341

11,444

10,559

6,148

5,305

Securities (losses)/gains, net

(393

)

—

119

527

260

Total expenses

98,086

85,611

75,112

68,926

59,540

Income before income tax expense

57,720

54,307

Explanation of Responses:

42,741

32,140

24,286

Income tax expense

13,550

17,810

16,264

12,168

9,396

Net income available to common shareholders

$

44,170

$

36,497

$

26,477

$

19,972

$

14,890

Per share data:

Explanation of Responses:

Earnings per share-basic

$

2.33

$

2.07

$

1.62

$

1.31

$

1.23

Earnings per share-diluted

2.31

2.03

1.60

1.29

1.22

Cash dividends declared

0.20

0.20

0.20

0.20

0.20

Book value end-of-period

24.25

21.68

18.79

17.61

16.36

Basic weighted average shares outstanding

18,965,305

17,659,625

16,318,868

15,187,637

12,065,615

Common stock equivalents (dilutive)

183,340

284,060

196,130

247,359

106,492

Fully diluted weighted average shares outstanding

19,148,645

17,943,685

16,514,998

15,434,996

12,172,107

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	Years Ended December 31,				
	2018	2017	2016	2015	2014
Balance sheet data (at period end):					
Total assets	$4,617,858	$4,260,547	$3,878,633	$3,364,659	$2,702,397
Securities available to sale	377,936	327,633	305,388	195,630	332,652
Equity security	4,719	—	—	—	—
FHLB and FRB stock, at cost	18,533	13,378	13,813	13,984	11,593
Total loans	3,927,931	3,704,440	3,312,144	2,913,242	2,250,267
Allowance for loan losses	38,504	36,440	32,208	25,856	19,480
Total deposits	3,895,340	3,698,354	3,411,837	2,935,470	2,298,693
Total shareholders' equity	469,013	403,678	324,210	275,676	242,267
Cash dividends:					
Common	3,712	3,548	3,296	3,100	2,414
Assets under management and/or administration at Wealth Management Division (market value)	5.8 billion	5.5 billion	3.7 billion	3.3 billion	3.0 billion
Selected performance ratios:					
Return on average total assets	1.02 %	0.89 %	0.72 %	0.64 %	0.63 %
Return on average common shareholders' equity	10.13	10.12	8.92	7.71	7.96
Dividend payout ratio	8.40	9.72	12.45	15.52	16.21
Average equity to average assets ratio	10.02	8.80	8.12	8.30	7.94
Net interest margin	2.75	2.80	2.74	2.80	3.01
Non-interest expenses to average assets	2.25	2.09	2.06	2.21	2.53
Non-interest income to average assets	1.02	0.85	0.79	0.76	0.88
Asset quality ratios (at period end):					
Nonperforming loans to total loans	0.65 %	0.37 %	0.34 %	0.23 %	0.30 %
Nonperforming assets to total assets	0.56	0.37	0.30	0.22	0.30
Allowance for loan losses to nonperforming loans	149.73	269.33	285.94	383.22	284.38
Allowance for loan losses to total loans	0.98	0.98	0.97	0.89	0.87
Net charge-offs to average loans plus other real estate owned	0.04	0.05	0.04	0.03	0.04
Liquidity and capital ratios:					
Average loans to average deposits	103.53 %	99.63 %	100.97 %	98.30 %	92.55 %
Total shareholders' equity to total assets	10.16	9.47	8.36	8.19	8.96
Company Capital Ratios:					
Total capital to risk-weighted assets	15.03	14.84	13.25	11.40	15.55
Tier 1 capital to risk-weighted assets	11.76	11.31	10.60	10.42	14.38

Common equity tier 1 capital ratio to risk-weighted assets	11.76	11.31	10.60	10.42	N/A
Tier 1 leverage ratio	9.82	9.04	8.35	8.10	9.11
Bank Capital Ratios:					
Total capital to risk-weighted assets	14.59	14.34	12.87	11.32	14.96
Tier 1 capital to risk-weighted assets	13.56	13.27	11.82	10.34	13.80
Common equity tier 1 capital ratio to risk-weighted assets	13.56	13.27	11.82	10.34	N/A
Tier 1 leverage ratio	11.32	10.61	9.31	8.04	8.74

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

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

- our inability to successfully grow our business and implement our strategic plan, including an inability to generate revenues to offset the increased personnel and other costs related to the strategic plan;
- the impact of anticipated higher operating expenses in 2019 and beyond;
- our inability to successfully integrate wealth management firm acquisitions;
- our inability to manage our growth;
- our inability to successfully integrate our expanded employee base;
- an unexpected decline in the economy, in particular in our New Jersey and New York market areas;
- declines in our net interest margin caused by the interest rate environment and/or our highly competitive market;
- declines in value in our investment portfolio;
- higher than expected increases in our allowance for loan and lease losses;
- higher than expected increases in loan and lease losses or in the level of nonperforming loans;
- changes in interest rates;
- decline in real estate values within our market areas;
- legislative and regulatory actions (including the impact of the Dodd-Frank Wall Street Reform and Consumer Protection Act, Basel III and related regulations) that may result in increased compliance costs;
- successful cyberattacks against our IT infrastructure and that of our IT and third party providers;
- higher than expected FDIC insurance premiums;
- adverse weather conditions;
- our inability to successfully generate new business in new geographic markets;
- our inability to execute upon new business initiatives;
- our lack of liquidity to fund our various cash obligations;
- reduction in our lower-cost funding sources;
- our inability to adapt to technological changes;
- claims and litigation pertaining to fiduciary responsibility, environmental laws and other matters;
- our ability to retain key employees;
- demands for loans and deposits in our market areas;
- adverse changes in securities markets;
- changes in accounting policies and practices;
- effects related to a prolonged shutdown of the federal government which could impact SBA and other government lending programs; and
- other unexpected material adverse changes in our operations or earnings.

Except as may be required by applicable law or regulation, the Company undertakes no duty to update any forward-looking statement to conform the statement to actual results or changes in the Company's expectations. Although we believe that the expectations reflected in the forward-looking statements are reasonable, the Company cannot guarantee future results, levels of activity, performance or achievements.

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

For the year ended December 31, 2018, the Company recorded net income of $44.17 million, and diluted earnings per share of $2.31 compared to $36.50 million and $2.03, respectively, for 2017, reflecting increases of $7.67 million, or 21 percent,

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and $0.28 per share, or 14 percent, respectively. During 2018, the Company continued to focus on executing its Strategic Plan – known as “Expanding Our Reach” – which focuses on the client experience and organic growth across all lines of business. The Strategic Plan called for expansion of the Company’s wealth management business, organically and through wealth business acquisitions, and also expansion of the Company’s commercial and industrial (“C&I”) lending platform, through the use of private bankers, who lead with deposit gathering and wealth management discussions.

The following are select highlights for 2018:

- At December 31, 2018, the market value of assets under management and/or administration at the Private Wealth Management Division of the Bank was $5.8 billion, reflecting an increase of 5 percent from $5.5 billion at December 31, 2017.
- Fee income from the Private Wealth Management Division totaled $33.2 million for 2018, growing from $23.2 million for 2017.
- Loans at December 31, 2018 totaled $3.93 billion. This reflected net growth of $227.4 million, or 6 percent, from $3.70 billion at December 31, 2017.
- Total C&I loans (including equipment finance) at December 31, 2018 totaled $1.40 billion. This reflected net growth of $438.7 million, or 46 percent, from $958.3 million at December 31, 2017.
- Total “customer” deposits (defined as deposits excluding brokered CDs and brokered “overnight” interest-bearing demand deposits) at December 31, 2018 were $3.66 billion, reflecting an increase of $213.4 million, or 6 percent, when compared to $3.45 billion at December 31, 2017.
- Asset quality metrics continued to be strong at December 31, 2018. Nonperforming assets at December 31, 2018 were $25.7 million, or 0.56 percent of total assets. Total loans past due 30 through 89 days and still accruing were $1.10 million or 0.03 percent of total loans at December 31, 2018.
- The Company’s and Bank’s capital ratios at December 31, 2018 all increased compared to the December 31, 2017 levels.

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

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

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

Company's loans are secured by real estate in the State of New Jersey and the New York City area. Accordingly, the collectability of a substantial portion of the carrying value of the Company's loan portfolio is susceptible to changes in local market conditions and may experience adverse economic conditions. Future adjustments to the provision for loan losses and allowance for loan losses may be necessary due to economic, operating, regulatory and other conditions beyond the Company's control.

The Company accounts for its securities in accordance with "Accounting for Certain Investments in Debt and Equity Securities," which was codified into Accounting Standards Codification ("ASC") 320. Debt securities are classified as held to maturity and carried at amortized cost when Management has the positive intent and ability to hold them to maturity.

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Debt securities are classified as available for sale when they might be sold before maturity due to changes in interest rates, prepayment risk, liquidity or other factors. Securities available for sale are carried at fair value, with unrealized holding gains and losses reported in other comprehensive income, net of tax. At December 31, 2018 and 2017, all securities were classified as available for sale, with the exception of the Company's investment in the CRA investment fund. The Company adopted ASU 2016-01 "Financial Instruments" which resulted in the reclassification of the CRA investment from available for sale to equity securities.

Securities are evaluated on at least a quarterly basis to determine whether a decline in value is other-than-temporary. To determine whether a decline in value is other-than-temporary, Management considers the reasons underlying the decline, the near-term prospects of the issuer, the extent and duration of the decline and whether the Company intends to sell, or it is more likely than not that it will be required to sell, a security in an unrealized loss position before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the entire difference between amortized cost and fair value is recognized as impairment through earnings. "Other-than-temporary" is not intended to indicate that the decline is permanent but indicates that the prospects for a near-term recovery of value is not necessarily favorable, or that there is a lack of evidence to support a realizable value equal to or greater than the carrying value of the investment. Once a decline in value is determined to be other-than-temporary, the amount of the impairment is recognized through earnings. No impairment charges were recognized in 2018, 2017 or 2016. For equity securities, the entire amount of impairment is recognized through earnings.

EARNINGS SUMMARY:

The following table presents certain key aspects of our performance for the years ended December 31, 2018, 2017 and 2016.

	Years Ended December 31,			Change 2018 v	2017 v
(Dollars in thousands, except per share data)	2018	2017	2016	2017	2016
Results of Operations:					
Interest income	$159,686	$138,727	$117,048	$20,959	$21,679
Interest expense	44,523	27,586	20,613	16,937	6,973
Net interest income	115,163	111,141	96,435	4,022	14,706
Provision for loan losses	3,550	5,850	7,500	(2,300)	(1,650)
Net interest income after provision for loan losses	111,613	105,291	88,935	6,322	16,356
Wealth management fee income	33,245	23,183	18,240	10,062	4,943
Other income	10,948	11,444	10,678	(496)	766
Total operating expense	98,086	85,611	75,112	12,475	10,499
Income before income tax expense	57,720	54,307	42,741	3,413	11,566
Income tax expense	13,550	17,810	16,264	(4,260)	1,546
Net income	$44,170	$36,497	$26,477	$7,673	$10,020
Per Share Data:					
Basic earnings per common share	$2.33	$2.07	$1.62	$0.26	$0.45
Diluted earnings per common share	2.31	2.03	1.60	0.28	0.43
Average common shares outstanding	18,965,305	17,659,625	16,318,868	1,305,680	1,340,757
Diluted average common shares outstanding	19,148,645	17,943,685	16,514,998	1,204,960	1,428,687
Average equity to average assets	10.02%	8.80%	8.12%	1.22%	0.68%
Return on average assets	1.02	0.89	0.72	0.13	0.17
Return on average equity	10.13	10.12	8.92	0.01	1.20
Selected Balance Sheet Ratios of the Company:					
Regulatory total capital to risk-weighted assets	15.03%	14.84%	13.25%	0.19%	1.59%
Regulatory leverage ratio	9.82	9.04	8.35	0.78	0.69
Average loans to average deposits	103.53	99.63	100.97	3.90	(1.34)
Allowance for loan losses to total loans	0.98	0.98	0.97	—	0.01
Allowance for loan losses to nonperforming	149.73	269.33	285.94	(119.60)	(16.61)

loans					
Nonperforming loans to total loans	0.65	0.37	0.34	0.28	0.03
Noninterest bearing deposits to total deposits	11.91	14.59	14.35	(2.68)	0.24
Time deposits to total deposits	16.59	16.64	16.14	(0.05)	0.50

2018 compared to 2017

The Company recorded net income of $44.17 million and diluted earnings per share of $2.31 for the year ended December 31, 2018 compared to net income of $36.50 million and diluted earnings per share of $2.03 for the year ended December 31, 2017. These results produced a return on average assets of 1.02 percent and 0.89 percent in 2018 and 2017, respectively, and a return on average shareholders' equity of 10.13 percent and 10.12 percent in 2018 and 2017, respectively.

The increase in net income for 2018 was due to higher net interest income and wealth management income, offset by increased operating expenses when compared to 2017. In addition, 2018 net income benefitted from the reduced Federal income tax rate due to the new tax law signed in December 2017. Wealth management acquisitions in 2017 and 2018

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contributed to higher wealth management income and higher operating expenses in 2018. Higher operating expenses were also due to costs associated with the implementation of the Strategic Plan, described in the "Overview" section above.

2017 compared to 2016

The Company recorded net income of $36.50 million and diluted earnings per share of $2.03 for the year ended December 31, 2017 compared to net income of $26.48 million and diluted earnings per share of $1.60 for the year ended December 31, 2016. These results produced a return on average assets of 0.89 percent and 0.72 percent in 2017 and 2016, respectively, and a return on average shareholders' equity of 10.12 percent and 8.92 percent in 2017 and 2016, respectively.

The increase in net income for 2017 was due to higher net interest income and wealth management income, offset by increased operating expenses when compared to 2016. In addition, net income included a $1.60 million tax benefit from the reduction of the Company's deferred tax liability due to the new tax law. Higher operating expenses were principally due to costs associated with the implementation of the Strategic Plan, described in the "Overview" section above. Additionally, the Company recorded expense of $1.3 million related to the separation of two senior officers.

NET INTEREST INCOME AND NET INTEREST MARGIN

A major source of the Company's operating income is net interest income, which is the difference between interest and dividends earned on earning assets and fees earned on loans, and interest paid on interest-bearing liabilities. Earning assets include loans, investment securities, interest-earning deposits and federal funds sold. Interest-bearing liabilities include interest-bearing checking, savings and time deposits, Federal Home Loan Bank advances, subordinated debt and other borrowings. Net interest income is determined by the difference between the average yields earned on earning assets and the average cost of interest-bearing liabilities ("net interest spread") and the relative amounts of earning assets and interest-bearing liabilities. Net interest margin is calculated as net interest income annualized as a percent of total interest earning assets. The Company's net interest income, spread and margin are affected by regulatory, economic and competitive factors that influence interest rates, loan demand and deposit flows and general levels of nonperforming assets.

The following table summarizes the Company's net interest income and margin, on a fully tax-equivalent basis, for the periods indicated:

	Years Ended December 31,					
(Dollars in thousands)	2018		2017		2016	
NII/NIM excluding the below	$112,840	2.69%	$106,393	2.68%	$94,592	2.68%
Prepayment premiums received on multifamily loan paydowns	2,002	0.05	3,513	0.09	1,843	0.06
Fees recognized on full paydowns of select C&I loans	321	0.01	1,235	0.03	—	—
NII/NIM as reported	$115,163	2.75%	$111,141	2.80%	$96,435	2.74%

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Explanation of Responses:

The following table compares the average balance sheets, interest rate spreads and net interest margins for the years ended December 31, 2018, 2017 and 2016 (on a fully tax-equivalent basis "FTE"):

Year Ended December 31, 2018			
(In thousands except yield information)	Average Balance	Income/Expense (FTE)	Yield (FTE)
Assets:			
Interest-earnings assets:			
Investments:			
Taxable (1)	$363,259	$ 8,903	2.45 %
Tax-exempt (1)(2)	20,489	731	3.57
Loans (2)(3):			
Mortgages	565,513	18,842	3.33
Commercial mortgages	1,976,712	74,693	3.78
Commercial	1,087,600	50,854	4.68
Commercial construction	—	—	—
Installment	71,643	2,603	3.63
Home Equity	61,828	2,786	4.51
Other	451	45	9.98
Total loans	3,763,747	149,823	3.98
Federal funds sold	101	—	0.25
Interest-earning deposits	103,059	1,806	1.75
Total interest-earning assets	4,250,655	161,263	3.79
Noninterest-earning assets:			
Cash and due from banks	5,346		
Allowance for loan losses	(37,904)		
Premises and equipment	28,477		
Other assets	103,761		
Total noninterest-earning assets	99,680		
Total assets	$4,350,335		
Liabilities and shareholders' equity:			
Interest-bearing deposits:			
Checking	$1,143,640	$ 9,543	0.83 %
Money markets	1,056,368	11,322	1.07
Savings	119,699	66	0.06
Certificates of deposit - retail	554,903	9,938	1.79
Subtotal interest-bearing deposits	2,874,610	30,869	1.07
Interest-bearing demand - brokered	180,000	3,135	1.74
Certificates of deposit - brokered	64,009	1,608	2.51
Total interest-bearing deposits	3,118,619	35,612	1.14
Borrowed funds	154,765	3,606	2.33
Capital lease obligation	8,698	418	4.81
Subordinated debt	83,104	4,887	5.88
Total interest-bearing liabilities	3,365,186	44,523	1.32
Noninterest-bearing liabilities:			
Demand deposits	516,718		
Accrued expenses and other liabilities	32,541		

Total noninterest-bearing liabilities	549,259			
Shareholders' equity	435,890			
Total liabilities and shareholders' equity	$4,350,335			
Net interest income		$ 116,740		
Net interest spread			2.47	%
Net interest margin (4)			2.75	%

1. Average balances for available for sale securities are based on amortized cost.
2. Interest income is presented on a tax-equivalent basis using a 21 percent federal tax rate.
3. Loans are stated net of unearned income and include nonaccrual loans.
4. Net interest income on an FTE basis as a percentage of total average interest-earning assets.

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Year Ended December 31, 2017			
(In thousands except yield information)	Average Balance	Income/Expense (FTE)	Yield (FTE)
Assets:			
Interest-earnings assets:			
Investments:			
Taxable (1)	$300,590	$ 6,271	2.09 %
Tax-exempt (1)(2)	26,046	766	2.94
Loans (2)(3):			
Mortgages	586,722	19,025	3.24
Commercial mortgages	2,073,804	75,304	3.63
Commercial	761,401	32,564	4.28
Commercial construction	96	4	4.17
Installment	75,995	2,322	3.06
Home Equity	67,420	2,489	3.69
Other	550	45	8.18
Total loans	3,565,988	131,753	3.69
Federal funds sold	101	—	0.25
Interest-earning deposits	115,567	1,021	0.88
Total interest-earning assets	4,008,292	$ 139,811	3.49
Noninterest-earning assets:			
Cash and due from banks	8,986		
Allowance for loan losses	(35,246)		
Premises and equipment	30,021		
Other assets	83,060		
Total noninterest-earning assets	86,821		
Total assets	$4,095,113		
Liabilities and shareholders' equity:			
Interest-bearing deposits:			
Checking	$1,092,545	$ 5,039	0.46 %
Money markets	1,076,492	5,499	0.51
Savings	120,896	66	0.05
Certificates of deposit - retail	486,960	7,118	1.46
Subtotal interest-bearing deposits	2,776,893	17,722	0.64
Interest-bearing demand - brokered	180,000	2,934	1.63
Certificates of deposit - brokered	86,967	1,910	2.20
Total interest-bearing deposits	3,043,860	22,566	0.74
Borrowed funds	71,788	1,363	1.90
Capital lease obligation	9,375	451	4.81
Subordinated debt	50,733	3,206	6.32
Total interest-bearing liabilities	3,175,756	27,586	0.87
Noninterest-bearing liabilities:			
Demand deposits	535,451		
Accrued expenses and other liabilities	23,413		
Total noninterest-bearing liabilities	558,864		
Shareholders' equity	360,493		
Total liabilities and shareholders' equity	$4,095,113		

Net interest income	$ 112,225	
Net interest spread		2.62 %
Net interest margin (4)		2.80 %

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

Year Ended December 31, 2016			
(In thousands except yield information)	Average Balance	Income/Expense (FTE)	Yield (FTE)
Assets:			
Interest-earnings assets:			
Investments:			
Taxable (1)	$208,980	$ 4,018	1.92 %
Tax-exempt (1)(2)	27,225	840	3.09
Loans (2)(3):			
Mortgages	483,088	15,790	3.27
Commercial mortgages	2,022,936	70,775	3.50
Commercial	564,598	22,206	3.93
Commercial construction	991	41	4.14
Installment	61,362	1,737	2.83
Home Equity	59,555	1,964	3.30
Other	474	47	9.92
Total loans	3,193,004	112,560	3.53
Federal funds sold	101	—	0.24
Interest-earning deposits	128,488	551	0.43
Total interest-earning assets	3,557,798	$ 117,969	3.32
Noninterest-earning assets:			
Cash and due from banks	9,580		
Allowance for loan losses	(29,068)		
Premises and equipment	29,839		
Other assets	86,228		
Total noninterest-earning assets	96,579		
Total assets	$3,654,377		
Liabilities and shareholders’ equity:			
Interest-bearing deposits:			
Checking	$926,713	$ 2,547	0.27 %
Money markets	894,215	2,775	0.31
Savings	119,043	68	0.06
Certificates of deposit - retail	455,946	6,270	1.38
Subtotal interest-bearing deposits	2,395,917	11,660	0.49
Interest-bearing demand – brokered	199,208	3,020	1.52
Certificates of deposit – brokered	93,674	1,995	2.13
Total interest-bearing deposits	2,688,799	16,675	0.62
Borrowed funds	132,985	1,764	1.33
Capital lease obligation	9,940	478	4.81
Subordinated debt	26,679	1,696	6.36
Total interest-bearing liabilities	2,858,403	20,613	0.72
Noninterest-bearing liabilities:			
Demand deposits	473,536		
Accrued expenses and other liabilities	25,530		
Total noninterest-bearing liabilities	499,066		
Shareholders’ equity	296,908		
Total liabilities and shareholders’ equity	$3,654,377		

Net interest income	$ 97,356	
Net interest spread		2.60 %
Net interest margin (4)		2.74 %

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

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The effect of volume and rate changes on net interest income (on a tax-equivalent basis) for the periods indicated are shown below:

	Year Ended 2018 Compared with 2017			Year Ended 2017 Compared with 2016		
(In Thousands):	Difference due to Change In: Volume	Rate	Net Change In Income/ Expense	Change In Income/ Volume	Rate	Net Change In Income/ Expense
ASSETS:						
Investments	$ 1,356	$ 1,241	$ 2,597	$ 1,691	$ 488	$ 2,179
Loans	9,440	8,630	18,070	14,141	5,052	19,193
Federal funds sold	—	—	—	—	—	—
Interest-earning deposits	(121)	906	785	(61)	531	470
Total interest income	$ 10,675	$ 10,777	$ 21,452	$ 15,771	$ 6,071	$ 21,842
LIABILITIES:						
Checking	$ 335	$ 4,169	$ 4,504	$ 161	$ 2,331	$ 2,492
Money market	107	5,716	5,823	901	1,823	2,724
Savings	—	—	—	11	(13)	(2)
Certificates of deposit - retail	1,076	1,744	2,820	458	390	848
Certificates of deposit - brokered	(549)	247	(302)	(154)	69	(85)
Interest bearing demand brokered	—	201	201	(299)	213	(86)
Borrowed funds	1,665	578	2,243	(803)	402	(401)
Capital lease obligation	(33)	—	(33)	(27)	—	(27)
Subordinated debt	1,904	(223)	1,681	1,521	(11)	1,510
Total interest expense	$ 4,505	$ 12,432	$ 16,937	$ 1,769	$ 5,204	$ 6,973
Net interest income	$ 6,170	$ (1,655)	$ 4,515	$ 14,002	$ 867	$ 14,869

2018 compared to 2017

Net interest income, on a fully tax-equivalent basis, grew $4.5 million, or 4 percent, in 2018 to $116.7 million from net interest income of $112.2 million in 2017. The net interest margin was 2.75 percent and 2.80 percent for the years ended December 31, 2018 and 2017, respectively, a decrease of 5 basis points year over year. The growth in net interest income was due to increases in the average balance and yield on the Company's interest-earning assets, especially C&I loans, which typically have higher yields. The increased interest income was partially offset by reduced prepayment premiums on multifamily loans in 2018 when compared to 2017. The interest income increase was also partially offset by increases in interest-bearing liabilities and the Company's cost of funds. The Company continues to be impacted by competitive pressures in attracting new loans and deposits, as well as retaining deposits.

On a fully tax-equivalent basis, interest income on earning assets increased $21.5 million, or 15 percent, to $161.3 million in 2018 from $139.8 million in 2017. Average earning assets for the year ended December 31, 2018 totaled $4.25 billion compared to $4.01 billion for 2017, an increase of $242.4 million or 6 percent. The average rate earned on earning assets was 3.79 percent in 2018, compared to 3.49 percent in 2017, an increase of 30 basis points. For the year ended December 31, 2018, the average balance of the commercial portfolio increased $326.2 million, or 43 percent, from 2017. The increase in this portfolio was attributed to: the addition of seasoned bankers including an equipment finance team in 2017; a continued focus on client service and value-added aspects of the lending process; and a continued focus on markets outside of the immediate branch service area, including markets around the Teaneck

and Princeton private banking offices. For the year ended December 31, 2018, the average balance of the commercial mortgage portfolio (which includes multifamily mortgage loans) decreased $97.1 million to $1.98 billion from 2017. The Company continued to manage its balance sheet such that lower yielding, primarily fixed rate multifamily loans, which included a loan sale of $131.3 million of multi-family mortgage loans during the fourth quarter of 2018, declined as a percentage of the overall loan portfolio and higher yielding, primarily floating rate or short duration C&I loans became a larger percentage of the overall loan portfolio.

Average interest-bearing liabilities for the year ended December 31, 2018 totaled $3.37 billion, an increase of $189.4 million, or 6 percent, from $3.18 billion for 2017. The average rate paid increased to 1.32 percent for 2018 from 0.87 percent for 2017. The increase in the average balance of interest-bearing liabilities was principally due to growth in customer deposits (excluding brokered CDs and brokered interest-bearing demand but including funds from reciprocal

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deposits) of $97.7 million for 2018 when compared to 2017 and growth in the average balance of borrowings of $83.0 million.

Average rates paid on interest-bearing deposits for 2018 were 114 basis points compared to 74 basis points for 2017, reflecting an increase of 40 basis points. The increase in the average rate paid on deposits was principally due to growth in higher costing certificates of deposit and money market accounts and competitive pressures in attracting and retaining new deposits.

The average balance of borrowings was $154.8 million for 2018 compared to $71.8 million during 2017, an increase of $83.0 million. The average rates paid on total borrowings increased to 2.33 percent during 2018 compared to 1.90 percent during 2017, an increase of 43 basis points, primarily due to an increase in market rates. The increase in the average balance of borrowings was due to an increase in the use of overnight borrowings and $105.0 million in FHLB advances used to fund loans, the maturity of FHLB advances and the replacement of $119.2 million of maturing listing service deposits. The Company has chosen not to participate in listing service programs at this time, so maturing listing service deposits are not replaced with new listing service deposits.

In December 2017, the Company issued $35.0 million of subordinated debt ($34.1 million net of issuance costs) bearing interest at an annual rate of 4.75 percent for the first five years, and thereafter at an adjustable rate until maturity in December 2027 or earlier redemption. In June 2016, the Company issued $50.0 million of subordinated debt ($48.7 million net of issuance costs) bearing interest at an annual rate of 6 percent for the first five years, and thereafter at an adjustable rate until maturity in June 2026 or earlier redemption.

The average balance on capital lease obligations was $8.7 million and $9.4 million during 2018 and 2017, respectively, while the average rate paid on capital lease obligations was 4.81 percent for both 2018 and 2017.

2017 compared to 2016

Net interest income, on a fully tax-equivalent basis, grew $14.9 million, or 15 percent, in 2017 to $112.2 million from net interest income of $97.4 million in 2016. The net interest margin was 2.80 percent and 2.74 percent for the years ended December 31, 2017 and 2016, respectively, an increase of 6 basis points year over year. The growth in net interest income was due to increases in the average balance and yield on the Company’s interest-earning assets, especially C&I loans, which typically have higher yields. In addition, yields on loans benefitted from prepayment premiums on multifamily loans and $1.2 million on the recognition of deferred fees and prepayment premiums on two C&I credits during 2017. This increase was partially offset by increases in interest-bearing liabilities and the Company’s cost of funds. Net interest margin in 2017 was negatively affected by a full year of the 2016 subordinated debt issuance and from the $35.0 million subordinated debt offering in December 2017. The Company continues to be impacted by competitive pressures in attracting new loans and deposits.

On a fully tax-equivalent basis, interest income on earning assets increased $21.8 million, or 19 percent, to $139.8 million in 2017 from $118.0 million in 2016. Average earning assets for the year ended December 31, 2017 totaled $4.01 billion compared to $3.56 billion for 2016, an increase of $450.5 million or 13 percent. The average rate earned on earning assets was 3.49 percent in 2017, compared to 3.32 percent in 2016, an increase of 17 basis points.

Average interest-bearing liabilities for the year ended December 31, 2017 totaled $3.18 billion, an increase of $317.4 million, or 11 percent, from $2.86 billion for 2016. The average rate paid increased to 0.87 percent for 2017 from 0.72 percent for 2016. The increase in the average rate on interest-bearing liabilities was principally due to growth in higher costing certificates of deposit, the issuance of subordinated debt to help manage the Company’s regulatory capital and interest rate risk positions, and competitive pressures in attracting new deposits in volumes sufficient to appropriately fund asset growth. The Company uses interest rate swaps to hedge against future rises in interest rates

on the $180.0 million of interest-bearing demand-brokered deposits. These swaps resulted in an increase of approximately $898 thousand in interest expense, or an additional 0.50 percent in the average rate paid on those $180.0 million of deposits. Brokered certificates of deposit are generally medium/longer term and have been used in the Company's interest rate risk management practices. The Company utilized a diverse funding mix to meet its funding needs to manage interest rate risk, as well as to retain a higher level of liquidity on its balance sheet.

The average balance of borrowings was $71.8 million for 2017 compared to $133.0 million during 2016, a decrease of $61.2 million. The average rates paid on total borrowings was 1.90 percent during 2017 compared to 1.33 percent during 2016, an increase of 57 basis points. The decrease in the average balance of borrowings was due to a decrease in the use of overnight borrowings and the maturity of $24.9 million of FHLB advances during 2017. The decrease in borrowings was offset by strong deposit growth and the issuance of $35.0 million of subordinated debt in December 2017.

The average balance on capital lease obligations was $9.4 million and $9.9 million during 2017 and 2016, respectively, while the average rate paid on capital lease obligations was 4.81 percent for both 2017 and 2016.

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

At December 31, 2018, the Company had investment securities available for sale with a fair value of $377.9 million compared with $327.6 million at December 31, 2017. A net unrealized loss (net of income tax) of $3.0 million and $1.8 million were included in shareholders' equity at December 31, 2018 and 2017, respectively.

The Company has one equity security (a CRA investment security) with a fair value of $4.7 million at December 31, 2018. The Company recorded a $105 thousand unrealized loss in securities losses, net on the Consolidated Statements of Income for the year ended December 31, 2018. Such security has been owned for years for CRA purposes, but under Accounting Standards Update ("ASU") 2016-01, "Financial Instruments", equity securities now require a quarterly mark to market through the income statement.

The carrying value of investment securities available for sale for the years ended December 31, 2018, 2017 and 2016 are shown below:

(In thousands)	2018	2017	2016
U.S. treasury and U.S. government- sponsored entity bonds	$102,013	$43,701	$21,517
Mortgage-backed securities-residential (principally U.S. government-sponsored entities)	251,362	243,116	237,617
SBA pool securities	3,839	5,205	6,713
State and political subdivision	17,610	24,868	28,993
Corporate bond	3,112	3,082	3,113
Single-issuer trust preferred securities	—	2,837	2,610
CRA investment fund	—	4,824	4,825
Total	$377,936	$327,633	$305,388

The following table presents the contractual maturities and yields of debt securities available for sale, stated at fair value, as of December 31, 2018:

(Dollars in thousands)	Within 1 Year	After 1 But Within 5 Years	After 5 But Within 10 Years	After 10 Years	Total

U.S. treasury and U.S. government-	$—		$24,720		$77,293		$—		$102,013	
sponsored entity bonds	—	%	2.26	%	3.17	%	—	%	2.95	%
Mortgage-backed securities-	$18		$2,736		$8,437		$240,171		$251,362	
residential (1)	2.51	%	2.95	%	1.88	%	2.66	%	2.64	%
SBA pool securities	$—		$—		$—		$3,839		$3,839	
	—	%	—	%	—	%	2.43	%	2.43	%
State and political subdivisions (2)	$5,476		$8,825		$511		$2,798		$17,610	
	2.51	%	2.63	%	4.08	%	2.68	%	2.64	%
Corporate bond	$—		$—		$3,112		$—		$3,112	
	—	%	—	%	5.25	%	—	%	5.25	%
Total	$5,494		$36,281		$89,353		$246,808		$377,936	
	2.51	%	2.40	%	3.12	%	2.66	%	2.74	%

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

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Federal funds sold and interest-earning deposits are an additional part of the Company's liquidity and interest rate risk management strategies. The combined average balance of these investments during 2018 was $103.2 million compared to $115.7 million in 2017.

LOANS: The loan portfolio represents the largest portion of the Company's earning assets and is the primary source of interest and fee income. Loans are primarily originated in New Jersey and the boroughs of New York City and, to a lesser extent, Pennsylvania and Delaware. As of December 31, 2018, 36 percent of the total loan portfolio is concentrated in C&I loans (including equipment financing), 29 percent in multifamily loans and 18 percent of the total loan portfolio is concentrated in commercial mortgages.

Total loans were $3.93 billion and $3.70 billion at December 31, 2018 and 2017, respectively, an increase of $223.5 million, or 6 percent, over the previous year. During 2018, commercial mortgages increased $75.5 million due to a continued focus on this type of business. Commercial loans, which includes equipment financing, totaled $1.40 billion at December 31, 2018, increasing $438.8 million, or 46 percent, from 2017. The increase in this portfolio was attributed to: the addition of seasoned bankers including an equipment finance team in 2017; a continued focus on client service and value-added aspects of the lending process; and a continued focus on markets outside of the immediate branch service area, including markets around the Teaneck and Princeton, New Jersey private banking offices. Multifamily mortgage loans were $1.14 billion at December 31, 2018, a decrease of $253.2 million or 18 percent when compared to 2017, through reduced origination levels and $131.3 million in loan sales in 2018. This was part of the Company's balance sheet management strategy to continue to reduce lower yielding, primarily fixed-rate multifamily loans as a percent of the overall loan portfolio with higher yielding, primarily floating rate of shorter duration C&I loans becoming a larger percentage of the overall loan portfolio.

In late 2015, the Company began providing loans that are partially guaranteed by the Small Business Administration ("SBA"), for the purposes of providing working capital and/or, financing the purchase of equipment, inventory or commercial real estate and that could be used for start-up businesses. All SBA loans are underwritten and documented as prescribed by the SBA. The Company will generally sell the guaranteed portion of the SBA loans in the secondary market, with the non-guaranteed portion held in the loan portfolio. During 2018, the Bank sold $17.5 million of the guaranteed portion of SBA loans into the secondary market. As of December 31, 2018, the balance of the non-guaranteed portion of SBA loans held on our balance sheet totaled $12.0 million.

The following table presents an analysis of outstanding loans by loan type, excluding multifamily loans held for sale, net of unamortized discounts and deferred loan origination costs, at the dates presented,

	December 31,				
(In thousands)	2018	2017	2016	2015	2014
Residential mortgage	$571,570	$576,356	$527,370	$470,869	$466,760
Multifamily mortgage	1,135,805	1,388,958	1,459,594	1,416,775	1,080,256
Commercial mortgage	702,165	626,656	551,233	413,118	308,491
Commercial loans (including equipment financing)	1,397,057	958,294	636,714	512,886	308,743
Construction loans	—	—	1,405	1,401	5,998
Home equity lines of credit	62,191	67,497	65,682	52,649	50,141
Consumer and other loans	59,143	86,679	70,146	45,544	29,878
Total loans	$3,927,931	$3,704,440	$3,312,144	$2,913,242	$2,250,267

The following table presents the contractual repayments of the loan portfolio, by loan type, at December 31, 2018:

(In thousands)	Within One Year	After 1 But Within 5 Years	After 5 Years	Total
Residential mortgage	$128,954	$ 294,943	$147,673	$571,570
Commercial mortgage (including multifamily)	747,897	1,015,454	74,619	1,837,970
Commercial loans (including equipment financing)	934,265	398,056	64,736	1,397,057
Home equity lines of credit	62,191	—	—	62,191
Consumer and other loans	49,362	6,381	3,400	59,143
Total loans	$1,922,669	$ 1,714,834	$290,428	$3,927,931

The following table presents the loans, by loan type, that have a predetermined interest rate and an adjustable interest rate due after one year at December 31, 2018:

(In thousands)	Predetermined Interest Rate	Adjustable Interest Rate
Residential mortgage	$ 223,408	$ 286,883
Commercial mortgage (including multifamily)	169,876	1,029,808
Commercial loans	88,729	38,747
Consumer loans	12,233	—
Total loans	$ 494,246	$ 1,355,438

The Company has not made nor invested in subprime loans or "Alt-A" type mortgages. At December 31, 2018, there were no commitments to lend additional funds to borrowers whose loans were classified as nonperforming.

Consistent with the Company's balance sheet management strategy, the Company sold approximately $131.3 million of performing multifamily mortgages in 2018. The Company sold approximately $66.1 million of performing multifamily mortgages and $43.9 million of residential mortgages in 2017.

The geographic breakdown of the multifamily portfolio, net of participated multifamily loans, at December 31, 2018 is as follows:

(Dollars in thousands)		
New York	$ 494,544	43 %
New Jersey	431,084	38
Pennsylvania	179,952	16
Delaware	30,225	3
Total Multifamily	$ 1,135,805	100 %

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

New Jersey		New York		Pennsylvania		Delaware	
Essex County	24 %	Bronx County	59 %	Philadelphia	72 %	New Castle County	100 %
Hudson County	23	New York County	17	Bucks County	11		
Union County	8	Kings County	16	All other PA counties	17		
Passaic County	7	All other NY counties	8				
Monmouth County	6						

All other NJ Counties	32						
Total	100 %	Total	100 %	Total	100 %	Total	100 %

Principal types of owner occupied commercial real estate properties (by Call Report code), included in commercial loans on the balance sheet, at December 31, 2018 are:

(Dollars in thousands)		
Office Buildings/Office Condominiums	$63,108	24 %
Industrial (including Warehouse)	57,939	22
Medical Offices	40,599	16
Retail Buildings/ Shopping Centers	29,258	11
Auto Dealerships	20,576	8
Other Owner Occupied CRE Properties	49,713	19
Total Owner Occupied CRE Loans	$261,193	100%

Principal types of non-owner occupied commercial real estate properties (by Call Report code), at December 31, 2018 are as follows. These loans are included in commercial mortgage loans and commercial loans on the Company's balance sheet.

(Dollars in thousands)		
Retail Buildings/Shopping Centers	$273,008	27 %
Healthcare	202,515	20
Office Buildings/Office Condominiums	124,847	12
Hotels and Hospitality	100,479	10
Industrial (including Warehouse)	87,020	9
Medical Offices	65,271	7
Mixed Use (Retail / Office)	39,071	4
Mixed Use (Commercial / Residential)	36,108	4
Other Non-Owner Occupied CRE Properties	73,599	7
Total Non-Owner Occupied CRE Loans	$1,001,918	100%

At December 31, 2018 and 2017, the Bank had a concentration in commercial real estate loans as defined by applicable regulatory guidance. The following table presents such concentration levels at December 31, 2018 and 2017:

	As of December 31,	
	2018	2017
Multifamily mortgage loans as a percent of total regulatory capital of the Bank	209%	286%
Non-owner occupied commercial real estate loans as a percent of total regulatory capital of the Bank	185	180
Total CRE concentration	394%	466%

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

GOODWILL:

At December 31, 2018 goodwill totaled $24.4 million, an increase of $7.3 million from $17.1 million at December 31, 2017. The increase in goodwill is due to the acquisition of Lassus Wherley in September 2018. The Bank intends to

continue to grow its wealth management business through acquisition, as well as organically.

DEPOSITS: At December 31, 2018 and 2017, the Company reported total deposits of $3.90 billion and $3.70 billion, an increase of $197.0 million, or 5 percent, year over year. The Company's strategy is to fund a majority of its loan growth with core deposits, which is an important factor in the generation of net interest income. The Company's average deposits for 2018 increased $56.0 million, or 2 percent, over 2017 average levels to $3.64 billion. On average, the Company saw the largest dollar growth in interest-bearing checking, money market accounts and retail certificates of deposit balances. The Company has successfully focused on:

- Growth in deposits associated with its private banking activities, including lending activities;
- Business and personal core deposit generation, particularly checking and certificates of deposit.

The Company continues to maintain brokered interest-bearing demand deposits matched to interest rate swaps, thereby extending their duration. Such deposits are generally a more cost-effective alternative to wholesale borrowings and do not require pledging of collateral, as the borrowings do. These deposits remained flat at $180.0 million at both December 31, 2018 and December 31, 2017. The Company ensures ample available collateralized liquidity as a backup to these short-term brokered deposits. There are $180.0 million of notional principal interest rate swaps matched to these deposits for interest rate risk management purposes.

Average brokered certificates of deposit were reduced by $23.0 million in 2018. The majority of these deposits are longer term and were transacted as part of the Company's interest rate risk management strategy.

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

(Dollars in thousands)	2018		2017		2016	
Noninterest-bearing demand	$516,718	— %	$535,451	— %	$473,536	— %
Checking	1,143,640	0.83	1,092,545	0.46	926,713	0.27
Savings	119,699	0.06	120,896	0.05	119,043	0.06
Money markets	1,056,368	1.07	1,076,492	0.51	894,215	0.31
Certificates of deposit - retail and listing service	554,903	1.79	486,960	1.46	455,946	1.38
Interest-bearing						
Demand - brokered	180,000	1.74	180,000	1.63	199,208	1.52
Certificates of deposit - brokered	64,009	2.51	86,967	2.20	93,674	2.13
Total deposits	$3,635,337	0.98 %	$3,579,311	0.63 %	$3,162,335	0.53 %

The Company is a participant in the Reich & Tang Demand Deposit Marketplace (“DDM”) program and the Promontory Program. The Company uses these deposit sweep services to place customer funds into interest-bearing demand (checking) accounts issued by other participating banks. Customer funds are placed at one or more participating bank to ensure that each deposit customer is eligible for the full amount of FDIC insurance. As a program participant, the Company receives reciprocal amounts of deposits from other participating banks. Reciprocal deposits of $434.5 million, $359.9 million, and $393.0 million are included in the Company’s interest-bearing checking deposits as of December 31, 2018, 2017, and 2016, respectively.

The following table shows the maturity for certificates of deposit of $100,000 or more as of December 31, 2018 (in thousands):

Three months or less	$35,066
Over three months through six months	77,333
Over six months through twelve months	163,731
Over twelve months	141,631
Total	$417,761

FEDERAL HOME LOAN BANK ADVANCES AND OTHER BORROWINGS: As part of our overall funding and liquidity management program, from time to time we borrow from the Federal Home Loan Bank. The following table provides a summary of our FHLB borrowings as of and for the years ended December 31, 2018, 2017 and 2016:

(Dollars in thousands)	December 31, 2018	December 31, 2017	December 31, 2016
Amount outstanding at end of the year	$ 108,000	$ 37,898	$ 61,795
Weighted average interest rate at end of the year	2.52 %	2.20 %	2.02 %

Average daily balance during the year	$ 154,765	$ 71,788	$ 132,985
Weighted average interest rate during the year	2.33 %	1.90 %	1.33 %
Maximum month-end balance during the year	$ 303,278	$ 145,795	$ 342,792

Our FHLB advances are secured by blanket pledges of certain 1-4 family residential mortgages totaling $496.1 million and multifamily mortgages totaling $1.0 billion, while at December 31, 2017 the fixed rate advances are secured by 1-4 family residential mortgages totaling $550.0 million and multifamily totaling $1.1 billion. Of the FHLB borrowings outstanding as of December 31, 2018, all were short term borrowings maturing within five years. At both December 31, 2018 and December 31, 2017, there were no overnight borrowings with the FHLB. At December 31, 2018, unused short-term or overnight borrowing commitments totaled $1.3 billion from the FHLB, $22.0 million from correspondent banks and $1.3 billion at the Federal Reserve Bank.

SUBORDINATED DEBT: During June 2016, the Company issued $50.0 million in aggregate principal amount of fixed-to-floating subordinated notes (the “2016 Notes”) to certain institutional investors. The 2016 Notes are non-callable for five years, have a stated maturity of June 30, 2026, and bear interest at a fixed rate of 6.0 percent per year until June 30, 2021. From June 30, 2021 to the maturity date or early redemption date, the interest rate will reset quarterly to a level equal to the

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then current three-month LIBOR rate plus 485 basis points, payable quarterly in arrears. Debt issuance costs incurred totaled $1.3 million and are being amortized to maturity.

Approximately $40.0 million of the net proceeds from the sale of the 2016 Notes were contributed by the Company to the Bank in the second quarter of 2016. The remaining funds (approximately $10 million) were retained by the Company for operational purposes.

During December 2017, the Company issued $35.0 million in aggregate principal amount of fixed-to-floating subordinated notes (the “2017 Notes”) to certain institutional investors. The 2017 Notes are non-callable for five years, have a stated maturity of December 15, 2027, and bear interest at a fixed rate of 4.75 percent per year until December 15, 2022. From December 16, 2022 to the maturity date or early redemption date, the interest rate will reset quarterly to a level equal to the then current three-month LIBOR rate plus 254 basis points, payable quarterly in arrears. Debt issuance costs incurred totaled $875 thousand and are being amortized to maturity.

Approximately $29.1 million of the net proceeds from the sale of the 2017 Notes were contributed by the Company to the Bank in the fourth quarter of 2017. The remaining funds of approximately $5 million, representing three years of interest payments, were retained by the Company for operational purposes.

Subordinated debt is presented net of issuance cost on the Consolidated Statements of Condition. The subordinated debt issuances are included in the Company’s regulatory total capital amount and ratio.

In connection with the issuance of the 2017 Notes, the Company obtained ratings from Kroll Bond Rating Agency (“KBRA”). KBRA assigned an investment grade rating of BBB- for the Company’s subordinated debt.

ALLOWANCE FOR LOAN LOSSES AND RELATED PROVISION: The allowance for loan losses was $38.5 million at December 31, 2018 compared to $36.4 million at December 31, 2017. At both December 31, 2018 and 2017, the allowance for loan losses as a percentage of total loans outstanding was 0.98 percent. The provision for loan losses was $3.6 million for 2018, $5.9 million for 2017 and $7.5 million for 2016.

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

a) Primary Residential Mortgages. The Bank originates one to four family residential mortgage loans in the Tri-State area New York, New Jersey and Connecticut, Pennsylvania and Florida. On a case by case basis, the Bank will lend in additional states. The Bank has developed a portfolio of mortgage products that are used exclusively to attract or maintain wealth, commercial or retail banking relationships. When reviewing residential mortgage loan applications, detailed verifiable information is gathered on income, assets, employment and a tri-merged credit report obtained from a credit repository that will determine total monthly debt obligations. Utilizing an independent appraisal from an approved appraisal management company, the Bank makes residential mortgage loans up to 80 percent of the appraised value and up to 97 percent with private mortgage insurance. Maximum loan-to-value (LTV) is determined based on property type and loan amount. On primary residence and second home properties, LTVs range from a maximum of 80 percent for loan amounts to $679,650 for retail customers to 70 percent for loan amounts to $3 million for wealth customers. For investment properties, LTVs range from a maximum of 80 percent for loan amounts to $453,100 for retail customers to 65 percent for loan amounts to $3 million for wealth customers. Loans greater than $3 million will also be considered based on the strength of the overall credit profile of the borrower. Underwriting guidelines include (i) minimum credit report scores of 680 and (ii) a maximum debt to income ratio of 45 percent. The Bank may consider an exception to any guideline if there are strong compensating factors that address and mitigate any risk. Generally, the Bank retains in its portfolio residential mortgage loans with fixed rate maturities of no greater than 7 years, which then convert to annually

adjusted floating rates. Community Development loans granted under the Affordable Housing Program are offered with 30-year maturities. Loans with longer maturities or lower credit scores are sold to secondary market investors. The Bank does not originate, purchase or carry any sub-prime mortgage loans.

Risk characteristics associated with primary residential mortgage loans typically involve major living or lifestyle changes to the borrower, including unemployment or other loss of income; unexpected significant expenses, such as for major medical issues or catastrophic events; and divorce or death. In addition, residential mortgage loans that have adjustable rates could expose the borrower to higher debt service requirements in a rising interest rate

environment. Further, real estate values could drop significantly and cause the value of the property to fall below the loan amount, creating additional potential exposure for the Bank.

b) Home Equity Lines of Credit. The Bank provides revolving lines of credit against one to four family residences in the Tri-State area. These loans are primarily in a second lien position, but may be used as a first lien, in lieu of a primary residential first mortgage. When reviewing home equity line of credit applications, the Bank collects detailed verifiable information regarding income, assets, employment and a single merged credit report that will determine total monthly debt obligations. The Bank will use an automated valuation model on all lines up to $250,000 and will obtain an independent appraisal of the subject property on all applications exceeding $250,000. LTVs and combined LTVs are capped at 80 percent or as low as 55 percent depending on the loan amount and whether the property type is primary residence, second home or investment property. These loans may be subordinate to a first mortgage which may be from another lending institution. The Bank will require that the mortgage securing the home equity line of credit be no lower than a second lien position. All applications for home equity lines of credit adhere to the underwriting standards and guidelines that consumer lending is regulated and governed by. Exceptions can be made to these guidelines with compensating factors that address and mitigate the risk associated with the exception.

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

c) Junior Lien Loan on Residence. The Bank provides junior lien loans (“JLL”) against one to four family properties in the Tri-State area. Junior lien loans can be either in the form of an amortizing fixed rate home equity loan or a revolving home equity line of credit. These loans are subordinate to a first mortgage which may be from another lending institution. The Bank will require that the mortgage securing the JLL be no lower than a second lien position. When reviewing the JLL application, the Bank collects detailed verifiable information regarding income, assets, employment and a single merged credit report that will determine total monthly debt obligations. The Bank will use an automated valuation model on all JLLs up to $250,000 and will obtain an independent appraisal of the subject property on all applications exceeding $250,000. LTVs and combined LTVs are capped at 80 percent or as low as 55 percent depending on the loan amount and whether the property type is primary residence, second home or investment property. All applications for JLLs adhere to the underwriting standards and guidelines that consumer lending is regulated and governed by. Exceptions can be made to these guidelines with compensating factors that address and mitigate the risk associated with the exception. Primary risk characteristics associated with JLLs typically involve major living or lifestyle changes to the borrower, including unemployment or other loss of income; unexpected significant expenses, such as for major medical issues or catastrophic events; and divorce or death. Further, real estate values could drop significantly and cause the value of the property to fall below the loan amount, creating additional potential exposure for the Bank.

d) Multifamily Loans. Multifamily loans are commercial mortgages on residential apartment buildings. Within the multifamily sector, the Bank’s primary focus is to lend against larger non-luxury apartment buildings and rent regulated properties with at least 30 units that are owned and managed by experienced sponsors. As of December 31, 2018, the average property size in the portfolio was 48 units.

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 expense, maintenance, taxes and debt service. The Bank includes debt service coverage covenants in these loans and the average ratio at original underwriting was about 1.5x. Increases in vacancy rates, interest rates or other changes in general economic conditions can all have an impact on the borrower and their ability to repay the loan. Certain markets, such as the Boroughs of New York City, are rent regulated, and as such, feature rents that are considered to be below market rates. Generally, rent regulated properties are characterized

by relatively stable occupancy levels and longer-term tenants. As a loan asset class for many banks, multifamily loans have experienced much lower historical loss rates compared to other types of commercial lending.

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The Bank's loan policy allows loan to appraised value ratios of up to 75 percent and the overall portfolio average loan to value ratio was approximately 56 percent at December 31, 2018. The majority of all new originations have a ten-year maturity with a five-year reprice.

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

Multifamily properties generally present a lower level of risk as compared to investment commercial real estate projects given the fact that there are a larger number of tenants in the property. The repayment of loans secured by multi-family real estate is typically dependent upon the successful operation of the related real estate project. If the cash flow from the project is reduced (for example, if leases are not obtained or renewed, or a bankruptcy court modifies a lease term), the borrower's ability to repay the loan may be impaired.

e) Commercial Real Estate Loans. The Bank provides mortgage loans for commercial real estate that is either owner occupied or managed as an investment property (non-owner occupied).

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

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

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

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

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

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

Commercial and industrial loans are typically repaid first by the cash 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 flows. 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

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competition, regulatory changes, and general economic conditions. Commercial and industrial loans are generally secured by business assets; however, the ability of the Bank to foreclose and realize sufficient value from the assets is often highly uncertain. To mitigate the risk characteristics of commercial and industrial loans, the Bank will often require more frequent reporting requirements from the borrower in order to better monitor its business performance.

g) 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 through 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.

h) 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. Consumer loans generally have higher interest rates and shorter terms than residential loans but tend to have higher credit risk due to the type of collateral securing the loan or in some cases the absence of collateral.

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

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

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

(Dollars in thousands)	2018		2017		2016		2015		2014	
Allowance for loan losses at Beginning of year	$36,440		$32,208		$25,856		$19,480		$15,373	
Loans charged-off during the period:										
Residential mortgage	138		889		1,047		638		273	
Commercial mortgage	1,632		734		531		16		669	
Commercial	110		298		16		73		123	
Home equity lines of credit	—		23		91		210		—	
Consumer and other	68		77		5		54		23	
Total loans charged-off	1,948		2,021		1,690		991		1,088	
Recoveries during the period:										
Residential mortgage	160		173		28		17		1	
Commercial mortgage	70		22		318		29		124	
Commercial	218		141		92		205		85	
Home equity lines of credit	10		62		16		2		—	
Consumer and other	4		5		88		14		110	
Total recoveries	462		403		542		267		320	
Net charge-offs	1,486		1,618		1,148		724		768	
Provision charge to expense	3,550		5,850		7,500		7,100		4,875	
Allowance for loan losses at end of year	$38,504		$36,440		$32,208		$25,856		$19,480	
Ratios:										
Allowance for loan losses/total loans	0.98	%	0.98	%	0.97	%	0.89	%	0.87	%
General allowance/total loans	0.97	%	0.96	%	0.96	%	0.87	%	0.83	%
Allowance for loan losses/ total nonperforming loans	149.73		269.33		285.94		383.22		284.38	

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

(Dollars in thousands)	2018	% of Loan Category To Total Loans	2017	% of Loan Category To Total Loans	2016	% of Loan Category To Total Loans	2015	% of Loan Category To Total Loans	2014	% of Loan Category To Total Loans
Residential	$3,685	17.1	$4,318	18.4	$3,915	19.1	$2,449	18.8	$3,188	24.1
Commercial and other	34,435	81.2	31,773	78.9	28,050	78.7	23,293	79.6	16,196	74.7
Consumer	384	1.7	349	2.7	243	2.2	112	1.6	96	1.2
Total	$38,504	100.0	$36,440	100.00	$32,208	100.0	$25,856	100.0	$19,480	100.0

The allowance for loan losses as of December 31, 2018 totaled $38.5 million compared to $36.4 million at December 31, 2017. The allowance for loan losses as a percentage of loans was 0.98 percent at both December 31, 2018 and December 31, 2017. The provision for loan losses made during 2018 totaled $3.6 million compared with $5.9 million for 2017. The provision for loan losses made was primarily influenced by net charge-offs taken during the year of $1.5 million and the impact of loan growth experienced during 2018, specifically lease financing which is a new business line for the Company and growth in investment commercial real estate. Commercial credits generally carry a higher risk profile compared to other credits, which is reflected in Management's determination of the allowance for loan losses. The Company believes that the allowance for loan losses as of December 31, 2018 represents a reasonable estimate for probable incurred losses in the portfolio at that date.

The portion of the allowance for loan losses allocated to loans collectively evaluated for impairment, commonly referred to as general reserves, was $38.2 million at December 31, 2018 and $35.9 million at December 31, 2017. General reserves at both December 31, 2018 and 2017 represent 0.98 percent of loans collectively evaluated for impairment. The Company experienced growth in the loan portfolio of approximately $227 million, including loans held for sale. Multifamily and

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residential loan classes make up 43 percent of the loan portfolio as of December 31, 2018 compared to approximately 53 percent at December 31, 2017. The decline in multifamily and residential loans is consistent with Management's strategy to reduce these portfolios as a percentage of the overall loan portfolio as C&I loans and lease financings become a larger percentage of the overall loan portfolio.

The specific reserve component of the allowance for loan losses decreased to $262 thousand at December 31, 2018 compared to $522 thousand as of December 31, 2017.

The allowance for loan losses as a percentage of nonperforming loans decreased, as the level of nonperforming loans increased during the year. Nonperforming loans increased primarily due to one commercial credit with a loan balance of $15.2 million at December 31, 2018. Nonperforming loans are specifically evaluated for impairment. Also, Management commonly records partial charge-offs of the excess of the principal balance over the fair value, less costs to sell, of collateral for collateral-dependent impaired loans. As a result, the allowance for loan losses does not always change proportionately with changes in nonperforming loans. Management charged off $1.8 million on loans identified as collateral-dependent impaired loans during both 2018 and 2017.

ASSET QUALITY:

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

	Years Ended December 31,				
(Dollars in thousands)	2018	2017	2016	2015	2014
Loans past due 30-89 days	$1,099	$246	$1,356	$2,143	$1,755
Troubled debt restructured loans	$24,801	$17,591	$22,275	$18,663	$15,033
Loans past due 90 days or more and still accruing interest	$—	$—	$—	$—	$—
Nonaccrual loans (1)	25,715	13,530	11,264	6,747	6,850
Total nonperforming loans	25,715	13,530	11,264	6,747	6,850
Other real estate owned	—	2,090	534	563	1,324
Total nonperforming assets	$25,715	$15,620	$11,798	$7,310	$8,174
Ratios:					
Total nonperforming loans/total loans	0.65 %	0.37 %	0.34 %	0.23 %	0.30 %
Total nonperforming loans/total assets	0.56	0.32	0.29	0.20	0.25
Total nonperforming assets/total assets	0.56	0.37	0.30	0.22	0.30

(1) The increase in nonaccrual loans is due to the addition of one healthcare real estate secured loan, totaling $15.2 million which continues to pay as agreed, and which the Company believes to be well secured.

Some borrowers have found it difficult to make their loan payments under contractual terms. In some of these cases, the Company has chosen to grant concessions and modify certain loan terms, which may be characterized as troubled debt restructurings.

The following table presents the troubled debt restructured loans, by collateral type, at December 31, 2018 and 2017:

(Dollars in thousands)	December 31, 2018	Number of Relationships	December 31, 2017	Number of Relationships
Primary residential mortgage	$ 6,146	26	$ 6,909	28
Investment commercial real estate	18,655	2	10,682	3
Total	$ 24,801	28	$ 17,591	31

At December 31, 2018, there were $20.5 million of troubled debt restructured loans included in nonaccrual loans above compared to $8.1 million at December 31, 2017. All troubled debt restructured loans are considered and included in

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impaired loans at December 31, 2018 and had specific reserves of $262 thousand. At December 31, 2017, all troubled debt restructured loans were considered and included in impaired loans and had specific reserves of $423 thousand.

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

Impaired loans totaled $31.3 million and $23.1 million at December 31, 2018 and 2017. Impaired loans include nonaccrual loans of $25.7 million and $13.5 million at December 31, 2018 and 2017, respectively. Impaired loans also include accruing troubled debt restructuring loans of $4.3 million at December 31, 2018 and $9.5 million at December 31, 2017.

The following table presents impaired loans, by collateral type, at December 31, 2018 and 2017.

(Dollars in thousands)	December 31, 2018	Number of Relationships	December 31, 2017	Number of Relationships
Primary residential mortgage	$ 9,518	44	$ 9,802	45
Home equity lines of credit	255	4	27	2
Junior lien loan on residence	36	1	52	1
Multifamily property	1,262	1	—	—
Owner-occupied commercial real estate	1,574	2	2,503	4
Investment commercial real estate	18,655	2	10,681	3
Total	$ 31,300	54	$ 23,065	55
Specific reserves, included in the allowance for loan losses	$ 262		$ 522	

CONTRACTUAL OBLIGATIONS: The following table shows the significant contractual obligations of the Company by expected payment period, as of December 31, 2018:

(In thousands)	Less Than One Year	1-3 Years	3-5 Years	More Than 5 Years	Total
Loan commitments	$684,178	$—	$—	$ —	$684,178
Long-term debt obligations	3,000	60,000	45,000	—	108,000
Purchase obligations	5,602	11,126	8,740	1,369	26,837
Capital lease obligations	1,146	2,428	2,847	3,739	10,160
Operating lease obligations	2,713	4,601	2,640	1,631	11,585
Total contractual obligations	$696,639	$78,155	$59,227	$ 6,739	$840,760

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

Leases represent obligations entered into by the Company for the use of land and premises. The leases generally have escalation terms based upon certain defined indexes. Common area maintenance charges may also apply and are adjusted annually based on the terms of the lease agreements. The Company will adopt the guidance in Topic 842 Leases effective January 1, 2019. See Footnote 1 for further discussion.

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

The Company is a limited partner in a Small Business Investment Company ("SBIC"). As of December 31, 2018, the Company had unfunded commitments of $2.2 million for its investment in SBIC qualified funds.

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OFF-BALANCE SHEET ARRANGEMENTS: The following table shows the amounts and expected maturities of significant commitments, consisting primarily of letters of credit, as of December 31, 2018.

(In thousands)	Less Than One Year	1-3 Years	3-5 Years	More Than 5 Years	Total
Financial letters of credit	$ 6,142	$2,128	$ 769	$ —	$9,039
Performance letters of credit	2,944	684	—	—	3,628
Total letters of credit	$ 9,086	$2,812	$ 769	$ —	$12,667

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

OTHER INCOME: The following table presents the major components of other income (excluding income from our wealth management operations, which is discussed separately):

	Years Ended December 31,			Change	
(In thousands)	2018	2017	2016	2018 vs 2017	2017 vs 2016
Service charges and fees	$3,502	$3,239	$3,252	$263	$ (13)
Bank owned life insurance	1,381	1,356	1,407	25	(51)
Loan fee income	1,673	1,568	1,259	105	309
Gains on loans held for sale at fair value (mortgage banking)	334	401	1,010	(67)	(609)
Securities (losses)/gains, net	(393)	—	119	(393)	(119)
Fee income related to loan level, back-to-back swaps	3,844	2,814	1,638	1,030	1,176
(Losses)/gains on loans held for sale at lower of cost or fair value	(4,392)	412	1,233	(4,804)	(821)
Gain on sale of SBA loans	1,636	1,564	623	72	941
Other income	3,363	90	137	3,273	(47)
Total other income	$10,948	$11,444	$10,678	$(496)	$ 766

2018 compared to 2017

The Company recorded total other income of $10.9 million, excluding wealth management fee income, reflecting a decrease of $496 thousand, or 4 percent, compared to 2017 levels. The decrease in 2018 was primarily attributable to a $4.4 million loss on the sale of loans which was partially offset by $3.0 million of life insurance proceeds related to the December 31, 2018 passing of the founder and managing principal of Murphy Capital Management.

The Company recorded a $105 thousand mark to market loss on its equity security investment for the year ended December 31, 2018 as a result of the adoption of Accounting Standards Update ("ASU") 2016-01, "Financial Instruments" on January 1, 2018. In addition, the Company recorded a loss of $288 thousand for the year ended December 31, 2018 related to a restructure of the investment portfolio, which will benefit future earnings. The Company replaced $20 million of lower yielding securities with higher yielding securities, without extending duration. The loss on sale is expected to be fully offset by increased earnings in less than 12 months.

Fee income related to loan level, back-to-back swaps was $3.8 million for 2018 compared to $2.8 million in 2017. The increase was a result of new contracts in 2018. The program provides a borrower with a degree of interest rate protection on a variable rate loan, while still providing an adjustable rate to the Company, thus helping to manage the Company's interest rate risk, while contributing to income.

The Company sold approximately $131.3 million in multifamily loans in 2018 as compared to sales of $109.9 million of multifamily and residential loans in 2017. Losses on the sale of loans held for sale at the lower of cost or fair value was $4.4 million for 2018 compared to gains on the loans held for sale at the lower of cost or fair value of $412 thousand in 2017. The Company sold $131.3 million of fixed rate multifamily loans with an average coupon of 3.28 percent. Such proceeds were reinvested in floating rate and short duration loans with an average coupon of 4.78 percent, principally C&I (including equipment finance) loans. The Company believes the $4.4 million loss incurred on the sale of the multifamily loans will be fully offset by increased earnings from this strategy in approximately two years.

The Company provides loans that are partially guaranteed by the SBA, for the purposes of providing working capital and/or, financing the purchase of equipment, inventory or commercial real estate and that could be used for start-up business. All SBA loans are underwritten and documented as prescribed by the SBA. The Company will generally sell the guaranteed portion of the SBA loans in the secondary market, with the non-guaranteed portion of SBA loans held in the loan portfolio. Gain on sale of SBA loans for 2018 stayed flat at $1.6 million of income related to the Company's SBA lending and sale program for 2018 compared to 2017.

Income from the back-to-back swap and SBA programs are dependent on volume, and thus are not linear from quarter to quarter, as some quarters will be higher than others.

2017 compared to 2016

The Company recorded total other income of $11.4 million, excluding wealth management fee income, reflecting an increase of $766 thousand, or 7 percent, compared to 2016 levels. The increase in 2017 was attributable to increases in fee income related to loan level, back-to-back swaps, gain on sale of SBA loans, and loan fee income. These increases were partially offset by a decrease in gains on loans held for sale at lower of cost or fair value, security gains and gains on loans held for sale at fair value (mortgage banking).

Loan fee income, including late fees, unused credit lines fees and loan servicing income, increased $309 thousand to $1.6 million for 2017 from $1.3 million for 2016. The Company recorded greater unused line of credit fees and letter of credit fees associated with the commercial lending business.

For the years ended December 31, 2017 and 2016, income from the sale of newly originated residential mortgage loans was $401 thousand and $1.0 million, respectively. The decreased income for 2017 was a result of lower volume of residential mortgage loans originated for sale for the year ended December 31, 2017 compared to the year ended December 31, 2016, as a result of reduced refinance activity due principally to the higher market rate environment.

There were no securities gains for 2017 compared to $119 thousand for 2016. Sales of securities have been generally employed to benefit interest rate risk, prepayment risk, and/or liquidity risk. Given the shorter duration of our investment portfolio and the interest rate environment, such sales will continue to be a very small component of the Company's operations.

Fee income related to loan level, back-to-back swaps was $2.8 million for 2017 compared to $1.6 million in 2016. The increase was a result of new contracts in 2017. The program utilizes mirror interest rate swaps, one directly with a commercial real estate loan customer and one directly with a well-established counterparty. This enables a commercial loan customer to benefit from a fixed-rate loan, while the Company records a floating-rate loan. The program provides enhanced interest rate risk management, as well as the potential for fee income for the Company. While the Company cannot predict the amount of fee income that may be recognized each period, this program is a part of ongoing operations.

The Company sold approximately $109.9 million in multifamily and residential loans in 2017 as compared to sales of $234.8 million of multifamily loans in 2016. Gains on the sale of loans held for sale at the lower of cost or fair value was $412 thousand for 2017 compared to $1.2 million in 2016. The Company will employ loan sales and loan participations, as needed, to manage the Company's balance sheet.

In late 2015, the Company began providing loans that are partially guaranteed by the SBA, for the purposes of providing working capital and/or, financing the purchase of equipment, inventory or commercial real estate and that could be used for start-up business. All SBA loans are underwritten and documented as prescribed by the SBA. The Company will generally sell the guaranteed portion of the SBA loans in the secondary market, with the non-guaranteed portion of SBA loans held in the loan portfolio. Gain on sale of SBA loans for 2017 resulted in $1.6 million of income related to the Company's SBA lending and sale program for 2017 compared to $623 thousand in 2016.

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

	Years Ended December 31,			Change	
(In thousands)	2018	2017	2016	2018 vs 2017	2017 vs 2016
Compensation and employee benefits	$62,802	$53,956	$45,003	$8,846	$ 8,953
Premises and equipment	13,497	11,988	11,245	1,509	743
FDIC assessment	2,443	2,366	4,758	77	(2,392)
Other operating expenses:					
Professional and legal fees	4,668	4,486	3,459	182	1,027
Telephone	1,077	998	976	79	22
Advertising	1,340	1,108	824	232	284
Provision for ORE losses	232	—	—	232	—
Amortization of intangible assets (1)	1,187	321	123	866	198
Other operating expenses	10,840	10,388	8,724	452	1,664
Total operating expense	$98,086	$85,611	$75,112	$12,475	$ 10,499

(1) Includes impairment expense of $405 thousand resulting from the passing of the managing principal of MCM.

2018 compared to 2017

Operating expenses totaled $98.1 million in 2018, compared to $85.6 million in 2017, reflecting an increase of $12.5 million, or 15 percent. Increased operating expenses in 2018 are principally attributable to: upfront investment banker and other professional fees, as well as ongoing operating expenses, including amortization of intangibles, related to the MCM, Quadrant and Lassus Wherley wealth acquisitions which closed August 1, 2017, November 1, 2017 and September 1, 2018, respectively; operating expenses associated with the addition of the Equipment Finance team in April 2017; hiring in line with the Company's strategic plan, as well as normal salary increases; and $319 thousand of severance expense recorded associated with the elimination of select positions.

2017 compared to 2016

Operating expenses totaled $85.6 million in 2017, compared to $75.1 million in 2016, reflecting an increase of $10.5 million, or 14 percent. Compensation and employee benefits expense, which accounts for the largest portion of operating expenses, totaled $54.0 million in 2017, reflecting an increase of $9.0 million or 20 percent, when compared to 2016. Strategic hiring, normal salary increases, and increased bonus/incentive accruals associated with the Company's growth and results contributed to the increase in compensation and employee benefits expense. Additionally, the acquisitions of MCM in August 2017 and Quadrant in November 2017, the hiring of a team of experienced bankers to focus on equipment financing, and $1.3 million of separation expenses for two senior officers also contributed to the increase during 2017.

The Company recorded FDIC assessment expense of $2.4 million and $4.8 million in 2017 and 2016, respectively, a decrease of $2.4 million, or 50 percent year over year. Starting in the third quarter of 2016, the Company's FDIC premium declined because the FDIC assessment system was revised. Revisions for "small institutions" (under $10 billion in assets) resulted in, among other things, the elimination of risk categories and utilization of a financial ratios method to determine assessment rates. The changes reduced the Company's assessment rate by nearly 50 percent in the third and fourth quarters of 2016.

The Company also previously disclosed that other operating expenses, including professional fees, would be higher in 2017. Professional and legal fees were $4.5 million for the twelve months ended December 31, 2017 as compared to $3.5 million for the twelve months ended December 31, 2016, an increase of $1.0 million or 30 percent. This included approximately $660 thousand of investment banking expenses related to wealth acquisitions. In addition, advertising expense grew by $284 thousand to $1.1 million when comparing 2017 to 2016. The increased advertising and marketing expenses related to various target marketing campaigns.

The acquisitions of MCM in August 2017 and Quadrant in November 2017, and the hiring of a team of experienced bankers to focus on equipment financing, all contributed to the increase in other operating expenses during 2017.

INCOME TAXES: Income tax expense for the year ended December 31, 2018 was $13.6 million compared to income tax expense of $17.8 million for 2017. The effective tax rate for the year ended December 31, 2018 was 23.5 percent compared to 32.8 percent for the year ended December 31, 2017. The decrease in income tax expense and the effective tax rate in

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2018 was a result of the Tax Cuts and Jobs Act, which reduced the Federal corporate income tax rate from 35 percent to 21 percent, effective January 1, 2018.

On July 1, 2018, the 2019 New Jersey Budget ("Budget") was passed which established a 2.5 percent surtax on businesses that have New Jersey allocated net income in excess of $1.0 million. The surtax is effective as of January 1, 2018 and will continue through 2019. The surtax will adjust to 1.5 percent for 2020 and 2021. In addition, effective for taxable years beginning on or after January 1, 2019, banks will be required to file combined reports of taxable income including their parent holding company and Bank subsidiaries. The Bank made an adjustment to income tax expense and deferred tax assets/liabilities in the third quarter of 2018 to reflect the new state tax rate, which is effective January 1, 2018. The Company's effective tax rate increased as a result of the New Jersey surtax. The Company believes its effective tax rate could increase by up to three percent in 2019 depending on how certain aspects of the new combined reporting rules are applied.

CAPITAL RESOURCES: A solid capital base provides the Company with the ability to support future growth and financial strength and is essential to executing the Company's Strategic Plan – "Expanding Our Reach." The Company's capital strategy is intended to provide stability to expand its businesses, even in stressed environments. Quarterly stress testing is integral to the Company's capital management process.

The Company strives to maintain capital levels in excess of internal "triggers" and in excess of those considered to be well capitalized under regulatory guidelines applicable to banks. Maintaining an adequate capital position supports the Company's goal of providing shareholders an attractive and stable long-term return on investment.

The Company's capital position during 2018 was benefitted by net income of $44.2 million and $16.7 million related to voluntary share purchases under the Dividend Reinvestment Plan.

At December 31, 2018, the Company's GAAP capital as a percent of total assets was 10.16 percent. At December 31, 2018, the Company's regulatory leverage, common equity tier 1, tier 1 and total risk based capital ratios were 9.82 percent, 11.76 percent, 11.76 percent and 15.03 percent, respectively. At December 31, 2018, the Bank's regulatory leverage, common equity tier 1, tier 1 and total risk based capital ratios were 11.32 percent, 13.56 percent, 13.56 percent and 14.59 percent, respectively. The Bank's regulatory capital ratios are all above the ratios to be considered well capitalized under regulatory guidance.

To be categorized as well capitalized, the Bank must maintain minimum total risk-based, Tier I risk-based, common equity Tier I and Tier I leverage ratios as set forth in the table.

The Bank’s actual capital amounts and ratios are presented in the following table:

(Dollars in thousands)	Actual Amount	Ratio	To Be Well Capitalized Under Prompt Corrective Action Provisions Amount	Ratio	For Capital Adequacy Purposes Amount	Ratio	For Capital Adequacy Purposes Including Capital Conservation Buffer (A) Amount	Ratio
As of December 31, 2018:								
Total capital (to risk-weighted assets)	$543,008	14.59 %	$372,186	10.00 %	$297,749	8.00 %	$ 367,533	9.875 %
Tier I capital (to risk-weighted assets)	504,504	13.56	297,749	8.00	223,311	6.00	293,096	7.875
Common equity tier I (to risk-weighted assets)	504,502	13.56	241,921	6.50	167,484	4.50	237,268	6.375
Tier I capital (to average assets)	504,504	11.32	222,912	5.00	178,330	4.00	178,330	4.000
As of December 31, 2017:								
Total capital (to risk-weighted assets)	$485,252	14.34 %	$338,327	10.00 %	$270,662	8.00 %	312,953	9.250 %
Tier I capital (to risk-weighted assets)	448,812	13.27	270,662	8.00	202,996	6.00	245,287	7.250
Common equity tier I (to risk-weighted assets)	448,810	13.27	219,913	6.50	152,247	4.50	194,538	5.750
Tier I capital (to average assets)	448,812	10.61	211,523	5.00	169,219	4.00	169,219	4.000

The Company's actual capital amounts and ratios are presented in the following table:

(Dollars in thousands)	Actual Amount	Ratio	To Be Well Capitalized Under Prompt Corrective Action Provisions Amount	Ratio	For Capital Adequacy Purposes Amount	Ratio	For Capital Adequacy Purposes Including Capital Conservation Buffer (A) Amount	Ratio
As of December 31, 2018:								
Total capital (to risk-weighted assets)	$559,937	15.03%	N/A	N/A	$298,047	8.00%	$ 367,902	9.875 %
Tier I capital (to risk-weighted assets)	438,240	11.76	N/A	N/A	223,535	6.00	293,390	7.875
Common equity tier I (to risk-weighted assets)	438,238	11.76	N/A	N/A	167,652	4.50	237,506	6.375
Tier I capital (to average assets)	438,240	9.82	N/A	N/A	178,473	4.00	178,473	4.000
As of December 31, 2017:								
Total capital (to risk-weighted assets)	$502,334	14.84%	N/A	N/A	$270,866	8.00%	313,189	9.250 %
Tier I capital (to risk-weighted assets)	382,870	11.31	N/A	N/A	203,149	6.00	245,472	7.250
Common equity tier I (to risk-weighted assets)	382,868	11.31	N/A	N/A	152,362	4.50	194,685	5.750
Tier I capital (to average assets)	382,870	9.04	N/A	N/A	169,318	4.00	169,318	4.000

(A) As fully phased in on January 1, 2019, the Basel Rules require the Company and the Bank to maintain a 2.5% "capital conservation buffer" on top of the minimum risk-weighted asset ratios. The capital conservation buffer is designed to absorb losses during periods of economic stress. Banking institutions with a ratio of (i) Common Equity Tier 1 to risk-weighted assets, (ii) Tier 1 capital to risk-weighted assets or (iii) total capital to risk-weighted assets above the respective minimum but below the capital conservation buffer will face constraints on dividends, equity repurchases and discretionary bonus payments to executive officers based on the amount of the shortfall. The implementation of the capital conservation buffer began on January 1, 2016 at the 0.625% level and increased by 0.625% on each subsequent January 1, until it reached 2.5% on January 1, 2019.

The Company's regulatory total risk based capital ratio beginning June 30, 2016 was benefitted by the $48.7 million (net) subordinated debt issuance that closed in June 2016. The Company down-streamed approximately $40 million of

those proceeds to the Bank as capital, benefitting all the Bank's regulatory capital ratios at that time.

In addition, on December 12, 2017, the Company issued $35 million in aggregate principal amount of Fixed-to-Floating Subordinated Notes due December 15, 2027 (the "Notes"). The Company downstreamed approximately $29.1 million of those proceeds to the Bank as capital.

The Dividend Reinvestment Plan of Peapack-Gladstone Financial Corporation, or the "Reinvestment Plan," allows shareholders of the Company to purchase additional shares of common stock using cash dividends without payment of any brokerage commissions or other charges. Shareholders may also make voluntary cash payments of up to $200 thousand per quarter to purchase additional shares of common stock, which up to January 30, 2019 were purchased at a 3 percent discount to market. Voluntary share purchase in the "Reinvestment Plan" can be filled from the Company's authorized but unissued shares and/or in the open market, at the discretion of the Company. During the year ended December 31, 2018, 542 thousand of the shares purchased for the "Reinvestment Plan" were from authorized but unissued shares, while 778 thousand shares were purchased in the open market. Such optional cash purchases provided $16.7 million and $36.6 million of common equity in 2018 and 2017, respectively. On January 30, 2019, the Company filed a Registration Statement on Form S-3 eliminating the 3 percent discount feature in our "Reinvestment Plan" under which participants could purchase shares of our common stock through the Plan at a 3 percent discount to the market price.

The Company filed a shelf registration statement with the SEC in December 2016 that allows the Company to periodically offer and sell in one or more offerings, individually or in any combination, common stock, preferred stock and other non-equity securities not to exceed $100.0 million. The shelf registration provides the Company with flexibility in issuing capital instruments and more readily accessing the capital markets as needed to pursue future growth opportunities and ensure continued compliance with regulatory capital requirements.

Management believes the Company's capital position and capital ratios are adequate. Further, Management believes the Company has sufficient common equity to support its planned growth and expansion for the immediate future. The Company continually assesses other potential sources of capital, in addition to common equity to support future growth.

LIQUIDITY: Liquidity refers to an institution's ability to meet short-term requirements including funding of loans, deposit withdrawals and maturing obligations, as well as long-term obligations, including potential capital expenditures. The Company's liquidity risk management is intended to ensure the Company has adequate funding and liquidity to support its assets across a range of market environments and conditions, including stressed conditions. Principal sources of liquidity include cash, temporary investments, securities available for sale, customer deposit inflows, loan repayments and secured borrowings. Other liquidity sources include loan sales and loan participations.

Management actively monitors and manages the Company's liquidity position and believes it is sufficient to meet future needs. Cash and cash equivalents, including federal funds sold and interest-earning deposits, totaled $160.8 million at December 31, 2018. In addition, the Company had $377.9 million in securities designated as available for sale at December 31, 2018. These securities can be sold, or used as collateral for borrowings, in response to liquidity concerns. Securities available for sale with a fair value of $337.1 million as of December 31, 2018 were pledged to secure public funds and for other purposes required or permitted by law. However, only $11.8 million of that total is actually encumbered. In addition, the Company generates significant liquidity from scheduled and unscheduled principal repayments of loans and mortgage-backed securities.

A further source of liquidity is borrowing capacity. At December 31, 2018, unused secured borrowing commitments totaled $1.3 billion from the FHLB and $1.3 billion from the Federal Reserve Bank of New York.

Customer deposits at December 31, 2018 increased $213.4 million (including interest-bearing checking, money market and certificates of deposit), when compared to December 31, 2017. Capital increased $65.3 million at December 31, 2018 when compared to December 31, 2017. This increase in customer deposits along with increased FHLB advances primarily funded an increase in loans of approximately $223.5 million and an increase in investment securities of approximately $50.3 million.

Brokered interest-bearing demand ("overnight") deposits stayed flat at $180.0 million at December 31, 2018 from December 31, 2017. The interest rate paid on these deposits allowed the Bank to fund operations at attractive rates and engage in interest rate swaps as part of its asset-liability interest rate risk management. As of December 31, 2018, the Company has transacted pay fixed, receive floating interest rate swaps totaling $180.0 million in notional amount. The Company ensures ample available collateralized liquidity as a backup to these short-term brokered deposits.

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

Peapack-Gladstone Financial Corporation is a separate legal entity from the Bank and must provide for its own liquidity to pay dividends to its shareholders, to repurchase shares of its common stock, and for other corporate

purposes. Peapack-Gladstone Financial Corporation's primary source of income is dividends received from the Bank. The Bank's ability to pay dividends is governed by applicable law. At December 31, 2018, Peapack-Gladstone Financial Corporation (unconsolidated basis) had liquid assets of $13.5 million.

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

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

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PRIVATE WEALTH MANAGEMENT DIVISION:

This division includes: investment management services provided for individuals and institutions; personal trust services, including services as executor, trustee, administrator, custodian and guardian, and other financial planning, tax preparation and advisory services. Officers from the Private Wealth Management Division are available to provide wealth management, trust and investment services at the Bank's headquarters in Bedminster, at private banking locations in Morristown, Princeton and Teaneck, New Jersey and at the Bank's subsidiaries, PGB Trust & Investments of Delaware in Greenville, Delaware, Murphy Capital Management ("MCM"), in Gladstone, New Jersey, Quadrant Capital Management ("Quadrant"), in Fairfield, New Jersey and Lassus Wherley in New Providence, New Jersey and Bonita Springs, Florida.

The following table presents certain key aspects of the Private Wealth Management Division's performance for the years ended December 31, 2018, 2017 and 2016.

	Years Ended December 31,			Change	
(In thousands, except per share data)	2018	2017	2016	2018 vs 2017	2017 vs 2016
Total fee income	$33,245	$23,183	$18,240	$10,062	$ 4,943
Compensation and benefits (included in Operating Expenses section above)	17,927	11,039	8,975	6,888	2,064
Other operating expense (included in Operating Expenses section above)	10,827	9,141	6,573	1,686	2,568
Assets under management and/or administration (AUM) (market value)	5.8 billion	5.5 billion	3.7 billion		

2018 compared to 2017

The market value of assets under management and/or administration ("AUM") at December 31, 2018 and 2017 was $5.8 billion and $5.5 billion, respectively, an increase of 5 percent over the prior year. This includes assets held at the Bank at December 31, 2018 and 2017 of $289.1 million and $263.2 million, respectively. The increase in AUM was due to the acquisition of one registered investment advisory firm ("RIA") and organic growth during 2018 which was partially offset by negative market action. Effective September 1, 2018, the Bank acquired Lassus Wherley, an RIA, based in New Providence, NJ, which contributed approximately $550 million of AUM/AUA at the time of acquisition. In addition, effective August 1, 2017, the Bank acquired MCM, an RIA, based in Gladstone, New Jersey and Quadrant, an RIA, based in Fairfield, New Jersey effective November 1, 2017.

Wealth management fees increased $10.1 million or 43 percent to $33.2 million for the year ended December 31, 2018 from $23.2 million in 2017. The growth in fee income was due to several factors, including the acquisitions noted above, as well as continued healthy new business results, somewhat offset by normal levels of disbursements and outflows.

The Company continues to incorporate wealth management into conversations it has with the Company's clients, across business lines. The Company has expanded its wealth management team and intends to continue to grow

organically and through acquisition.

Private Wealth Management Division expenses increased to $28.8 million for the year ended December 31, 2018 from $20.2 million for 2017, an increase of $8.6 million, or 42 percent. Other operating expenses increased $1.7 million or 18 percent to $10.8 million for the year ended 2018 when compared to 2017. Compensation and benefits expense totaled $17.9 million and $11.0 million for the years ended December 31, 2018 and 2017, respectively, increasing $6.9 million or 62 percent. Operating expenses relative to the Private Wealth Management Division reflected increases due to the MCM, Quadrant and Lassus Wherley acquisistions, overall growth in the business, new hires and select third party expenditures. Remaining expenses are in line with the Company's Strategic Plan, particularly the hiring of key management and revenue-producing personnel. Generally, revenue and profitability related to the new personnel will lag expenses by several quarters.

The Private Wealth Management Division currently generates adequate revenue to support the salaries, benefits and other expenses of the Division; however, Management believes that the Bank generates adequate liquidity to support the expenses of the Division should it be necessary.

2017 compared to 2016

The market value of AUM at December 31, 2017 and 2016 was $5.5 billion and $3.7 billion, respectively, an increase of 49 percent over the prior year. This includes assets held at the Bank at December 31, 2017 and 2016 of $263.2 million and $334.4 million, respectively. The increase in assets under management and/or administration (“AUM”) was due to acquisitions of two registered investment advisory firms (“RIA”) and organic growth during 2017. Effective August 1, 2017, the Bank acquired MCM, an RIA, based in Gladstone, NJ. MCM contributed approximately $850 million of AUM at the time of acquisition. Effective November 1, 2017, the Bank acquired Quadrant, an RIA, based in Fairfield, NJ, which contributed approximately $460 million of AUM at the time of acquisition. Organic growth, which includes equity market appreciation, contributed an additional $500 million in AUM during 2017.

Wealth management fees increased $4.9 million or 27 percent to $23.2 million for the year ended December 31, 2017 from $18.2 million in 2016. The growth in fee income was due to several factors, including the acquisitions noted above, as well as continued healthy new business results, somewhat offset by normal levels of disbursements and outflows.

Private Wealth Management Division expenses increased to $20.2 million for the year ended December 31, 2017 from $15.5 million for 2016, an increase of $4.6 million, or 30 percent. Other operating expenses increased $2.6 million or 39 percent to $9.1 million for the year ended 2017 when compared to 2016. Compensation and benefits expense totaled $11.0 million and $9.0 million for the years ended December 31, 2017 and 2016, respectively, increasing $2.1 million or 23 percent. The increase in expenses in 2017 are partially due to MCM and Quadrant. Remaining expenses are in line with the Company’s Strategic Plan, particularly the hiring of key management and revenue-producing personnel. Revenue and profitability related to the new personnel will generally lag expenses by several quarters.

The Private Wealth Management Division currently generates adequate revenue to support the salaries, benefits and other expenses of the Division; however, Management believes that the Bank generates adequate liquidity to support the expenses of the Division should it be necessary.

Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK:
The Company’s Asset/Liability Committee (“ALCO”) is responsible for developing, implementing and monitoring asset/liability management strategies and advising the Board of Directors on such strategies, as well as the related level of interest rate risk. In this regard, interest rate risk simulation models are prepared on a quarterly basis. These models have the ability to demonstrate balance sheet gaps and predict changes to net interest income and economic/market value of portfolio equity under various interest rate scenarios. In addition, these models, as well as ALCO processes and reporting, are subject to annual independent third-party review.

ALCO is generally authorized to manage interest rate risk through the management of capital, cash flows and duration of assets and liabilities, including sales and purchases of assets, as well as additions of wholesale borrowings and other sources of medium/longer-term funding. ALCO is authorized to engage in interest rate swaps as a means of extending the duration of shorter-term liabilities.

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

- Actively market C&I loan originations, which tend to have adjustable-rate features, and which generate customer relationships that can result in higher core deposit accounts;
- Actively market equipment finance leases and loans, which tend to have shorter terms and higher interest rates than real estate lending;
- Manage residential mortgage portfolio originations to adjustable-rate and/or shorter-term and/or "relationship" loans that result in core deposit and/or wealth relationships;
- Actively market core deposit relationships, which are generally longer duration liabilities;
- Utilize medium to longer term certificates of deposit and/or wholesale borrowings to extend liability duration;
- Utilize interest rate swaps to extend liability duration;
- Utilize a loan level / back to back interest rate swap program, which converts a borrower's fixed rate loan to adjustable rate for the Company;
- Closely monitor and actively manage the investment portfolio, including management of duration, prepayment and interest rate risk;

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- Maintain adequate levels of capital; and
- Utilize loan sales, especially longer-term residential loans, and/or loan participations.

The interest rate swap program is administered by ALCO and follows procedures and documentation in accordance with regulatory guidance and standards as set forth in ASC 815 for cash flow hedges. The program incorporates pre-purchase analysis, liability designation, sensitivity analysis, correlation analysis, daily mark-to-market analysis and collateral posting as required. The Board is advised of all swap activity. In all of these swaps, the Company is receiving floating and paying fixed interest rates with total notional value of $230.0 million.

In addition, the Company has a loan level / back-to-back swap program in support of its commercial lending business. Pursuant to this program, the Company extends a floating rate loan and executes a floating to fixed swap with the borrower. At the same time, the Company executes a third-party swap, the terms of which fully offset the fixed exposure and result in a final floating rate exposure for the Company. As of December 31, 2018, $558.7 million of notional value in swaps were executed and outstanding with borrowers under this program.

As noted above, ALCO uses simulation modeling to analyze the Company's net interest income sensitivity, as well as the Company's economic value of portfolio equity under various interest rate scenarios. The model is based on the actual maturity and repricing characteristics of rate sensitive assets and liabilities. The model incorporates certain prepayment and interest rate assumptions, which management believes to be reasonable as of December 31, 2018. The model assumes changes in interest rates without any proactive change in the balance sheet by management. In the model, the forecasted shape of the yield curve remained static as of December 31, 2018.

In an immediate and sustained 200 basis point increase in market rates at December 31, 2018, net interest income for year 1 would increase approximately 3.5 percent, when compared to a flat interest rate scenario. In year 2 this sensitivity improves to an increase of 7.5 percent, when compared to a flat interest rate scenario.

In an immediate and sustained 100 basis point decrease in market rates at December 31, 2018, net interest income would decline approximately 5.4 percent for year 1 and 7.7 percent for year 2, compared to a flat interest rate scenario.

The table below shows the estimated changes in the Company's economic value of portfolio equity ("EVPE") that would result from an immediate parallel change in the market interest rates at December 31, 2018.

(Dollars in thousands)	Estimated Increase/ Decrease in EVPE			EVPE as a Percentage of Present Value of Assets (2)	
Change In Interest Rates (Basis Points)	Estimated EVPE (1)	Amount	Percent	EVPE Ratio (3)	Increase/(Decrease) (basis points)
+200	$633,931	$18,308	2.97 %	14.35 %	89
+100	627,756	12,133	1.97	13.97	51
Flat interest rates	615,623	—	—	13.46	—
-100	587,464	(28,159)	(4.57)	12.66	(80)

(1) EVPE is the discounted present value of expected cash flows from assets and liabilities.

(2) Present value of assets represents the discounted present value of incoming cash flows on interest-earning assets.

(3) EVPE ratio represents EVPE divided by the present value of assets.

Certain shortcomings are inherent in the methodologies used in determining interest rate risk. Simulation modeling requires making certain assumptions that may or may not reflect the manner in which actual yields and costs respond to changes in market interest rates. In this regard, the modeling assumes that the composition of our interest-sensitive assets and liabilities existing at the beginning of a period remains constant over the period being measured and assumes that a particular change in interest rates is reflected uniformly across the yield curve regardless of the duration or repricing of specific assets and liabilities. Accordingly, although the information provides an indication of our interest rate risk exposure at a particular point in time, such measurements are not intended to and do not provide a precise forecast of the effect of changes in market interest rates on our net interest income and will differ from actual results.

Model simulation results indicate the Company is slightly asset sensitive, which indicates the Company's net interest income should improve slightly in a rising rate environment.

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA
Report of Independent Registered Public Accounting Firm

Shareholders and the Board of Directors of Peapack-Gladstone Financial Corporation

Bedminster, New Jersey

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated statements of condition of Peapack-Gladstone Financial Corporation (the "Company") as of December 31, 2018 and 2017, the related consolidated statements of income, comprehensive income, changes in shareholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2018, and the related notes (collectively referred to as the "financial statements"). We also have audited the Company's internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control – Integrated Framework: (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2018 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control – Integrated Framework: (2013) issued by COSO.

Basis for Opinions

The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's financial statements and an opinion on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the financial statements included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

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Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Crowe LLP

We have served as the Company's auditor since 2006.

Livingston, New Jersey

March 14, 2019

CONSOLIDATED STATEMENTS OF CONDITION

(In thousands, except share and per share data)	December 31, 2018	2017
ASSETS		
Cash and due from banks	$5,914	$4,415
Federal funds sold	101	101
Interest-earning deposits	154,758	108,931
Total cash and cash equivalents	160,773	113,447
Securities available for sale	377,936	327,633
Equity security, at fair value	4,719	—
FHLB and FRB stock, at cost	18,533	13,378
Loans held for sale, at fair value	1,576	984
Loans held for sale, at lower of cost or fair value	3,542	187
Loans	3,927,931	3,704,440
Less: allowance for loan losses	38,504	36,440
Net loans	3,889,427	3,668,000
Premises and equipment	27,408	29,476
Other real estate owned	—	2,090
Accrued interest receivable	10,814	9,452
Bank owned life insurance	45,353	44,586
Deferred tax assets, net	—	552
Goodwill	24,417	17,107
Other intangible assets	7,982	6,729
Other assets	45,378	26,926
Total assets	$4,617,858	$4,260,547
LIABILITIES		
Deposits:		
Noninterest-bearing demand deposits	$463,926	$539,304
Interest-bearing deposits:		
Checking	1,247,305	1,152,483
Savings	114,674	119,556
Money market accounts	1,243,369	1,091,385
Certificates of deposit - retail	510,724	344,652
Certificates of deposit - listing service	79,195	198,383
Subtotal deposits	3,659,193	3,445,763
Interest-bearing demand – Brokered	180,000	180,000
Certificates of deposit - Brokered	56,147	72,591
Total deposits	3,895,340	3,698,354
FHLB advances	108,000	37,898
Capital lease obligation	8,362	9,072
Subordinated debt, net	83,193	83,024
Deferred tax liabilities, net	16,029	—
Accrued expenses and other liabilities	37,921	28,521
Total liabilities	4,148,845	3,856,869
SHAREHOLDERS’ EQUITY		
Preferred stock (no par value; authorized 500,000 shares)	—	—

Common stock (no par value; stated value $0.83 per share; authorized 42,000,000 shares; issued shares, 19,745,840 at December 31, 2018 and 19,027,812 at December 31, 2017; outstanding shares, 19,337,662 at December 31, 2018 and 18,619,634 at December 31, 2017)	16,459	15,858
Surplus	309,088	283,552
Treasury stock at cost (408,178 shares at both December 31, 2018 and 2017)	(8,988)	(8,988)
Retained earnings	154,799	114,468
Accumulated other comprehensive loss	(2,345)	(1,212)
Total shareholders' equity	469,013	403,678
Total liabilities and shareholders' equity	$4,617,858	$4,260,547

See accompanying notes to consolidated financial statements

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CONSOLIDATED STATEMENTS OF INCOME

	Years Ended December 31,		
(In thousands, except per share data)	2018	2017	2016
INTEREST INCOME			
Loans, including fees	$148,576	$130,971	$111,971
Securities available for sale:			
Taxable	8,903	6,271	4,018
Tax-exempt	401	464	508
Interest-earning deposits	1,806	1,021	551
Total interest income	159,686	138,727	117,048
INTEREST EXPENSE			
Checking accounts	8,125	4,229	2,146
Savings and money market accounts	12,806	6,375	3,244
Certificates of deposit	9,938	7,118	6,270
Overnight and short-term borrowings	2,155	220	316
Federal Home Loan Bank advances	1,451	1,143	1,448
Capital lease obligation	418	451	478
Subordinated debt	4,887	3,206	1,696
Subtotal – interest expense	39,780	22,742	15,598
Interest-bearing demand - brokered	3,135	2,934	3,020
Interest on certificates of deposits – brokered	1,608	1,910	1,995
Total interest expense	44,523	27,586	20,613
Net interest income before provision for loan and lease losses	115,163	111,141	96,435
Provision for loan and lease losses	3,550	5,850	7,500
Net interest income after provision for loan and lease losses	111,613	105,291	88,935
OTHER INCOME			
Wealth management fee income	33,245	23,183	18,240
Service charges and fees	3,502	3,239	3,252
Bank owned life insurance	1,381	1,356	1,407
Gain on loans held for sale at fair value (mortgage banking)	334	401	1,010
(Loss)/gain on loans held for sale at lower of cost or fair value	(4,392)	412	1,233
Fee income related to loan level, back-to-back swaps	3,844	2,814	1,638
Gain on sale of SBA loans	1,636	1,564	623
Other income	5,036	1,658	1,396
Securities (losses)/gains, net	(393)	—	119
Total other income	44,193	34,627	28,918
OPERATING EXPENSES			
Compensation and employee benefits	62,802	53,956	45,003
Premises and equipment	13,497	11,988	11,245
FDIC insurance expense	2,443	2,366	4,758
Other operating expenses	19,344	17,301	14,106
Total operating expenses	98,086	85,611	75,112
Income before income tax expense	57,720	54,307	42,741
Income tax expense	13,550	17,810	16,264
Net income	$44,170	$36,497	$26,477

EARNINGS PER SHARE			
Basic	$2.33	$2.07	$1.62
Diluted	2.31	2.03	1.60

See accompanying notes to consolidated financial statements

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31,		
(Dollars in thousands)	2018	2017	2016
Net income	$44,170	$36,497	$26,477
Other comprehensive (loss)/income:			
Unrealized losses on available for sale securities:			
Unrealized losses arising during the period	(1,462)	(1,169)	(2,310)
Less: Reclassification adjustment for net losses/(gains) included in net income	288	—	(119)
	(1,174)	(1,169)	(2,429)
Tax effect	255	438	930
Net of tax	(919)	(731)	(1,499)
Unrealized (loss)/gain on cash flow hedge			
Unrealized holding (loss)/gain	(328)	2,138	587
Reclassification adjustment for losses included in net income	(124)	—	—
	(452)	2,138	587
Tax effect	111	(873)	(240)
Net of tax	(341)	1,265	347
Total other comprehensive (loss)/income	(1,260)	534	(1,152)
Total comprehensive income	$42,910	$37,031	$25,325

See accompanying notes to consolidated financial statements

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CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(In thousands, except share and per share data)	Preferred Stock	Common Stock	Surplus	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Loss	Total
Balance at January 1, 2016							
16,068,119 common shares outstanding	$ —	$13,717	$213,203	$(8,988)	$58,123	$(379)	$275,676
Net Income 2016					26,477		26,477
Other comprehensive loss						(1,152)	(1,152)
Restricted stock forfeitures, (12,133) shares		(10)	10				—
Restricted stock repurchased on vesting to pay taxes, (29,088) shares		(24)	(530)				(554)
Amortization of restricted stock awards/units			2,836				2,836
Cash dividends declared on common stock ($0.20 per share)					(3,296)		(3,296)
Common stock option expense			56				56
Common stock options exercised, 70,632 net of 9,723 used to exercise and related taxes benefits, 60,909 shares		59	1,010				1,069
Sales of shares (Dividend Reinvestment Program), 1,137,998 shares		948	21,513				22,461
Issuance of shares for Employee Stock Purchase plan, 32,190 shares		27	610				637
Balance at December 31, 2016							
17,257,995 common shares outstanding	$ —	$14,717	$238,708	$(8,988)	$81,304	$(1,531)	$324,210
Net income 2017					36,497		36,497
Other comprehensive income						534	534
Restricted stock units issued 74,936 shares		62	(62)				—
Restricted stock forfeitures, (479) shares		(1)	1				—
Restricted stock units/awards repurchased on vesting to pay taxes, (58,598) shares		(49)	(1,777)				(1,826)
Amortization of restricted stock awards/units			3,741				3,741
Cash dividends declared on common stock ($0.20 per share)					(3,548)		(3,548)
Common stock option expense			6				6
Common stock options exercised, 50,473		42	648				690
net of 8,764 used to exercise and related							

taxes benefits, 41,709 shares							
Sales of shares (Dividend Reinvestment Program), 1,204,710 shares		1,004	35,584				36,588
Issuance of shares for Employee Stock Purchase plan, 25,404 shares		21	776				797
Issuance of shares for Employee's Savings and Investment plan 30,123 shares		25	864				889
Issuance of common stock for acquisition, 43,834 shares		37	1,463				1,500
Common stock to be issued for acquisition			3,600				3,600
Reclassification of certain deferred tax effects					215	(215)	—
Balance at December 31, 2017 18,619,634 common shares outstanding	$ —	$15,858	$283,552	$(8,988)	$114,468	$(1,212)	$403,678

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	Preferred Stock	Common Stock	Surplus	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Loss	Total
Net income 2018					44,170		44,170
Other comprehensive income						(1,260)	(1,260)
Cumulative effect adjustment for adoption of ASU 2016-01					(127)	127	—
Restricted stock units issued 90,771 shares		76	(76)				—
Restricted stock awards forfeitures, (94,034) shares		(78)	78				—
Restricted stock units/awards repurchased on vesting to pay taxes, (45,404) shares		(38)	(1,502)				(1,540)
Amortization of restricted awards/units			4,445				4,445
Cash dividends declared on common stock ($0.20 per share)					(3,712)		(3,712)
Common stock options exercised, 23,148 net of 2,374 used to exercise and related taxes benefits, 20,774 shares		19	256				275
Sales of shares (Dividend Reinvestment Program), 542,302 shares		452	16,225				16,677
Issuance of shares for Employee Stock Purchase plan, 29,273 shares		24	934				958
Issuance of shares for Employee's Savings and Investment plan 34,449 shares		29	1,010				1,039
Issuance of common stock for acquisition, 139,897 shares		117	4,166				4,283
Balance at December 31, 2018							

19,337,662 common shares outstanding	$ —	$16,459	$309,088	$(8,988)	$154,799	$(2,345)	$469,013

See accompanying notes to consolidated financial statements

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CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)	Years Ended December 31, 2018	2017	2016
Operating activities:			
Net income	$44,170	$36,497	$26,477
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	3,127	3,275	3,093
Amortization of premium and accretion of discount on securities, net	1,399	1,697	1,478
Amortization of restricted stock	4,445	3,741	2,836
Amortization of intangible assets	1,187	321	124
Amortization of subordinated debt costs	169	135	71
Provision for loan losses	3,550	5,850	7,500
Valuation allowance on other real estate owned	232	—	—
Stock-based compensation and employee stock purchase plan expense	189	122	156
Deferred tax expense	17,042	14,118	952
Fair value adjustment for equity security	105	—	—
Loss/(gain) on sale of securities, available for sale, net	288	—	(119)
Proceeds from sales of loans held for sale (1)	44,483	45,763	72,477
Loans originated for sale (1)	(44,075)	(43,381)	(70,874)
Gain on loans held for sale (1)	(1,970)	(1,965)	(1,633)
Loss/(gain) on sale of loans held for sale at lower of cost or fair value	4,392	(412)	(1,233)
Loss/(gain) on sale of other real estate owned	58	—	(5)
Gain on death benefit	(3,000)	(62)	—
Increase in cash surrender value of life insurance, net of split dollar liability	(767)	(818)	(921)
Increase in accrued interest receivable	(1,362)	(1,299)	(1,333)
(Increase)/decrease in other assets	(8,485)	(9,977)	945
(Decrease)/increase in accrued expenses and other liabilities	(929)	2,330	2,935
Net cash provided by operating activities	64,248	55,935	42,926
Investing activities:			
Principal repayments, maturities and calls of securities available for sale	79,313	66,450	67,999
Redemptions for FHLB & FRB stock	87,602	40,561	61,606
Sales of securities available for sale	19,542	—	5,499
Purchase of securities available for sale	(156,893)	(91,561)	(187,043)
Purchase of FHLB & FRB stock	(92,758)	(40,126)	(61,435)
Proceeds from sale of loans held for sale at lower of cost or fair value	126,898	109,454	201,681
Net increase in loans, net of participations sold	(358,652)	(505,046)	(518,832)

Sales of other real estate owned	1,800	534	568
Purchases of premises and equipment	(1,059)	(2,380)	(3,218)
Purchase of wealth management company	(3,500)	(13,500)	—
Proceeds from death benefit	—	100	—
Net cash used in investing activities	(297,707)	(435,514)	(433,175)

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	Years Ended December 31,		
	2018	2017	2016
Financing activities:			
Net increase in deposits	196,986	286,517	476,367
Net decrease in overnight borrowings	—	—	(40,700)
Proceeds from FHLB advances	105,000	—	—
Repayments of FHLB advances	(34,898)	(23,897)	(21,897)
Dividends paid on common stock	(3,712)	(3,548)	(3,296)
Exercise of stock options, net stock swaps	275	690	1,069
Restricted stock repurchased on vesting to pay taxes	(1,540)	(1,826)	(554)
Proceeds from issuance of subordinated debt	—	34,125	48,693
Sale of common shares (Dividend Reinvestment Program)	16,677	36,588	22,461
Issuance of shares for employee’s savings and investment plan	1,039	889	—
Issuance of shares for employee stock purchase plan	958	797	637
Net cash provided by financing activities	280,785	330,335	482,780
Net increase/(decrease) in cash and cash equivalents	47,326	(49,244)	92,531
Cash and cash equivalents at beginning of year	113,447	162,691	70,160
Cash and cash equivalents at end of year	$160,773	$113,447	$162,691
Supplemental disclosures of cash flow information			
Cash paid during the year for:			
Interest	$42,768	$26,506	$19,965
Income taxes, net	3,605	11,597	14,870
Transfer of loans to loans held for sale	137,317	—	182,694
Transfer of loans held for sale to loan portfolio	—	—	30,121
Transfer of loans to other real estate owned	—	2,090	534
Acquisitions (Note 19)			
Goodwill	7,310	15,534	—
Customer relationship & other intangibles	2,440	5,466	—

(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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1.SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 financial 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 and 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.

Business: The Bank is a commercial bank that provides innovative private banking services to businesses, non-profits and consumers. Wealth management services are also provided through its subsidiaries, PGB Trust & Investments of Delaware, MCM, Quadrant and Lassus Wherley. The Bank is subject to competition from other financial institutions, is regulated by certain federal and state agencies and undergoes periodic examinations by those regulatory authorities.

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 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; treasury management services; C&I advisory services; escrow management; deposit generation; operation of ATMs; telephone and internet banking services; merchant credit card services and customer support sales.

Peapack-Gladstone Bank’s Private Wealth Management Division includes: investment management services for individuals and institutions; personal trust services, including services as executor, trustee, administrator, custodian and guardian; and other financial planning and advisory services. This segment also includes the activity from the Delaware subsidiary, PGB Trust and Investments of Delaware, MCM, QCM and Lassus Wherley. Wealth management fees are primarily earned over time as the Company provides the contracted monthly or quarterly services and are generally assessed based on a tiered scale of the market value of AUM at month-end. Fees that are transaction based, including trade execution services, are recognized at the point in time that the transaction is executed (i.e. trade date).

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 debt securities are classified as available for sale and are carried at fair value, with unrealized holding gains and losses reported in other comprehensive income (loss), 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.

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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 which are 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 such an evaluation. For securities in an unrealized loss position, Management considers the extent and duration of the unrealized loss and the financial condition and near-term prospects of the issuer. Management also assesses whether it intends to sell, or it is more likely than not that it will be required to sell, a security in an unrealized loss position before recovery of its amortized cost basis. If either of the criteria regarding intent 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 is 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. Dividends are reported as income.

The Bank is also a member of the Federal Reserve Bank of New York and required to own a certain amount of FRB stock. FRB stock is carried at cost and classified as a restricted security. 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 on the Statement of Income, are based on the difference between the selling price and the carrying 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 $35.1 million and $20.1 million as of December 31, 2018 and 2017, respectively. SBA loans held for sale totaled $1.2 million and $187 thousand as of December 31, 2018 and 2017, respectively. The servicing asset recorded was not material.

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/costs 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 consecutive 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

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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 Losses: The allowance for loan and lease losses is a valuation allowance for credit losses that is Management's estimate of inherent losses in the loan portfolio. The process to determine reserves utilizes analytic tools and Management judgment 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 considered to be a collateral dependent loan, the loan is reported, net, at 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 Company 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; experience, 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 December 31, 2018 and December 31, 2017, the multiple was 2.25 times for non-impaired special mention loans and 3.5 times for non-impaired substandard 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

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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.

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Asset risk in PCC's portfolio is generally recognized through changes to loan income, or through 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. Consumer loans generally have higher interest rates and shorter terms than residential loans but tend to have higher credit risk due to the type of collateral securing the loan or in some cases the absence of collateral.

Premises and Equipment: Land is carried at cost. Premises and equipment are stated at cost less accumulated depreciation. Depreciation charges are computed using the straight-line method. Equipment and other fixed assets are depreciated over the estimated useful lives, which range from three to ten years. Premises are depreciated over the estimated useful life of 40 years, while leasehold improvements are amortized on a straight-line basis over the shorter of their estimated useful lives or the term of the lease. Expenditures for maintenance and repairs are expensed as incurred. The cost of major renewals and improvements are capitalized. Gains or losses realized on routine dispositions are recorded as other income or other expense.

Other Real Estate Owned (OREO): OREO acquired through foreclosure on loans secured by real estate is initially recorded at fair value, less estimated costs to sell. Physical possession of residential real estate property collateralizing a consumer mortgage loan occurs when legal title is obtained upon completion of foreclosure or when the borrower conveys all interest in the property to satisfy the loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. The assets are subsequently accounted for at the lower of cost or fair value, as established by a current appraisal, less estimated costs to sell. Any write-downs at the date of foreclosure are charged to the allowance for loan losses. Expenses incurred to maintain these properties, losses resulting from write-downs after the date of foreclosure, and realized gains and losses upon sale of the properties are included in other noninterest expense and other noninterest income, as appropriate.

Bank Owned Life Insurance (BOLI): The Bank has purchased life insurance policies on certain key executives. BOLI is recorded at the amount that can be realized under the insurance contract at the balance sheet date, which is the cash surrender value adjusted for other charges or other amounts due that are probable at settlement.

Loan Commitments and Related Financial Instruments: Financial instruments include off-balance sheet credit instruments, such as commitments to make loans and commercial letters of credit, issued to meet customer financing needs. The face amount for these items represents the exposure to loss, before considering customer collateral or ability to repay. Such financial instruments are recorded when they are funded.

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 terminates, 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.

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 state and local tax authorities for years prior to 2013.

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

Employee’s Savings and Investment Plan: The Company has a 401(k) profit-sharing and investment plan, which covers substantially all salaried employees over the age of 21 with at least 12 months of service. The Company made contributions of $1.0 million and $889 thousand in Company common stock during 2018 and 2017.

Stock-Based Compensation: Compensation cost is recognized for stock options and restricted stock awards/units issued to employees and non-employee directors, based on the fair value of these awards at the date of grant. A Black-Scholes model is utilized to estimate the fair value of stock options, while the fair value of the Company’s common stock at the date of grant is used for restricted stock awards/units. Compensation expense is recognized over the required service or performance period, generally defined as the vesting period. For awards with graded vesting, compensation expense is recognized on a straight-line basis over the requisite service period. The stock options granted under these plans are exercisable at a price equal to the fair value of common stock on the date of grant and expire not more than ten years after the date of grant.

Employee Stock Purchase Plan (“ESPP”): On April 22, 2014, the shareholders of the Company approved the 2014 ESPP. The ESPP provides for the granting of rights to purchase up to 150,000 shares of Peapack-Gladstone Financial Corporation common stock. Subject to certain eligibility requirements and restrictions, the ESPP allows employees to purchase shares during four three-month offering periods (“Offering Period”). Each participant in the Offering Period is granted an option to purchase a number of shares and may contribute between one percent and 15 percent 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 percent of the closing market price of a share of common stock on the purchase date. Participation in the ESPP is entirely voluntary and employees can cancel their purchases at any time

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during the period without penalty. The fair value of each share purchase right is determined using the Black-Scholes option pricing model. The Company recorded $189 thousand, $116 thousand and $100 thousand of expense in salaries and employee benefits expense for the twelve months ended December 31, 2018, 2017 and 2016. Total shares issued under the ESPP were 29,273, 25,404 and 32,190 during 2018, 2017 and 2016, respectively.

Earnings Per Share (“EPS”): In calculating earnings per share, there are no adjustments to net income available to common shareholders, which is the numerator of both the Basic and Diluted EPS. The weighted average number of shares outstanding used in the denominator for Diluted EPS is increased over the denominator used for Basic EPS by the effect of potentially dilutive common stock equivalents utilizing the treasury stock method. Common stock options outstanding are common stock equivalents, as are restricted stock units until vested. Earnings and dividends per share are restated for all stock splits and stock dividends through the date of issuance of the financial statements.

The following table shows the calculation of both basic and diluted earnings per share for the years ended December 31, 2018, 2017 and 2016:

(In thousands, except share and per share data)	2018	2017	2016
Net income available to common shareholders	$44,170	$36,497	$26,477
Basic weighted average shares outstanding	18,965,305	17,659,625	16,318,868
Plus: common stock equivalents	183,340	284,060	196,130
Diluted weighted average shares outstanding	19,148,645	17,943,685	16,514,998
Earnings per share:			
Basic	$2.33	$2.07	$1.62
Diluted	2.31	2.03	1.60

As of December 31, 2018, restricted stock units totaling 257,422 were not included in the computation of diluted earnings per share because they were anti-dilutive. There were no stock options or restricted stock units excluded in the computation of diluted earnings per share for the year ended December 31, 2017 because they were all dilutive, meaning that the exercise price of the option was greater than the average market price for the period. Stock options totaling 2,479 shares were not included in the computation of diluted earnings per share in the year ended December 31, 2016, because they were considered anti-dilutive. Anti-dilutive shares are common stock equivalents with weighted average exercise prices in excess of the average market value for the periods presented.

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: Cash on hand or on deposit with the Federal Reserve Bank of New York 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.

Equity: Stock dividends in excess of 20 percent are reported by transferring the par value of the stock issued from retained earnings to common stock. Stock dividends for 20 percent or less are reported by transferring the fair value,

as of the ex-dividend date, of the stock issued from retained earnings to common stock and additional paid-in capital. Fractional share amounts are paid in cash with a reduction in retained earnings. Treasury stock is carried at cost.

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 exists that indicate that a goodwill impairment test should be performed. The Company has selected December 31 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 asset with an indefinite life on our balance sheet.

Other intangible assets 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.

Reclassification: Certain reclassifications have been made in the prior periods' financial statements in order to conform to the 2018 presentation and had no effect on the consolidated income statements or the consolidated statements of changes in shareholders' equity.

New Accounting Policies: On January 1, 2018, the Company adopted Accounting Standards Update ("ASU") 2014-09, "Revenue from Contracts with Customers (Topic 606)" and all subsequent amendments to the ASU (collectively, "ASC 606"). The majority of the Company's revenues come from interest income, income from bank owned life insurance, gains on sales of loans and securities and derivatives income that are outside the scope of ASC 606. The Company's services that fall within the scope of ASC 606 include wealth management fee income, investment brokerage fees, service charges and fees, sale of OREO and other income are presented within Non-Interest Income. Refer to footnote 8 "Revenue from Contracts with Customers" for further discussion on the Company's accounting policies for revenue sources within the scope of ASC 606. The adoption of this guidance has not changed the recognition of our current revenue sources and did not have a material impact to the consolidated financial statements.

In January 2016, the FASB issued ASU 2016-01, "Financial Instruments". This guidance amends existing guidance to improve accounting standards for financial instruments including clarification and simplification of accounting and disclosure requirements and the requirement for public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes. The Company recorded a cumulative effect adjustment for its sole equity instrument to the balance sheet as of January 1, 2018 in the amount of $127 thousand, representing the unrealized loss of $176 thousand at December 31, 2017 net of taxes of $49 thousand. The Company adopted the guidance effective January 1, 2018. Upon adoption, the fair value of the Company's loan portfolio is now presented using an exit price method.

In February 2016, the FASB issued ASU No. 2016-02, "Leases (Topic 842)". The standard requires a lessee to recognize assets and liabilities on the balance sheet for leases with lease terms greater than 12 months. For lessees, virtually all leases will be required to be recognized on the balance sheet by recording a right-of-use asset and lease liability. Subsequent accounting for leases varies depending on whether the lease is an operating lease or a finance lease. The ASU requires additional qualitative and quantitative disclosures with the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases.

In July 2018, the FASB issued ASU 2018-11 "Leases (Topic 842) Targeted Improvements" which allows entities adopting ASU No. 2016-02 to choose an additional transition method, under which an entity to initially applies the new leases standard at the adoption date and recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. The amendment in this update becomes effective for annual periods and interim periods within those annual periods beginning after December 15, 2018. The Company has elected the transition method permitted by ASU No. 2018-11 under which an entity shall recognize and measure leases that exist at the application date and prior comparative periods are not adjusted. Upon adoption of the new lease guidance on January 1, 2019, the Company recorded a lease liability of approximately $8.2 million, a right-of-use-asset of approximately $7.9 million and a cumulative effect adjustment to retained earnings of approximately $658 thousand.

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On June 16, 2016, the FASB issued Accounting Standards Update No. 2016-13, "Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments". This ASU replaces the incurred loss model with an expected loss model, referred to as "current expected credit loss" (CECL) model. It will significantly change estimates for credit losses related to financial assets measured at amortized cost, including loans receivable, held-to-maturity (HTM) debt securities and certain other contracts. The largest impact will be on lenders and the allowance for loan and lease losses (ALLL). This ASU will be effective for public business entities (PBEs) in fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. The Company has reviewed the potential impact to our securities portfolio, which primarily consists of U.S. government sponsored entities, mortgage-backed securities and municipal securities which have no history of credit loss and have strong credit ratings. The Company does not expect the standard to have a material impact on its financial statements as it relates to the Company's securities portfolio. The Company is also currently evaluating the impact the CECL model will have on our accounting and allowance for loans losses. The Company is in the process of evaluating third party firms to assist in the development of a CECL program and has selected an in-house software model to assist in the calculation of the allowance for loan and lease losses in preparation for the change to the expected loss model. The Company expects to recognize a one-time cumulative-effect adjustment to our allowance for loan and lease losses as of the beginning of the first reporting period in which the new standard is effective, consistent with regulatory expectations set forth in interagency guidance issued at the end of 2016. The Company cannot yet determine the magnitude of any such one-time cumulative adjustment or of the overall impact of the new standard on our consolidated financial condition or results of operations.

On August 26, 2016, the FASB issued ASU No. 2016-15, "Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments)". This ASU addresses the following eight specific cash flow issues: debt prepayment or debt extinguishment costs; settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing; contingent consideration payments made after a business combination; proceeds from the settlement of insurance claims; proceeds from the settlement of corporate-owned life insurance policies (COLIs) (including bank-owned life insurance policies (BOLIs)); distributions received from equity method investees; beneficial interests in securitization transactions; and separately identifiable cash flows and application of the predominance principle. This amendment is effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. There is no material impact on our consolidated statement of cash flows as a result of the adoption of this ASU.

In January 2017, the FASB issued ASU 2017-04: "Intangibles-Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment". This accounting standard updated simplifies the subsequent measurement of goodwill, by eliminating Step 2 from the goodwill impairment test. In computing the implied fair value of goodwill under Step 2, an entity had to perform procedures to determine the fair value at the impairment testing date of its assets and liabilities (including unrecognized assets and liabilities) following the procedure that would be required in determining the fair value of assets acquired and liabilities assumed in a business combination. Instead, under the amendments in this update, an entity should perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An entity should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. An entity should apply the amendments in this update on a prospective basis. A public business entity that is a SEC filer should adopt the amendments in this update for its annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2019. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The adoption of this ASU will not have a material impact to the consolidated financial statements at this time.

In May 2017, the FASB issued ASU 2017-09: "Compensation – Stock Compensation (Topic 718): Scope of Modification Accounting". The amendments in this update provide guidance about which changes to the terms or

conditions of a share-based payment award require an entity to apply modification accounting in Topic 718. An entity should account for the effects of a modification unless all the following are met: 1.) The fair value (or calculated value or intrinsic value, if such an alternative measurement method is used) of the modified award is the same as the fair value (or calculated value or intrinsic value, if such an alternative measurement method is used) of the original award immediately before the original award is modified. If the modification does not affect any of the inputs to the valuation technique that the entity uses to value the award, the entity is not required to estimate the value immediately before and after the modification. 2.) The vesting conditions of the modified award are the same as the vesting conditions of the original award immediately before the original award is modified. 3.) The classification of the modified award as an equity instrument or a liability instrument is the same as the classification of the original award immediately before the original award is modified. The current disclosure requirements in Topic 718 apply regardless of whether an entity is required to apply modification accounting

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under the amendments in this update. The amendments in this update are effective for public business entities for annual periods beginning after December 15, 2018, including interim periods within those annual periods. The Company does not anticipate a material impact to the consolidated financial statements at this time.

In August 2017, the FASB issued ASU 2017-12: “Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities”. The updated guidance makes targeted changes to the existing hedge accounting model to better align the accounting rules with a company’s risk management activities, and to simplify the application of the hedge accounting model. ASU 2017-12 expands the types of transactions eligible for hedge accounting, eliminates the requirement to separately measure and present hedge ineffectiveness, simplifies the way assessments of hedge ineffectiveness may be performed and relaxes the documentation requirements for entering into hedging positions. ASU 2017-12 is effective for public business entities for fiscal years beginning after December 15, 2018, with early adoption, including adoption in an interim period, permitted. The Company early adopted ASU 2017-12 on July 1, 2018. ASU 2017-12 requires a modified retrospective transition method in which the Company will recognize the cumulative effect of the change on the opening balance of each affected component of equity in the statement of financial position as of the date of adoption. The adoption of ASU 2017-12 did not have a significant impact on the Company’s consolidated financial statements.

In February 2018, the FASB issued ASU No. 2018-02, “Income Statement – Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income.” The ASU required a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the newly enacted federal corporate income tax rate as a result of the Tax Cuts and Jobs Act. The amount of the reclassification is the difference between the historical corporate income tax rate and the newly enacted twenty-one percent corporate income tax rate. The Company chose to early adopt the new standard for the year ending December 31, 2017, as allowed under the new standard. The amount of the reclassification for the Company was $215 thousand.

In August 2018, the FASB issued ASU 2018-13, Fair Value Measurement (Topic 820): Disclosure Framework-Changes to the Disclosure Requirements for Fair Value Measurement. The amendment modifies the disclosure requirements for fair value measurements by removing, modifying, or adding certain disclosures. The revised guidance is effective for all companies for fiscal years beginning after December 15, 2019, and interim periods within those years. Companies are permitted to early adopt any eliminated or modified disclosure requirements and delay adoption of the additional disclosure requirements until their effective date. The removed and modified disclosures will be adopted on a retrospective basis and the new disclosures will be adopted on a prospective basis. The revised guidance is not expected to have a material impact on our consolidated financial condition or results of operations.

2. INVESTMENT SECURITIES AVAILABLE FOR SALE

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

	2018			
(In thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. government-sponsored agencies	$102,915	$ 82	$ (984)	$102,013
Mortgage-backed securities-residential	254,383	418	(3,439)	251,362
SBA pool securities	3,883	—	(44)	3,839

State and political subdivisions	17,729	27	(146)	17,610
Corporate bond	3,000	112	—	3,112
Total	$381,910	$ 639	$ (4,613)	$377,936

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(In thousands)	2017 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 amortized cost and fair value of investment securities available for sale as of December 31, 2018, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or repay obligations with or without call or prepayment penalties. Securities not due at a single maturity, such as mortgage-backed securities, marketable equity securities are shown separately.

Maturing in: (In thousands)	Amortized Cost	Fair Value
One year or less	$5,474	$5,476
After one year through five years	34,189	33,545
After five years through ten years	81,184	80,916
After ten years	2,797	2,798
	123,644	122,735
Mortgage-backed securities-residential	254,383	251,362
SBA pool securities	3,883	3,839
Total	$381,910	$377,936

Securities available for sale with a fair value of $337.1 million and $209.0 million as of December 31, 2018 and December 31, 2017, respectively, were pledged, but not necessarily encumbered, to secure public funds and for other purposes required or permitted by law.

The following is a summary of the gross gains, gross losses and net tax expense related to proceeds on sales of securities available for sale for the years ended December 31:

(In thousands)	2018	2017	2016
Proceeds on sales	$19,542	$ —	$5,499
Gross gains	45	—	133
Gross losses	(333)	—	(14)
Net tax (benefit)/expense	(68)	—	44

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Explanation of Responses:

The following table presents the Company's available for sale securities with continuous unrealized losses and the approximate fair value of these investments as of December 31, 2018 and 2017.

	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	$18,840	$ (103)	$33,600	$ (881)	$52,440	$ (984)
Mortgage-backed securities-residential	51,697	(303)	136,130	(3,136)	187,827	(3,439)
SBA pool securities	—	—	3,839	(44)	3,839	(44)
State and political subdivisions	421	(1)	7,274	(145)	7,695	(146)
Total	$70,958	$ (407)	$180,843	$ (4,206)	$251,801	$ (4,613)

	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 due to interest rate fluctuations and/or volatile market conditions rather than the credit worthiness of the issuers. 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.

No other-than-temporary impairment charges were recognized in 2018, 2017 or 2016.

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 $281 thousand for the year ended December 31, 2018. This amount is included in securities losses on the Consolidated Statements of Income.

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3. LOANS

The following table presents loans outstanding, by type of loan, as of December 31:

(Dollars in thousands)	2018	% of Total Loans	2017	% of Total Loans
Residential mortgage	$571,570	14.55 %	$576,356	15.56 %
Multifamily mortgage	1,135,805	28.92	1,388,958	37.49
Commercial mortgage	702,165	17.88	626,656	16.92
Commercial loans (including equipment financing)	1,397,057	35.57	958,294	25.87
Home equity lines of credit	62,191	1.58	67,497	1.82
Consumer loans, including fixed rate home equity loans	58,678	1.49	86,277	2.33
Other loans	465	0.01	402	0.01
Total loans	$3,927,931	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 December 31:

(Dollars in thousands)	2018	% of Total Loans	2017	% of Total Loans
Primary residential mortgage	$600,891	15.31 %	$605,569	16.35 %
Home equity lines of credit	62,191	1.58	67,497	1.82
Junior lien loan on residence	7,418	0.19	7,073	0.19
Multifamily property	1,135,805	28.94	1,388,958	37.51
Owner-occupied commercial real estate	261,193	6.65	253,492	6.85
Investment commercial real estate	1,001,918	25.53	874,098	23.61
Commercial and industrial	616,838	15.72	316,294	8.54
Lease financing	172,643	4.40	90,052	2.43
Farmland/Agricultural production	149	0.01	160	0.01
Commercial construction	86	0.01	92	0.01
Consumer and other	65,180	1.66	99,247	2.68
Total loans	$3,924,312	100.00%	$3,702,532	100.00%
Net deferred costs	3,619		1,908	
Total loans including net deferred costs	$3,927,931		$3,704,440	

Loans are transferred from the loan portfolio to held for sale when the Company no longer has the intent to hold the loans for the foreseeable future.

The Company sold approximately $131.3 million in multifamily whole loans during 2018. Loss on sale of whole loans sold in 2018 totaled approximately $4.4 million. The Company sold approximately $109.9 million in residential and multifamily whole loans during 2017. Gain on sale of whole loans sold in 2017 totaled approximately $412 thousand. The Company sold approximately $234.8 million in multifamily loans during 2016. The loans sold in 2016 included both whole loan sales and loan participations. Gain on sale of whole loans sold in 2016 totaled approximately $1.2 million and none of the loans were sold at a loss.

The Company, through the Bank, may extend credit to officers, directors or their associates. These loans are subject to the Company's normal lending policy and Federal Reserve Bank Regulation O.

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The following table shows the changes in loans to officers, directors or their associates:

(In thousands)	2018	2017
Balance, beginning of year	$4,688	$4,788
New loans	2,174	511
Repayments	(2,288)	(611)
Loans with individuals no longer considered related parties	—	—
Balance, at end of year	$4,574	$4,688

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

December 31, 2018 (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	$ 9,518	$ 262	$591,373	$ 3,244	$600,891	$3,506
Home equity lines of credit	255	—	61,936	164	62,191	164
Junior lien loan on residence	36	—	7,382	15	7,418	15
Multifamily property	1,262	—	1,134,543	5,959	1,135,805	5,959
Owner-occupied commercial real estate	1,574	—	259,619	2,614	261,193	2,614
Investment commercial real estate	18,655	—	983,263	14,248	1,001,918	14,248
Commercial and industrial	—	—	616,838	9,839	616,838	9,839
Lease financing	—	—	172,643	1,772	172,643	1,772
Secured by farmland and agricultural production	—	—	149	2	149	2
Commercial construction	—	—	86	1	86	1
Consumer and other	—	—	65,180	384	65,180	384
Total ALLL	$ 31,300	$ 262	$3,893,012	$ 38,242	$3,924,312	$38,504

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
Secured by farmland and agricultural production	—	—	160	—	160	—
Commercial construction	—	—	92	1	92	1
Consumer and other	—	—	99,247	349	99,247	349
Total ALLL	$ 23,065	$ 522	$ 3,679,467	$ 35,918	$ 3,702,532	$ 36,440

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Impaired loans include nonaccrual loans of $25.7 million at December 31, 2018 and $13.5 million at December 31, 2017. Impaired loans also include performing troubled debt restructured loans of $4.3 million at December 31, 2018 and $9.5 million at December 31, 2017. At December 31, 2018, the allowance allocated to troubled debt restructured loans totaled $262 thousand of which $161 thousand was allocated to nonaccrual loans. At December 31, 2017, the allowance allocated to troubled debt restructured loans totaled $423 thousand of which $173 thousand was allocated to nonaccrual loans. All accruing troubled debt restructured loans were paying in accordance with restructured terms as of December 31, 2018.

The following tables present loans individually evaluated for impairment by class of loans as of December 31, 2018 and 2017:

	December 31, 2018			
(In thousands)	Unpaid Principal Balance	Recorded Investment	Specific Reserves	Average Impaired Loans
With no related allowance recorded:				
Primary residential mortgage	$9,789	$ 8,502	$ —	$8,042
Owner-occupied commercial real estate	2,741	1,574	—	2,025
Investment commercial real estate	20,179	18,655	—	13,999
Home equity lines of credit	257	255	—	123
Junior lien loan on residence	102	36	—	45
Multifamily	1,262	1,262	—	105
Total loans with no related allowance	$34,330	$ 30,284	$ —	$24,339
With related allowance recorded:				
Primary residential mortgage	$1,016	$ 1,016	$ 262	$1,144
Total loans with related allowance	$1,016	$ 1,016	$ 262	$1,144
Total loans individually evaluated for impairment	$35,346	$ 31,300	$ 262	$25,483

	December 31, 2017			
(In thousands)	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 during 2018, 2017 and 2016 was not material.

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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 December 31, 2018 and 2017:

(In thousands)	December 31, 2018 Nonaccrual	Loans Past Due Over 90 Days and Still Accruing Interest
Primary residential mortgage	$5,215	$ —
Home equity lines of credit	235	—
Junior lien loan on residence	36	—
Owner-occupied commercial real estate	1,574	—
Investment commercial real estate	18,655	—
Total	$25,715	$ —

(In thousands)	December 31, 2017 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 recorded investment in past due loans as of December 31, 2018 and 2017 by class of loans, excluding nonaccrual loans:

(In thousands)	December 31, 2018 30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days Past Due	Total Past Due
Primary residential mortgage	$606	$491	$ —	$1,097
Consumer and other	2	—	—	2
Total	$608	$491	$ —	$1,099

(In thousands)	December 31, 2017 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	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, 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.

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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.

The table below presents, based on the most recent analysis performed, the risk category of loans by class of loans for December 31, 2018 and 2017.

December 31, 2018				
(In thousands)	Pass	Special Mention	Substandard	Doubtful
Primary residential mortgage	$590,372	$943	$ 9,576	$ —
Home equity lines of credit	61,936	—	255	—
Junior lien loan on residence	7,382	—	36	—
Multifamily property	1,130,926	3,263	1,616	—
Owner-occupied commercial real estate	255,417	249	5,527	—
Investment commercial real estate	948,300	20,756	32,862	—
Commercial and industrial	608,262	417	8,159	—

Lease financing	172,643	—	—	—
Secured by farmland and agricultural	149	—	—	—
Commercial construction	—	86	—	—
Consumer and other loans	64,946	—	234	—
Total	$3,840,333	$25,714	$ 58,265	$ —

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December 31, 2017 (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	—	—	—
Secured by farmland and agricultural	160	—	—	—
Commercial construction	—	92	—	—
Consumer and other loans	97,135	—	2,112	—
Total	$3,611,411	$49,415	$ 41,706	$ —

At December 31, 2018, $31.2 million of substandard loans were also considered impaired as compared to December 31, 2017, when $21.8 million of substandard loans were also considered impaired.

The tables below present a roll forward of the ALLL for the years ended December 31, 2018, 2017 and 2016.

(In thousands)	January 1, 2018 Beginning ALLL	Charge-Offs	Recoveries	Provision (Credit)	December 31, 2018 Ending ALLL
Primary residential mortgage	$ 4,085	$ (138)	$ 160	$ (601)	$ 3,506
Home equity lines of credit	221	—	10	(67)	164
Junior lien loan on residence	12	—	68	(65)	15
Multifamily property	10,007	—	—	(4,048)	5,959
Owner-occupied commercial real estate	2,385	(361)	66	524	2,614
Investment commercial real estate	11,933	(1,335)	45	3,605	14,248
Commercial and industrial	6,563	(46)	109	3,213	9,839
Lease financing	884	—	—	888	1,772
Secured by farmland and agricultural	—	—	—	2	2
Commercial construction	1	—	—	—	1
Consumer and other	349	(68)	4	99	384
Total ALLL	$ 36,440	$ (1,948)	$ 462	$ 3,550	$ 38,504

(In thousands)	January 1, 2017 Beginning ALLL	Charge-Offs	Recoveries	Provision (Credit)	December 31, 2017 Ending ALLL
Primary residential mortgage	$ 3,666	$ (889)	$ 173	$ 1,135	$ 4,085
Home equity lines of credit	233	(23)	62	(51)	221
Junior lien loan on residence	16	(99)	26	69	12
Multifamily property	11,192	—	—	(1,185)	10,007
Owner-occupied commercial real estate	1,774	(734)	—	1,345	2,385
Investment commercial real estate	10,909	(123)	23	1,124	11,933
Commercial and industrial	4,164	(76)	115	2,360	6,563
Lease financing	—	—	—	884	884
Secured by farmland and agricultural	2	—	—	(2)	—
Commercial construction	9	—	—	(8)	1
Consumer and other	243	(77)	4	179	349
Total ALLL	$ 32,208	$ (2,021)	$ 403	$ 5,850	$ 36,440

(In thousands)	January 1, 2016 Beginning ALLL	Charge-Offs	Recoveries	Provision (Credit)	December 31, 2016 Ending ALLL
Primary residential mortgage	$ 2,297	$ (1,047)	$ 28	$ 2,388	$ 3,666
Home equity lines of credit	86	(91)	15	223	233
Junior lien loan on residence	66	—	140	(190)	16
Multifamily property	11,813	—	—	(621)	11,192
Owner-occupied commercial real estate	1,679	(11)	72	34	1,774
Investment commercial real estate	7,590	(520)	246	3,593	10,909
Commercial and industrial	2,209	(16)	29	1,942	4,164
Secured by farmland and agricultural	2	—	—	—	2
Commercial construction	2	—	—	7	9
Consumer and other	112	(5)	12	124	243
Total ALLL	$ 25,856	$ (1,690)	$ 542	$ 7,500	$ 32,208

Troubled Debt Restructurings: The Company has allocated $262 thousand and $423 thousand of specific reserves to customers whose loan terms have been modified in troubled debt restructurings as of December 31, 2018 and December 31, 2017, respectively. There were no unfunded commitments to lend additional amounts to customers with outstanding loans that are classified as troubled debt restructurings.

During the years ended December 31, 2018, 2017 and 2016, the terms of certain loans were modified as troubled debt restructurings. The modification of the terms of such loans included one or a combination of the following: a reduction of the stated interest rate of the loan; or an extension of the maturity date at a stated rate of interest lower than the current market rate for new debt with similar risk.

The following table presents loans by class modified as troubled debt restructurings that occurred during the year ended December 31, 2018:

(Dollars in thousands)	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Primary residential mortgage	2	$ 909	$ 909
Investment commercial real estate	1	$ 15,202	$ 15,202
Total	3	$ 16,111	$ 16,111

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The following table presents loans by class modified as troubled debt restructurings that occurred during the year ended December 31, 2017:

(Dollars in thousands)	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Primary residential mortgage	6	$ 1,223	$ 1,223
Total	6	$ 1,223	$ 1,223

The following table presents loans by class modified as troubled debt restructurings that occurred during the year ended December 31, 2016:

(Dollars in thousands)	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Primary residential mortgage	7	$ 4,691	$ 4,691
Junior lien loan on residence	1	63	63
Commercial and industrial	1	26	26
Total	9	$ 4,780	$ 4,780

The identification of the troubled debt restructured loans did not have a significant impact on the allowance for loan losses. In addition, there were no charge-offs as a result of the classification of these loans as troubled debt restructuring during the years ended December 31, 2018, 2017 and 2016.

There were no payment defaults on loans modified as troubled debt restructurings within twelve months of modification during the year ended December 31, 2018.

The following table presents loans by class modified as troubled debt restructurings during the year ended December 31, 2017 for which there was a payment default during the same period:

	Recorded

(Dollars in thousands)	Number of Contracts	Investment
Primary residential mortgage	1	$ 336
Total	1	$ 336

The following table presents loans by class modified as troubled debt restructurings during the year ended December 31, 2016 for which there was a payment default during the same period:

(Dollars in thousands)	Number of Contracts	Recorded Investment
Primary residential mortgage	1	$ 269
Total	1	$ 269

The defaults described above did not have a material impact on the allowance for loan losses during 2017 and 2016.

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 troubled debt restructuring. At a minimum, six consecutive 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. PREMISES AND EQUIPMENT

The following table presents premises and equipment as of December 31,

(In thousands)	2018	2017
Land and land improvements	$6,243	$6,235
Buildings	12,653	12,589
Furniture and equipment	20,644	19,553
Leasehold improvements	11,943	11,819
Projects in progress	145	329
Capital lease asset	11,237	11,237
	62,865	61,762
Less: accumulated depreciation	35,457	32,286
Total	$27,408	$29,476

The Company has included leases in premises and equipment as follows:

(In thousands)	2018	2017
Land and buildings	$11,237	$11,237
Less: accumulated depreciation	5,411	4,663
Total	$5,826	$6,574

Projects in progress represents costs associated with renovations to the Company’s headquarters in addition to smaller renovation or equipment installation projects at other locations.

The Company recorded depreciation expense of $3.1 million, $3.3 million and $3.1 million for the years ended December 31, 2018, 2017 and 2016, respectively.

The Company leases its corporate headquarters building under a capital lease. The lease arrangement requires monthly payments through 2025. Related depreciation expense of $607 thousand is included in each of the 2018, 2017 and 2016 results.

The Company also leases its Gladstone branch after completing a sale-leaseback transaction involving the property in 2011. The lease arrangement requires monthly payments through 2031. The Company had a deferred gain remaining

on its sale-leaseback transaction of $490 thousand at December 31, 2018. The deferred gain was removed as a cumulative-effect adjustment upon adoption of the new accounting guidance in topic 842 effective January 1, 2019. Related depreciation expense and accumulated depreciation of $141 thousand is included in each of the 2018, 2017 and 2016 results.

The following is a schedule by year of future minimum lease payments under capital leases, together with the present value of net minimum lease payments as of December 31, 2018:

(In thousands)	
2019	$1,146
2020	1,195
2021	1,233
2022	1,391
2023	1,456
Thereafter	3,739
Total minimum lease payments	10,160
Less: amount representing interest	1,798
Present value of net minimum lease payments	$8,362

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5. OTHER REAL ESTATE OWNED

At December 31, 2018, the Company did not have other real estate owned. At December 31, 2017, the Company had other real estate owned, totaling $2.1 million.

The following table shows the activity in other real estate owned, excluding the valuation allowance, for the years ended December 31:

(In thousands)	2018	2017
Balance, beginning of year	$2,090	$534
OREO properties added	—	2,090
Sales during year	(2,090)	(534)
Balance, end of year	$—	$2,090

The following table shows the activity in the valuation allowance for the years ended December 31:

(In thousands)	2018	2017	2016
Balance, beginning of year	$—	$ —	$2,670
Additions charged to expense	232	—	—
Direct writedowns	(232)	—	(2,670)
Balance, end of year	$—	$ —	$—

The following table shows expenses related to other real estate owned for the years ended December 31:

(In thousands)	2018	2017	2016
Net loss/(gain) on sales	$58	$—	$ (5)
Provision for unrealized losses	232	—	—
Operating expenses, net of rental income	190	117	59
Total	$480	$117	$ 54

6. DEPOSITS

Time deposits over $250,000 totaled $160.3 million and $160.0 million at December 31, 2018 and 2017, respectively.

The following table sets forth the details of total deposits as of December 31:

(Dollars in thousands)	2018		2017	
Noninterest-bearing demand deposits	$463,926	11.91 %	$539,304	14.59 %
Interest-bearing checking	1,247,305	32.02	1,152,483	31.16
Savings	114,674	2.94	119,556	3.23
Money market	1,243,369	31.92	1,091,385	29.51
Certificates of deposit - retail	510,724	13.12	344,652	9.32
Certificates of deposit - listing service	79,195	2.03	198,383	5.36
Interest-bearing demand - Brokered	180,000	4.62	180,000	4.87
Certificates of deposit - Brokered	56,147	1.44	72,591	1.96
Total deposits	$3,895,340	100.00%	$3,698,354	100.00%

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The scheduled maturities of time deposits as of December 31, 2018 are as follows:

(In thousands)	
2019	$406,992
2020	115,018
2021	41,835
2022	17,914
2023	12,424
Over 5 Years	51,883
Total	$646,066

7. FEDERAL HOME LOAN BANK ADVANCES AND OTHER BORROWINGS

Advances from FHLB totaled $108.0 million at December 31, 2018, with a weighted average interest rate of 3.17 percent. Advances from FHLB totaled $37.9 million at December 31, 2017, with a weighted average interest rate of 2.20 percent.

At December 31, 2018, advances totaling $108.0 million, with a weighted average rate of 3.17 percent, have fixed maturity dates. At December 31, 2017, advances totaling $28.9 million, with a weighted average rate of 1.96 percent, have fixed maturity dates. At December 31, 2018, the fixed rate advances are secured by blanket pledges of certain 1-4 family residential mortgages totaling $496.1 million multifamily mortgages totaling $1.0 billion and securities totaling $58.5 million, 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 totaling $1.1 billion.

The Company had $9.0 million of variable rate advances, with a weighted average rate of 2.95 percent at December 31, 2017. These advances were non-callable 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 were beyond their initial non-callable periods. These advances were secured by pledges of investment securities totaling $13.5 million at December 31, 2017.

The advances had prepayment penalties.

The scheduled principal repayments and maturities of advances as of December 31, 2018 are as follows:

(In thousands)	
2019	$3,000
2020	-
2021	60,000
2022	20,000
2023	25,000
Over 5 years	-
Total	$108,000

At both December 31, 2018 and December 31, 2017, there were no overnight borrowings with the FHLB. At December 31, 2018, unused short-term or overnight borrowing commitments totaled $1.3 billion from the FHLB, $22.0 million from correspondent banks and $1.3 billion at the Federal Reserve Bank of New York.

8. FAIR VALUE

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

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

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

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

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

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

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

Derivatives: The fair values of derivatives are based on valuation models using observable market data as of the measurement date (Level 2). Our derivatives are traded in an over-the-counter market where quoted market prices are not always available. Therefore, the fair values of derivatives are determined using quantitative models that utilize multiple market inputs. The inputs will vary based on the type of derivative, but could include interest rates, prices and indices to generate continuous yield or pricing curves, prepayment rates, and volatility factors to value the position. The majority of market inputs are actively quoted and can be validated through external sources, including brokers, market transactions and third-party pricing services.

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

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

Appraisals for both collateral-dependent impaired loans and other real estate owned are performed by certified general appraisers (for commercial properties) or certified residential appraisers (for residential properties) whose qualifications and licenses have been reviewed and verified by Management. Once received, a member of the Credit Department reviews the assumptions and approaches utilized in the appraisal, as well as the overall resulting fair value in comparison with independent data sources such as recent market data or industry-wide statistics. Appraisals on collateral dependent impaired loans and other real estate owned (consistent for all loan types) are obtained on an annual basis, unless a significant change in the market or other factors warrants a more frequent appraisal. On an annual basis, Management compares the actual selling price of any collateral that has been sold to the most recent appraised value to determine what additional adjustment should be made to the appraisal value to arrive at fair value

for other properties. The most recent analysis performed indicated that a discount up to 15 percent should be applied to appraisals on properties. The discount is determined based on the nature of the underlying properties, aging of appraisal and other factors. For each collateral-dependent impaired loan we consider other factors, such as certain indices or other market information, as well as property specific circumstances to determine if an adjustment to the appraised value is needed. In situations where there is evidence of change in value, the Bank will determine if there is need for an adjustment to the specific reserve on the collateral dependent impaired loans. When the Bank applies an interim adjustment, it generally shows the adjustment as an incremental specific reserve against the loan until it has received the full updated appraisal. All collateral-dependent impaired loans and other real estate owned valuations were supported by an appraisal less than 12 months old or in the process of obtaining an appraisal as of December 31, 2018.

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

		Fair Value Measurements Using		
(In thousands)	December 31, 2018	Quoted Prices In Active Markets For Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Securities available for sale:				
U.S. government-sponsored agencies	$ 102,013	$—	$ 102,013	$ —
Mortgage-backed securities-residential	251,362	—	251,362	—
SBA pool securities	3,839	—	3,839	—
State and political subdivisions	17,610	—	17,610	—
Corporate bond	3,112	—	3,112	—
CRA investment fund	4,719	4,719	—	—
Loans held for sale, at fair value	1,576	—	1,576	—
Derivatives:				
Cash flow hedges	1,657	—	1,657	—
Loan level swaps	9,689	—	9,689	—
Total	$ 395,577	$4,719	$ 390,858	$ —
Liabilities:				
Derivatives:				
Cash flow hedges	$ (849)	$—	$ (849)	$ —
Loan level swaps	(9,689)	—	(9,689)	—
Total	$ (10,538)	$—	$ (10,538)	$ —
(In thousands)	December 31, 2017			
Assets:				
Securities available for sale:				
U.S. government-sponsored agencies	$ 43,701	$—	$ 43,701	$ —
Mortgage-backed securities-residential	243,116	—	243,116	—
SBA pool securities	5,205	—	5,205	—
State and political subdivisions	24,868	—	24,868	—
Corporate bond	3,082	—	3,082	—
Single-issuer trust preferred security	2,837	—	2,837	—
CRA investment fund	4,824	4,824	—	—
Loans held for sale, at fair value	984	—	984	—
Derivatives:				
Cash flow hedges	1,394	—	1,394	—

Loan level swaps	3,131	—	3,131	—
Total	$ 333,142	$4,824	$ 328,318	$ —
Liabilities:				
Derivatives:				
Cash flow hedges	$ —	$—	$ —	$ —
Loan level swaps	(3,131)	—	(3,131)	—
Total	$ (3,131)	$—	$ (3,131)	$ —

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The Company has elected the fair value option for loans held for sale. These loans are intended for sale and the Company believes that the fair value is the best indicator of the resolution of these loans. Interest income is recorded based on the contractual terms of the loan and in accordance with the Company's policy on loans held for investment. None of these loans are 90 days or more past due or on nonaccrual as of December 31, 2018 and December 31, 2017.

The following tables present residential loans held for sale, at fair value at the dates indicated:

	December 31, 2018	December 31, 2017
Residential loans contractual balance	$ 1,552	$ 972
Fair value adjustment	24	12
Total fair value of residential loans held for sale	$ 1,576	$ 984

There were no transfers between Level 1 and Level 2 during the year ended December 31, 2018.

There were no loans measured for impairment using the fair value of collateral as of December 31, 2018 and December 31, 2017.

The carrying amounts and estimated fair values of financial instruments at December 31, 2018 are as follows:

	Carrying	Fair Value Measurements at December 31, 2018 Using			
(In thousands)	Amount	Level 1	Level 2	Level 3	Total
Financial assets					
Cash and cash equivalents	$160,773	$160,773	$—	$—	$160,773
Securities available for sale	377,936	—	377,936	—	377,936
CRA investment fund	4,719	4,719	—	—	4,719
FHLB and FRB stock	18,533	—	—	—	N/A
Loans held for sale, at fair value	1,576	—	1,576	—	1,576
Loans held for sale, at lower of cost or fair value	3,542	—	3,654	—	3,654
Loans, net of allowance for loan losses	3,889,427	—	—	3,852,004	3,852,004
Accrued interest receivable	10,814	—	1,875	8,939	10,814
Cash flow hedges	1,657	—	1,657	—	1,657
Loan level swaps	9,689	—	9,689	—	9,689
Financial liabilities					
Deposits	$3,895,340	$3,249,274	$640,997	$—	$3,890,271
Federal Home Loan Bank advances	108,000	—	108,950	—	108,950

Subordinated debt	83,193	—	—	82,207	82,207
Accrued interest payable	2,868	331	2,482	55	2,868
Cash flow hedges	849	—	849	—	849
Loan level swaps	9,689	—	9,689	—	9,689

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The carrying amounts and estimated fair values of financial instruments at December 31, 2017 are as follows:

	Carrying	Fair Value Measurements at December 31, 2017 Using			
(In thousands)	Amount	Level 1	Level 2	Level 3	Total
Financial assets					
Cash and cash equivalents	$113,447	$113,447	$—	$—	$113,447
Securities available for sale	327,633	4,824	322,809	—	327,633
FHLB and FRB stock	13,378	—	—	—	N/A
Loans held for sale, at fair value	984	—	984	—	984
Loans held for sale, at lower of cost or fair value	187	—	206	—	206
Loans, net of allowance for loan losses	3,668,000	—	—	3,649,132	3,649,132
Accrued interest receivable	9,452	—	1,041	8,411	9,452
Cash flow hedges	1,394	—	1,394	—	1,394
Loan level swaps	3,131	—	3,131	—	3,131
Financial liabilities					
Deposits	$3,698,354	$3,082,728	$612,591	$—	$3,695,319
Federal Home Loan Bank advances	37,898	—	37,907	—	37,907
Subordinated debt	83,024	—	—	84,150	84,150
Accrued interest payable	1,756	192	1,495	69	1,756
Loan level swaps	3,131	—	3,131	—	3,131

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

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

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

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

Loans: At December 31, 2018, the exit price observations are obtained from a third-party using its proprietary valuation model and methodology and may not reflect actual or prospective market valuations. The valuation utilizes a discounted cash-flow based model relying on various assumptions including the probability of default, loss give default, portfolio liquidity and remaining term of the portfolio. The new methodology is a result of the adoption of ASU 2016-01.

At December 31, 2017, for variable rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying values resulting in a Level 3 classification. Fair values for other loans are estimated using

discounted cash flow analyses, using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality resulting in a Level 3 classification. Impaired loans are valued at the lower of cost or fair value as described previously. The methods utilized to estimate the fair value of loans do not necessarily represent an exit price.

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

Overnight borrowings: The carrying amounts of overnight borrowings approximate fair values and are classified as Level 2.

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

Subordinated debentures: The fair values of the Company's subordinated debentures are estimated using discounted cash flow analyses based on the current borrowing rates for similar types of borrowing arrangements resulting in a Level 3 classification.

Accrued interest receivable/payable: The carrying amounts of accrued interest approximate fair value resulting in a Level 2 or Level 3 classification. Accrued interest on deposits and securities are included in Level 2. Accrued interest on loans and subordinated debt are included in Level 3.

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

9. REVENUE FROM CONTRACTS WITH CUSTOMERS:

All of the Company's revenue from contracts with customers in the scope of ASC 606 is recognized within noninterest income.

The following table presents the sources of noninterest income for the years ended December 31:

(In thousands)	2018	2017	2016
Service charges on deposits			
Overdraft fees	$726	$715	$713
Interchange income	1,251	1,164	1,120
Other	1,525	1,360	1,419
Wealth management fees	32,356	22,273	17,552
Investment brokerage fees	889	910	688
(Losses)/gains on sales of OREO	(58)	—	5
Other (a)	7,504	8,205	7,421
Total noninterest other income	$44,193	$34,627	$28,918

(a) All of the other category is outside the scope of ASC 606.

The following table presents the sources of noninterest income by operating segment for the years ended December 31:

	2018		
Revenue by Operating Segment	Banking	Wealth Management	Total
Service charges on deposits			
Overdraft fees	$726	$ —	$726
Interchange income	1,251	—	1,251
Other	1,525	—	1,525
Wealth management fees	—	32,356	32,356

Investment brokerage fees	—	889	889
Losses on sales of OREO	(58)	—	(58)
Other (a)	6,569	935	7,504
Total noninterest income	$10,013	$ 34,180	$44,193

Revenue by Operating Segment	2017 Banking	Wealth Management	Total
Service charges on deposits			
Overdraft fees	$715	$ —	$715
Interchange income	1,164	—	1,164
Other	1,360	—	1,360
Wealth management fees	—	22,273	22,273
Investment brokerage fees	—	910	910
Gains/(losses) on sales of OREO	—	—	—
Other (a)	7,704	501	8,205
Total noninterest income	$10,943	$ 23,684	$34,627

Revenue by Operating Segment	2016 Banking	Wealth Management	Total
Service charges on deposits			
Overdraft fees	$713	$ —	$713
Interchange income	1,120	—	1,120
Other	1,419	—	1,419
Wealth management fees	—	17,552	17,552
Investment brokerage fees	—	688	688
Gains/(losses) on sales of OREO	5	—	5
Other (a)	6,960	461	7,421
Total noninterest income	$10,217	$ 18,701	$28,918

(a) All of the other category is outside the scope of ASC 606.

A description of the Company's revenue streams accounted for under ASC 606 follows:

Service charges on deposit accounts: The Company earns fees from its deposits customers for transaction-based, account maintenance, and overdraft fees. Transaction-based fees, which include services such as ATM use fees, stop payment charges, statement rendering, and ACH fees, are recognized at the time the transaction is executed as that point in time the Company fulfills the customer's request. Account maintenance fees, which relate primarily to monthly maintenance, are earned over the course of a month, representing the period over which the Company satisfies the performance obligation. Overdraft fees are recognized at the point in time that the overdraft occurs. Service charges on deposits are withdrawn from the customer's account balance.

Interchange income: The Company earns interchange fees from debit cardholder transactions conducted through the Visa payment network. Interchange fees from cardholder transactions represent a percentage of the underlying transaction value and are recognized daily, concurrently with the transaction processing services provided to the cardholder. Interchange income is presented gross of cardholder rewards. Cardholder rewards are included in other expenses in the statement of income. Cardholder rewards reduced interchange income by $134 thousand, $129 thousand and $124 thousand for 2018, 2017, and 2016, respectively.

Wealth management fees (gross): The Company earns wealth management fees from its contracts with trust customers to manage assets for investment, and/or to transact on their accounts. These fees are primarily earned over time as the Company provides the contracted monthly or quarterly services and are generally assessed based on a tiered scale of the market value of AUM at month-end. Fees that are transaction based, including trade execution services, are recognized at the point in time that the transaction is executed (i.e. trade date).

Investment brokerage fees (net): The Company earns fees from investment brokerage services provided to its customers by a third-party service provider. The Company receives commissions from the third-party service provider twice a month based upon customer activity for the month. The fees are recognized monthly and a receivable is recorded until commissions are generally paid by the 15th of the following month. Because the Company (i) acts as an agent in arranging

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the relationship between the customer and the third-party service provider and (ii) does not control the services rendered to the customers, investment brokerage fees are presented net of related costs.

Gains/(losses) on sales of OREO: The Company records a gain or loss from the sale of OREO when control of the property transfers to the buyer, which generally occurs at the time of an executed deed. When the Company finances the sale of OREO to the buyer, the Company assesses whether the buyer is committed to perform its obligations under the contract and whether collectability of the transaction price is probable. Once these criteria are met, the OREO asset is derecognized and the gain or loss on sale is recorded upon the transfer of control of the property to the buyer. In determining the gain or loss on the sale, the Company adjusts the transaction price and related gain/(loss) on sale if a significant financing component is present. The Company recorded a loss on sale of OREO of $58 thousand for 2018 and a gain of $5 thousand in 2016. The Company did not record a gain or loss in 2017.

Other: All of the other income items are outside the scope of ASC 606.

10. OTHER OPERATING EXPENSES

The following table presents the major components of other operating expenses for the years ended December 31:

(In thousands)	2018	2017	2016
Professional and legal fees	$4,668	$4,486	$3,459
Wealth Division other expense	2,421	2,418	2,029
Telephone	1,077	998	976
Advertising	1,340	1,108	824
Loan expense	340	485	715
Provision for ORE losses	232	—	—
Intangible amortization	1,187	321	124
Other operating expenses	8,079	7,485	5,979
Total other operating expenses	$19,344	$17,301	$14,106

11. INCOME TAXES

The income tax expense included in the consolidated financial statements for the years ended December 31 is allocated as follows:

(In thousands)	2018	2017	2016
Federal:			
Current (benefit)/expense	$(7,046)	$1,559	$13,207
Deferred expense	16,908	13,922	486
State:			
Current expense	3,554	2,133	2,105
Deferred expense	134	196	466
Total income tax expense	$13,550	$17,810	$16,264

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Total income tax expense differed from the amounts computed by applying the U.S. Federal income tax rate of 21 percent for 2018 and 35 percent for both 2017 and 2016, respectively, to income before taxes as a result of the following:

(In thousands)	2018	2017	2016
Computed "expected" tax expense	$12,121	$19,008	$14,959
(Decrease)/increase in taxes resulting from:			
Tax-exempt income	(402)	(584)	(496)
State income taxes	2,942	1,514	1,671
Bank owned life insurance income	(290)	(475)	(492)
Life insurance expense	148	479	297
Gain on death benefit	(630)	—	—
Interest disallowance	115	124	95
Meals and entertainment expense	25	76	77
Stock-based compensation	(481)	(982)	15
Tax reform impact	—	(1,648)	—
Other	2	298	138
Total income tax expense	$13,550	$17,810	$16,264

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities as of December 31 are as follows:

(In thousands)	2018	2017
Deferred tax assets:		
Allowance for loan losses	$10,537	$9,972
Tax net operating loss carryforward	7,046	—
Lease adjustment	—	49
Post-retirement benefits	—	297
Organization costs	13	14
Unrealized loss on securities available for sale	969	714
Unrealized loss on equity security	79	—
Stock plan	1,534	118
Nonaccrual interest	31	31
Accrued compensation	189	900
Capital leases	1,051	774
Total gross deferred tax assets	$21,449	$12,869
Deferred tax liabilities:		
Lease financing	$33,191	$10,091
Cash flow hedge	265	392
Deferred loan origination costs and fees	1,214	1,072
Deferred income	2,693	729
Investment securities, principally due to the accretion of bond discount	—	13
Other	115	20
Total gross deferred tax liabilities	37,478	12,317

Net deferred tax (liability)/asset	$(16,029)	$552

Based upon taxes paid and projected future taxable income, Management believes that it is more likely than not that the gross deferred tax assets will be realized.

At December 31, 2018 and 2017, the Company had no unrecognized tax benefits. The Company does not expect the amount of unrecognized tax benefits to significantly increase or decrease in the next twelve months. The Company had Federal tax net operating losses arising in 2018 related to accelerated depreciation on lease financing activity of approximately $34 million and may be carried forward indefinitely. These losses cannot be carried back.

On December 22, 2017, the Tax Cuts and Jobs Act (H.R. 1) (the "Act") was signed into law. The Act contains several changes in existing tax law impacting businesses, including a reduction in the Federal corporate income tax rate from 35 percent to 21 percent, effective January 1, 2018. As a result, the Company's effective tax rate was 23.5 percent for 2018 as compared to 32.8 percent for 2017. The Company determined a reduction in the value of its net deferred tax liability of approximately $1.6 million, which was a result of a reduction in the Federal corporate tax rate that is expected to apply to the reversal of the Company's temporary differences. The Company recorded the reduction in the deferred tax liability as an income tax benefit in the Company's statement of income in 2017. The tax benefit was net of tax expense of $215 thousand related to the other comprehensive income revaluation adjustment.

On July 1, 2018, the 2019 New Jersey Budget ("Budget") was passed which established a 2.5 percent surtax on businesses that have New Jersey allocated net income in excess of $1.0 million. The surtax is effective as of January 1, 2018 and will continue through 2019. The surtax will adjust to 1.5 percent for 2020 and 2021. In addition, effective for taxable years beginning on or after January 1, 2019, banks will be required to file combined reports of taxable income including their parent holding company, their real estate investment trust ("REIT") subsidiary and all other subsidiaries including those that qualify as New Jersey Investment Companies, and Delaware Investment Holding Companies.

The Company is subject to U.S. Federal income tax as well as income tax of various state jurisdictions. The Company is no longer subject to federal examination for tax years prior to 2015. The tax years of 2015, 2016 and 2017 remain open to federal examination. The Company is no longer subject to state and local examinations by tax authorities for tax years prior to 2014. The tax years of 2014, 2015, 2016 and 2017 remain open for state examination.

12. BENEFIT PLANS

The Company sponsors a profit sharing plan and a savings plan under Section 401(k) of the Internal Revenue Code, covering substantially all salaried employees over the age of 21 with at least 12 months of service. Under the savings plan, the Company contributes three percent of salary for each employee regardless of the employees' contributions as well as partially matching employee contributions. Expense for the savings plan totaled approximately $2.2 million for the year ended December 31, 2018 and approximately $1.6 million for each of the years ended December 31, 2017 and 2016, respectively.

Contributions to the profit sharing plan are made at the discretion of the Board of Directors and all funds are invested solely in Company common stock. The Company did not contribute to the profit sharing plan in 2018, 2017 or 2016.

13. 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. As of December 31, 2018, the total number of shares available for grant in all active plans was 1,641,485. There are no shares remaining for issuance with respect to the stock option plan approved in 2002; however, options granted under this plan are still included in the numbers below.

Options granted under the stock incentive plans are, in general, exercisable not earlier than one year after the date of grant, at a price equal to the fair value of the 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.

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Changes in options outstanding during 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	(23,148)	15.45		
Expired during 2018	(3,790)	24.82		
Forfeited during 2018	(1,835)	18.91		
Balance, December 31, 2018	91,310	$ 13.63	2.70 years	$ 1,055
Vested and expected to vest	91,310	$ 13.63	2.70 years	$ 1,055
Exercisable at December 31, 2018	91,310	$ 13.63	2.70 years	$ 1,055

The aggregate intrinsic value in the table above represents the total pre-tax intrinsic value (the difference between the Company's closing stock price on the last trading day of 2018 and the exercise price, multiplied by the number of in-the-money options). The Company's closing stock price on December 31, 2018 was $25.18.

There were no stock options granted in 2018.

As of December 31, 2018, there was no unrecognized compensation cost related to non-vested share-based compensation arrangements granted under the Company's stock incentive plans.

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 the end of 2017. Therefore, as of March 31, 2018, the Company forfeited 92,767 performance-based awards.

The Company issued stock awards/units in 2018, 2017 and 2016. The stock awards were either service based awards or performance-based awards. The service-based awards vest ratably over a three or five-year period.

As of December 31, 2018, there was $101 thousand of total unrecognized compensation cost related to service-based awards. That cost is expected to be recognized over a weighted average period of 0.47 years. As of December 31, 2018, there was $8.3 million of total unrecognized compensation cost related to service-based units. That cost is expected to be recognized over a weighted average period of 1.32 years. Total stock-based compensation expense recognized for stock awards/units totaled $4.6 million, $3.5 million and $2.8 million in 2018, 2017 and 2016, respectively, while total stock-based compensation expense recognized for stock options was $6 thousand and $56 thousand for 2017 and 2016, respectively. There was no stock-based compensation for the year ended December 31, 2018.

Changes in non-vested shares dependent on performance criteria for 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, December 31, 2018	—	$ —

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Changes in service based restricted stock awards/units for 2018 were as follows:

	Number of Shares	Weighted Average Grant Date Fair Value
Balance, January 1, 2018	308,625	$ 23.96
Granted during 2018	278,267	33.64
Vested during 2018	(158,150)	21.89
Forfeited during 2018	(19,203)	28.38
Balance, December 31, 2018	409,539	$ 31.13

14. COMMITMENTS AND CONTINGENCIES

The Company, in the ordinary course of business, is a party to litigation arising from the conduct of its business. Management does not consider that these actions depart from routine legal proceedings and believes that such actions will not affect its financial position or results of its operations in any material manner. There are various outstanding commitments and contingencies, such as guarantees and credit extensions, including mostly variable-rate loan commitments of $684.2 million and $629.0 million at December 31, 2018 and 2017, respectively, which are not included in the accompanying consolidated financial statements. These commitments include unused commercial and home equity lines of credit.

The Company issues financial standby letters of credit that are irrevocable undertakings by the Company to guarantee payment of a specified financial obligation. Most of the Company's financial standby letters of credit arise in connection with lending relations and have terms of one year or less. The maximum potential future payments the Company could be required to make equals the contract amount of the standby letters of credit and amounted to $12.7 million and $17.1 million at December 31, 2018 and 2017, respectively. The fair value of the Company's liability for financial standby letters of credit was insignificant at December 31, 2018.

For commitments to originate loans, the Company's maximum exposure to credit risk is represented by the contractual amount of those instruments. Those commitments represent ultimate exposure to credit risk only to the extent that they are subsequently drawn upon by customers. The Company uses the same credit policies and underwriting standards in making loan commitments as it does for on-balance-sheet instruments. For loan commitments, the Company would generally be exposed to interest rate risk from the time a commitment is issued with a defined contractual interest rate.

At December 31, 2018, the Company was obligated under non-cancelable operating leases for certain premises. Rental expense aggregated $2.7 million, $2.5 million and $2.4 million for the years ended December 31, 2018, 2017 and 2016 respectively, which is included in premises and equipment expense in the consolidated statements of income.

The minimum annual lease payments under the terms of the operating lease agreements, as of December 31, 2018, were as follows:

(In thousands)	
2019	$2,713
2020	2,488
2021	2,113
2022	1,522
2023	1,118
Thereafter	1,631
Total	$11,585

The Company is also obligated under legally binding and enforceable agreements to purchase goods and services from third parties, including data processing service agreements.

The Company is a limited partner in a Small Business Investment Company ("SBIC"). As of December 31, 2018, the Company had unfunded commitments of $2.2 million for its investment in SBIC qualified funds.

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15. REGULATORY CAPITAL

Banks and bank holding companies are subject to regulatory capital requirements administered by federal banking agencies. Capital adequacy guidelines and, additionally for banks, prompt corrective action regulations, involve quantitative measures of assets, liabilities, and certain off-balance-sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators. Failure to meet minimum capital requirements can initiate certain mandatory – and possibly additional discretionary – actions by regulators that, if undertaken, could have a direct material effect on the Company's and the Bank's financial statements and results of operations. The final rules implementing Basel Committee on Banking Supervision's capital guidelines for U.S. banks (Basel III rules) became effective for the Company on January 1, 2015 with full compliance with all of the requirements being phased in over a multi-year schedule, and fully phased in by January 1, 2019. The Company has chosen to exclude net unrealized gain or loss on available for sale securities in computing regulatory capital. Management believes that as of December 31, 2018, the Company and Bank meet all capital adequacy requirements to which they were subject at that date.

Prompt corrective action regulations provide five classifications: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized, although these terms are not used to represent overall financial condition. If adequately capitalized, regulatory approval is required to accept brokered deposits. If undercapitalized, capital distributions are limited, as is asset growth and expansion, and capital restoration plans are required. At December 31, 2018 and 2017, the most recent regulatory notifications categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed the institution's category.

To be categorized as well capitalized, the Bank must maintain minimum total risk-based, Tier I risk-based, common equity Tier 1 and Tier I leverage ratios as set forth in the table.

The Bank's actual capital amounts and ratios are presented in the following table:

	Actual		To Be Well Capitalized Under Prompt Corrective Action Provisions		For Capital Adequacy Purposes		For Capital Adequacy Purposes Including Capital Conservation Buffer (A)	
(Dollars in thousands)	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2018:								
Total capital (to risk-weighted assets)	$543,008	14.59%	$372,186	10.00%	$297,749	8.00%	$ 367,533	9.875 %
Tier I capital (to risk-weighted assets)	504,504	13.56	297,749	8.00	223,311	6.00	293,096	7.875
Common equity tier I (to risk-weighted assets)	504,502	13.56	241,921	6.50	167,484	4.50	237,268	6.375
Tier I capital (to average assets)	504,504	11.32	222,912	5.00	178,330	4.00	178,330	4.000
As of December 31, 2017:								

Total capital (to risk-weighted assets)	$485,252	14.34 %	$338,327	10.00 %	$270,662	8.00 %	312,953	9.250 %
Tier I capital (to risk-weighted assets)	448,812	13.27	270,662	8.00	202,996	6.00	245,287	7.250
Common equity tier I (to risk-weighted assets)	448,810	13.27	219,913	6.50	152,247	4.50	194,538	5.750
Tier I capital (to average assets)	448,812	10.61	211,523	5.00	169,219	4.00	169,219	4.000

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The Company’s actual capital amounts and ratios are presented in the following table:

(Dollars in thousands)	Actual Amount	Ratio	To Be Well Capitalized Under Prompt Corrective Action Provisions Amount	Ratio	For Capital Adequacy Purposes Amount	Ratio	For Capital Adequacy Purposes Including Capital Conservation Buffer (A) Amount	Ratio
As of December 31, 2018:								
Total capital (to risk-weighted assets)	$559,937	15.03%	N/A	N/A	$298,047	8.00%	$ 367,902	9.875 %
Tier I capital (to risk-weighted assets)	438,240	11.76	N/A	N/A	223,535	6.00	293,390	7.875
Common equity tier I (to risk-weighted assets)	438,238	11.76	N/A	N/A	167,652	4.50	237,506	6.375
Tier I capital (to average assets)	438,240	9.82	N/A	N/A	178,473	4.00	178,473	4.000
As of December 31, 2017:								
Total capital (to risk-weighted assets)	$502,334	14.84%	N/A	N/A	$270,866	8.00%	313,189	9.250 %
Tier I capital (to risk-weighted assets)	382,870	11.31	N/A	N/A	203,149	6.00	245,472	7.250
Common equity tier I (to risk-weighted assets)	382,868	11.31	N/A	N/A	152,362	4.50	194,685	5.750
Tier I capital (to average assets)	382,870	9.04	N/A	N/A	169,318	4.00	169,318	4.000

(A) As fully phased in on January 1, 2019, the Basel Rules require the Company and the Bank to maintain a 2.5% “capital conservation buffer” on top of the minimum risk-weighted asset ratios. The capital conservation buffer is designed to absorb losses during periods of economic stress. Banking institutions with a ratio of (i) Common Equity Tier 1 to risk-weighted assets, (ii) Tier 1 capital to risk-weighted assets or (iii) total capital to risk-weighted assets above the respective minimum but below the capital conservation buffer will face constraints on dividends, equity repurchases and discretionary bonus payments to executive officers based on the amount of the shortfall. The implementation of the capital conservation buffer began on January 1, 2016 at the 0.625% level and increased by 0.625% on each subsequent January 1, until it reached 2.5% on January 1, 2019.

16. DERIVATIVES

The Company utilizes interest rate swap agreements as part of its asset liability management strategy to help manage its interest rate risk position. The notional amount of the interest rate swaps does not represent amounts exchanged by the parties. The amount exchanged is determined by reference to the notional amount and the other terms of the individual interest rate swap agreements.

Interest Rate Swap Designated as Cash Flow Hedge: Interest rate swaps with a notional amount of $230.0 million and $180.0 million at December 31, 2018 and 2017, respectively, were designated as a cash flow hedge of certain interest-bearing demand brokered deposits and were determined to be fully effective during 2018 and 2017. As such, no amount of ineffectiveness has been included in net income. Therefore, the aggregate fair value of these swaps is recorded in other assets/liabilities with changes in fair value recorded in other comprehensive income. The amount included in accumulated other comprehensive income would be reclassified to current earnings should the hedges no longer be considered effective. The Company expects the hedges to remain fully effective during the remaining terms of the swaps.

Information about the interest rate swaps designated as cash flow hedges as of December 31, 2018 and 2017 is presented in the following table:

(Dollars in thousands)	2018	2017
Notional amount	$230,000	$180,000
Weighted average pay rate	2.04 %	1.64 %
Weighted average receive rate	2.33 %	1.33 %
Weighted average maturity	2.65 years	2.25 years
Unrealized gain/(loss), net	$808	$1,394
Number of contracts	11	9

Net interest income/(expense) recorded on these swap transactions totaled approximately $390 thousand and ($898) thousand for the twelve months ended December 31, 2018 and 2017, respectively, and is reported as a component of interest expense.

Cash Flow Hedges

The following table presents the net gains/(losses) recorded in accumulated other comprehensive income and the consolidated financial statements relating to the cash flow derivative instruments for the year ended December 31:

2018 (In thousands)	Amount of Gain/(Loss) Recognized In OCI (Effective Portion)	Amount of Gain/(Loss) Reclassified From OCI to Interest Expense	Amount of Gain/(Loss) Recognized in Other Non- Interest Expense (Ineffective Portion)
Interest rate contracts	$ (328)	$ (124)	$ —

2017 (In thousands)	Amount of Gain/(Loss) Recognized In OCI (Effective Portion)	Amount of Gain/(Loss) Reclassified From OCI to Interest Expense	Amount of Gain/(Loss) Recognized in Other Non- Interest Expense (Ineffective Portion)
Interest rate contracts	$ 2,138	$ —	$ —

During the first quarter of 2018, the Company recognized an unrealized after-tax gain of $220 thousand in accumulated other comprehensive income/(loss) related to the termination of two interest rate swaps designated as cash flow hedges. The gain will be amortized into earnings over the remaining life of the terminated swaps. The

Company recognized pre-tax interest income of $124 thousand for the year ended December 31, 2018 related to the amortization of the gain on the terminated interest rate swaps designated as cash flow hedges.

The following tables reflect the cash flow hedges included in the financial statements as of December 31, 2018 and 2017:

	December 31, 2018	
(In thousands)	Notional Amount	Fair Value
Interest rate swaps related to interest-bearing demand brokered deposits	$230,000	$808
Total included in other assets	130,000	1,657
Total included in other liabilities	100,000	(849)

(In thousands)	December 31, 2017 Notional Amount	Fair Value
Interest rate swaps related to interest-bearing demand brokered deposits	$180,000	$1,394

Derivatives Not Designated as Accounting Hedges: The Company offers facility specific/loan level swaps to its customers and offset its exposure from such contracts by entering into mirror image swaps with a financial institution/swap counterparty (loan level / back to back swap program). The customer accommodations and any offsetting swaps are treated as non-hedging derivative instruments which do not qualify for hedge accounting ("standalone derivatives"). The notional amount of the swaps does not represent amounts exchanged by the parties. The amount exchanged is determined by reference to the notional amount and other terms of the individual contracts. The fair value of the swaps is recorded as both an asset and a liability, in other assets and other liabilities, respectively, in equal amounts for these transactions.

Information about these swaps is as follows:

(Dollars in thousands)	December 31, 2018	December 31, 2017
Notional amount	$558,690	$317,363
Fair value	$9,689	$3,131
Weighted average pay rates	4.44 %	4.11 %
Weighted average receive rates	4.24 %	3.43 %
Weighted average maturity	7.1 years	7.6 years
Number of contracts	67	42

17. SHAREHOLDERS' EQUITY

The Dividend Reinvestment Plan of the Company (the "Plan"), allows shareholders of the Company to purchase additional shares of common stock using cash dividends without payment of any brokerage commissions or other charges. Shareholders may also make voluntary cash payments of up to $200,000 per quarter to purchase additional shares of common stock. The Plan provides that shares may be purchased directly from the Company out of its authorized but unissued or treasury shares, or in the open market. During 2018, the shares purchased under the Plan were from authorized but unissued shares and in the open market. The price of shares purchased under the Plan will be the average price paid for such shares by the Plan's administrator, Computershare Investor Services. The price to the Plan administrator of shares purchased directly from the Company with reinvested dividends or voluntary cash payments historically was 97 percent of their "fair market value," as that term is herein defined in the Plan. However, on January 30, 2019, the Company filed a Registration Statement on Form S-3 which eliminated the three percent discount feature in our Plan. Total shares issued through the Plan in 2018 totaled 1,320,709 of which 542,302 of the shares purchased were from authorized but unissued shares, which resulted in additional capital of $16.7 million, while 778,407 were purchased in the open market. Total shares issued through the Plan in 2017 totaled 1,204,710

and resulted in additional capital of $36.6 million, of which 1,202,180 shares were issued through the voluntary purchase portion of the Plan.

18. 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 (includes C&I and equipment finance), commercial real estate, multifamily, residential and consumer lending activities; treasury management services; C&I advisory services; escrow management; 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, and Quadrant and Lassus Wherley, includes investment management services provided for individuals and institutions; personal trust services, including services as executor, trustee, administrator, custodian and guardian, and other financial planning, tax preparation and advisory services.

The following table presents the statements of income and total assets for the Company's reportable segments for the twelve months ended December 31, 2018, 2017 and 2016:

	Twelve Months Ended December 31, 2018		
(In thousands)	Banking	Wealth Management	Total
Net interest income	$110,001	$ 5,162	$115,163
Noninterest income	10,013	34,180	44,193
Total income	120,014	39,342	159,356
Provision for loan losses	3,550	—	3,550
Compensation and benefits	44,875	17,927	62,802
Premises and equipment expense	11,747	1,750	13,497
FDIC expense	2,443	—	2,443
Other noninterest expense	10,267	9,077	19,344
Total noninterest expense	72,882	28,754	101,636
Income before income tax expense	47,132	10,588	57,720
Income tax expense	11,065	2,485	13,550
Net income	$36,067	$ 8,103	$44,170
Total assets at period end	$4,547,179	$ 70,679	$4,617,858

	Twelve Months Ended December 31, 2017		
(In thousands)	Banking	Wealth Management	Total
Net interest income	$105,353	$ 5,788	$111,141
Noninterest income	10,943	23,684	34,627
Total income	116,296	29,472	145,768
Provision for loan losses	5,850	—	5,850
Compensation and benefits	42,917	11,039	53,956
Premises and equipment expense	10,682	1,306	11,988
FDIC expense	2,366	—	2,366
Other noninterest expense	9,466	7,835	17,301
Total noninterest expense	71,281	20,180	91,461
Income before income tax expense	45,015	9,292	54,307
Income tax expense	14,763	3,047	17,810
Net income	$30,252	$ 6,245	$36,497

Total assets at period end	$4,202,957	$ 57,590	$4,260,547

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	Twelve Months Ended December 31, 2016		
(In thousands)	Banking	Wealth Management	Total
Net interest income	$91,334	$ 5,101	$96,435
Noninterest income	10,217	18,701	28,918
Total income	101,551	23,802	125,353
Provision for loan losses	7,500	—	7,500
Compensation and benefits	36,028	8,975	45,003
Premises and equipment expense	10,213	1,032	11,245
FDIC expense	4,758	—	4,758
Other noninterest expense	8,565	5,541	14,106
Total noninterest expense	67,064	15,548	82,612
Income before income tax expense	34,487	8,254	42,741
Income tax expense	13,123	3,141	16,264
Net income	$21,364	$ 5,113	$26,477
Total assets at period end	$3,832,765	$ 45,868	$3,878,633

19. SUBORDINATED DEBT

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

Approximately $40.0 million of the net proceeds from the sale of the 2016 Notes were contributed by the Company to the Bank in the second quarter of 2016. The remaining funds (approximately $10 million) were retained by the Company for operational purposes.

During December 2017, the Company issued $35.0 million in aggregate principal amount of fixed-to-floating subordinated notes (the “2017 Notes”) to certain institutional investors. The 2017 Notes are non-callable for five years, have a stated maturity of December 15, 2027, and bear interest at a fixed rate of 4.75% per year until December 15, 2022. From December 16, 2022 to the maturity date or early redemption date, the interest rate will reset quarterly to a level equal to the then current three-month LIBOR rate plus 254 basis points, payable quarterly in arrears. Debt issuance costs incurred totaled $875 thousand and are being amortized to maturity.

Approximately $29.1 million of the net proceeds from the sale of the 2017 Notes were contributed by the Company to the Bank in the fourth quarter of 2017. The remaining funds of approximately $5 million, representing three years of interest payments, were retained by the Company for operational purposes.

Subordinated debt is presented net of issuance cost on the Consolidated Statements of Condition. The subordinated debt issuances are included in the Company’s regulatory total capital amount and ratio.

In connection with the issuance of the 2017 Notes, the Company obtained ratings from Kroll Bond Rating Agency ("KBRA"). KBRA assigned investment grade rating of BBB- for the Company's subordinated debt.

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20. ACQUISITIONS

The Company completed one acquisition in 2018 and two acquisitions during 2017 supporting the Bank's overall wealth management strategy. The acquisitions were not considered significant to the Company's financial statements and therefore pro forma financial data and related disclosures are not included.

On August 1, 2017, the Company acquired MCM. The purchase price was comprised of cash and common stock. The excess of the purchase price over the estimated fair value of the identifiable net assets was recorded as goodwill, none of which is tax deductible.

On November 1, 2017, the Company acquired Quadrant. The purchase price was comprised of cash and common stock. The excess of the purchase price over the estimated fair value of the identifiable net assets was recorded as goodwill and is deductible for tax purposes.

On September 1, 2018, the Company acquired Lassus Wherley. The purchase price was comprised of cash and common stock. The excess of the purchase price over the estimated fair value of the identifiable net assets was recorded as goodwill and is deductible for tax purposes.

The fair value of the equity included as part of the consideration for the Company's acquisitions was determined based on the closing price of the Company's common shares on the acquisition date and totaled $4.3 million and $5.1 million in the aggregate for 2018 and 2017, respectively.

The 2018 acquisition resulted in goodwill of $7.3 million as well as identifiable intangible assets . The two acquisitions during 2017 combined resulted in goodwill of $15.5 million as well as identifiable intangible assets. Identifiable intangible assets include tradename, customer relationships and non-compete agreements. No liabilities were assumed at the acquisition date.

Goodwill on the Company's balance sheet totaled $24.4 million and $17.1 million as of December 31, 2018 and 2017, respectively. Of the $24.4 million of goodwill, $563 thousand relates to the Banking segment and $23.8 million relates to the Wealth Management segment.

During 2018, the Company conducted its annual impairment analysis and concluded that there is no impairment of goodwill.

The table below presents a rollforward of goodwill and intangible assets for the years ended December 31, 2018, 2017, and 2016:

(In thousands)	Goodwill	Identifiable Intangible Assets
Balance as of 1/1/16	$ 1,573	$ 1,659
Amortization during the period	—	124
Balance as of 12/31/16	$ 1,573	$ 1,535
Acquisitions during the period	$ 15,534	$ 5,466
Amortization during the period	—	321
Balance as of 12/31/17	$ 17,107	$ 6,680
Acquisitions during the period	$ 7,310	$ 2,440
Amortization and impairment during the period	—	1,187

Balance as of 12/31/18	$ 24,417	$ 7,933

Amortization expense related to identifiable intangible assets was $1.2 million, $321 thousand, and $124 thousand for 2018, 2017, and 2016, respectively. The 2018 expense includes impairment expense of $405 thousand resulting from the passing of the founder and managing principal of MCM.

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Estimated amortization expense for each of the next five years is shown in the table below.

(In thousands)	
2019	$957
2020	950
2021	875
2022	698
2023	566

21. ACCUMULATED OTHER COMPREHENSIVE INCOME/(LOSS)

The following is a summary of the accumulated other comprehensive income/(loss) balances, net of tax, for the years ended December 31, 2018, 2017 and 2016:

(In thousands)	Balance at December 31, 2017	Cumulative Effect Adjustment for Adoption of ASU 2016-01	Other Comprehensive Loss Before Reclassifications	Amount Reclassified From Accumulated Other Comprehensive Loss	Other Comprehensive Loss Twelve Months Ended December 31, 2018	Balance at December 31, 2018
Net unrealized holding loss on securities available for sale, net of tax	$ (2,214)	$ 127	$ (1,137)	$ 218	$ (919)	$ (3,006)
Gains/(losses) on cash flow hedge	1,002	—	(247)	(94)	(341)	661
Accumulated other comprehensive loss, net of tax	$ (1,212)	$ 127	$ (1,384)	$ 124	$ (1,260)	$ (2,345)

(In thousands)	Balance at December 31, 2016	Cumulative Effect Adjustment for Adoption of ASU 2018-02	Other Comprehensive Loss Before Reclassifications	Amount Reclassified from Accumulated Other Comprehensive Income	Other Comprehensive Income Twelve Months Ended December 31, 2017	Balance at December 31, 2017
Net unrealized holding loss on	$ (1,091)	$ (392)	$ (731)	$ —	$ (731)	$ (2,214)

securities available for sale, net of tax						
(Losses)/gains on cash flow hedge	(440)	$ 177	$ 1,265	$ —	$ 1,265	$ 1,002
Accumulated other comprehensive						
loss, net of tax	$ (1,531)	$ (215)	$ 534	$ —	$ 534	$ (1,212)

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(In thousands)	Balance at December 31, 2015	Other Comprehensive Loss Before Reclassifications	Amount Reclassified from Accumulated Other Comprehensive Loss	Other Comprehensive Loss Twelve Months Ended December 31, 2016	Balance at December 31, 2016
Net unrealized holding gain/(loss) on securities available for sale, net of tax	$ 408	$ (1,424)	$ (75)	$ (1,499)	$ (1,091)
(Losses)/gains on cash flow hedge	$ (787)	$ 347	$ —	$ 347	$ (440)
Accumulated other comprehensive loss, net of tax	$ (379)	$ (1,077)	$ (75)	$ (1,152)	$ (1,531)

The following represents the reclassifications out of accumulated other comprehensive income for the yearss ended December 31, 2018, 2017 and 2016:

(In thousands)	Twelve Months Ended December 31, 2018	2017	2016	Affected Line Item in Statements of Income
Unrealized losses on securities available for sale:				
Reclassification adjustment for amounts included in net income	$ 288	$ —	$ 119	Securities losses, net
Income tax benefit	(70)	—	(44)	Income tax expense
Total reclassifications, net of tax	$ 218	$ —	$ 75	
Unrealized gains on cash flow hedge derivatives:				
Reclassification adjustment for amounts included in net income	$ (124)	$ —	$ —	Interest expense
Income tax expense	30	—	—	Tax effect
Total reclassifications, net of tax	$ (94)	$ —	$ —	

22. CONDENSED FINANCIAL STATEMENTS OF PEAPACK-GLADSTONE FINANCIAL CORPORATION (PARENT COMPANY ONLY)

STATEMENTS OF CONDITION

(In thousands)	December 31, 2018	2017
Assets		
Cash	$12,971	$14,563
Interest-earning deposits	517	515
Total cash and cash equivalents	13,488	15,078
Investment in subsidiary	535,277	469,622
Other assets	3,734	2,551
Total assets	$552,499	$487,251
Liabilities		
Subordinated debt	$83,193	$83,024
Other liabilities	293	549
Total liabilities	83,486	83,573
Shareholders’ equity		
Common stock	16,459	15,858
Surplus	309,088	283,552
Treasury stock	(8,988)	(8,988)
Retained earnings	154,799	114,468
Accumulated other comprehensive loss	(2,345)	(1,212)
Total shareholders’ equity	469,013	403,678
Total liabilities and shareholders’ equity	$552,499	$487,251

STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

(In thousands)	Years Ended December 31, 2018	2017	2016
Income			
Dividend from Bank	$—	$—	$—
Other income	4	2	1
Total income	4	2	1
Expenses			
Interest expenses	4,887	3,206	1,696
Other expenses	480	554	699
Total expenses	5,367	3,760	2,395
Loss before income tax benefit and equity in undistributed earnings of Bank	(5,363)	(3,758)	(2,394)
Income tax benefit	(1,123)	(1,313)	(835)
Net loss before equity in undistributed earnings of Bank	(4,240)	(2,445)	(1,559)

Equity in undistributed earnings of Bank/(dividends			
in excess of earnings)	48,410	38,942	28,036
Net income	$44,170	$36,497	$26,477
Other comprehensive (loss)/income	(1,260)	534	(1,152)
Comprehensive income	$42,910	$37,031	$25,325

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STATEMENTS OF CASH FLOWS

(In thousands)	Years Ended December 31, 2018	2017	2016
Cash flows from operating activities:			
Net income	$44,170	$36,497	$26,477
Undistributed earnings of Bank	(48,410)	(38,942)	(28,036)
Amortization of subordinated debt costs	171	135	71
Increase in other assets	(1,183)	(1,248)	(889)
Increase in other liabilities	(256)	113	114
Net cash used in operating activities	(5,508)	(3,445)	(2,263)
Cash flows from investing activities:			
Capital contribution to subsidiary	(9,322)	(60,177)	(57,823)
Net cash used in investing activities	(9,322)	(60,177)	(57,823)
Cash flows from financing activities:			
Cash dividends paid on common stock	(3,712)	(3,548)	(3,296)
Exercise of stock options, net of stock swaps	275	690	1,069
Proceeds from issuance of subordinated debt	—	34,125	48,693
Issuance of common shares (DRIP program)	16,677	36,588	22,461
Net cash provided by financing activities	13,240	67,855	68,927
Net (decrease)/increase in cash and cash equivalents	(1,590)	4,233	8,841
Cash and cash equivalents at beginning of period	15,078	10,845	2,004
Cash and cash equivalents at end of period	$13,488	$15,078	$10,845

23. SUPPLEMENTAL DATA (unaudited)

The following table sets forth certain unaudited quarterly financial data for the periods indicated:

Selected 2018 Quarterly Data: (In thousands, except per share data)	March 31	June 30	September 30	December 31
Interest income	$37,068	$39,674	$ 40,163	$ 42,781
Interest expense	8,675	10,431	12,021	13,396
Net interest income	28,393	29,243	28,142	29,385
Provision for loan losses	1,250	300	500	1,500
Wealth management fee income	8,367	8,126	8,200	8,552
Securities (losses)/gains, net	(78)	(36)	(325)	46
Other income	1,926	3,650	3,108	2,657
Operating expenses	23,337	24,941	24,284	25,524
Income before income tax expense	14,021	15,742	14,341	13,616
Income tax expense	3,214	3,832	3,617	2,887

Net income	$10,807	$11,910	$ 10,724	$ 10,729
Earnings per share-basic	$0.58	$0.63	$ 0.56	$ 0.56
Earnings per share-diluted	0.57	0.62	0.56	0.55

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Explanation of Responses:

Selected 2017 Quarterly Data:				
(In thousands, except per share data)	March 31	June 30	September 30	December 31
Interest income	$31,385	$33,412	$ 37,491	$ 36,439
Interest expense	5,794	6,440	7,499	7,853
Net interest income	25,591	26,972	29,992	28,586
Provision for loan losses	1,600	2,200	400	1,650
Wealth management fee income	4,818	5,086	5,790	7,489
Securities gains/(losses), net	—	—	—	—
Other income	2,201	3,085	3,041	3,117
Operating expenses	19,304	20,095	21,961	24,251
Income before income tax expense	11,706	12,848	16,462	13,291
Income tax expense	3,724	4,908	6,256	2,922
Net income	$7,982	$7,940	$ 10,206	$ 10,369
Earnings per share-basic	$0.47	$0.45	$ 0.57	$ 0.57
Earnings per share-diluted	0.46	0.45	0.56	0.56

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Item 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

Item 9A. CONTROLS AND PROCEDURES

Management's Evaluation of Disclosure Controls and Procedures

The Company maintains "disclosure controls and procedures" which, consistent with Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended, is defined to mean controls and other procedures that are designed to ensure that information required to be disclosed in the reports that the Company files or submits under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and to ensure that such information is accumulated and communicated to the Company's Management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

The Company's Management, with the participation of its Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures. Based on such evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures are effective as of the end of the period covered by this Annual Report on Form 10-K.

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

Changes in Internal Control over Financial Reporting

There have been no changes in the Company's internal control over financial reporting during the quarter ended December 31, 2018, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Management's Report on Internal Control Over Financial Reporting

The Company's Management is responsible for establishing and maintaining adequate internal control over financial reporting. The Company's internal control over financial reporting is a process designed to provide reasonable assurance to the Company's Management and Board of Directors regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. In addition, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

As of December 31, 2018, Management assessed the effectiveness of the Company's internal control over financial reporting based on the criteria for effective internal control over financial reporting established in 2013 Internal Control-Integrated Framework, issued by the Committee of Sponsoring Organizations ("COSO") of the Treadway Commission. Management's assessment included an evaluation of the design of the Company's internal control over financial reporting

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and testing of the operating effectiveness of its internal control over financial reporting. Management reviewed the results of its assessment with the Audit and Risk Committees.

Based on this assessment, Management determined that, as of December 31, 2018, the Company's internal control over financial reporting was effective to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles.

Report of the Independent Registered Public Accounting Firm

Crowe LLP, the independent registered public accounting firm that audited the Company's December 31, 2018 consolidated financial statements included in this Annual Report on Form 10-K, has issued an audit report expressing an opinion on the effectiveness of the Company's internal control over financial reporting as of December 31, 2018. The report is included in Item 8 under the heading "Report of Independent Registered Public Accounting Firm."

Item 9B. OTHER INFORMATION
None.

PART III

Item 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE
The information set forth under the captions “Proposal 1 – Election of Directors – Nominee for Election as Directors,” “Corporate Governance – Committee of the Board of Directors – Audit Committee,” “– Code of Business Conduct and Conflict of Interest Policy and Corporate Governance Principles,” and “Section 16(a) Beneficial Ownership Reporting Compliance” in the 2019 Proxy Statement is incorporated herein by reference.

A copy of the Code of Business Conduct and Conflict of Interest Policy is available to shareholders on the “Governance Documents” section of the Investors Relations section of the Company’s website at www.pgbank.com.

Executive Officer	Age	Year Became an Executive Officer	Current Position and Business Experience
Douglas L. Kennedy	62	2012	Chief Executive Officer
Jeffrey J. Carfora	60	2009	Chief Financial Officer
John P. Babcock	61	2014	President of Private Wealth Management
Lisa P. Chalkan	54	2016	Chief Credit Officer
Robert A. Plante	59	2017	Chief Operating Officer

Mr. Kennedy joined the Bank in October 2012 as Chief Executive Officer. He is a career banker with over 40 years of commercial banking experience. Previously, Mr. Kennedy served as Executive Vice President and Market President at Capital One Bank/North Fork Bank and held key executive level positions with Summit Bank and Bank of American/Fleet Bank. Mr. Kennedy has a Bachelor’s Degree in Economics and a MBA from Sacred Heart University in Fairfield, Connecticut.

Mr. Carfora joined the Bank in April 2009 as Chief Financial Officer having previously served as a Transitional Officer with New York Community Bank from April 2007 until January 2008 as a result of a merger with PennFed Financial Services Inc. and Penn Federal Savings Bank (collectively referred to as “PennFed”). Previous to the merger, Mr. Carfora served as Chief Operating Officer of PennFed from October 2001 until April 2007 and Chief Financial Officer from December 1993 to October 2001. Mr. Carfora has nearly 38 years of experience, including 35 years in the banking industry. Mr. Carfora has a Bachelor’s degree in Accounting and a MBA in Finance, both from Fairleigh Dickinson University and is a Certified Public Accountant.

Mr. Babcock joined the Bank in March 2014 as Senior Executive Vice President and President of Private Wealth Management of Peapack-Gladstone Bank. Mr. Babcock has more than 37 years of experience in wealth management and private banking, most recently serving as managing director and the regional head of the Northeast Mid-Atlantic region for the HSBC Private Bank. Prior to HSBC, Mr. Babcock held senior level positions at U.S. Trust/Bank of America, The Bank of New York and Summit/Fleet Bank. He has a Bachelor’s degree from the A. B. Freeman School of Business at Tulane University and an MBA from Fairleigh Dickinson University.

Lisa P. Chalkan joined the bank in April 2015 as Senior Vice President and Chief Credit Officer. Ms. Chalkan has more than 31 years of financial services experience with a concentration in risk management, credit administration, underwriting and managing of policies and procedures. Ms. Chalkan was promoted to Executive Vice President and Chief Credit Officer in April 2016. Prior to joining Peapack-Gladstone Bank in 2015, Ms. Chalkan served key roles at Capital One N.A. as Senior Vice President, Head of Commercial Policy; Director of Loan Administration/Commercial Banking; and Manager of Middle Market Underwriting/New Jersey where she was responsible for defining the credit parameters and authorities for commercial business and the build-out of a

centralized credit administration team. Prior to her tenure at Capital One, Ms. Chalkan held key positions at Fleet Boston Financial/Bank of America, and HSBC Bank USA/HSBC Securities, Inc. as Vice President, Underwriting Manager, in Small Business Services and Risk Review Field Manager, respectively. Ms. Chalkan holds a Bachelor of Arts Degree in Economics from Rutgers University.

Mr. Plante joined the bank in March 2017 as Executive Vice President and Chief Operating Officer. Mr. Plante is a seasoned executive, proficient in tactical and operational leadership within the financial services industry. From 2012 to March 2017, Mr. Plante served as Executive Vice President and Chief Operating Officer of Israel Discount Bank of New York. From 2008 to 2011, Mr. Plante served as Chief Information Officer at IDB of NY. Prior to IDB of NY, Mr. Plante was Chief Information Officer for The CIT Group, a global commercial and consumer finance company. Prior to CIT, he also held senior positions with GE Capital Global Consumer Finance and with the Geary Corporation, a privately held IT consulting Company. Mr. Plante has a Bachelor of Science in Business Administration from the University of Vermont.

Item 11. EXECUTIVE COMPENSATION

The information set forth under the captions “Executive Compensation,” “Director Compensation,” “Compensation Discussion and Analysis,” and “Compensation Committee Report in the 2019 Proxy Statement is incorporated herein by reference.

Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The following table shows information at December 31, 2018 for all equity compensation plans under which shares of our common stock may be issued:

Plan Category	Number of Securities To be Issued Upon Exercise of Outstanding Options	Weighted-Average Exercise Price of Outstanding Options	Number of Securities Remaining Available For Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column
Equity Compensation Plans Approved By Security Holders	91,310	$ 13.63	1,641,485
Equity Compensation Plans Not Approved By Security Holders	N/A	N/A	N/A
Total	91,310	$ 13.63	1,641,485

The information set forth under the captions “Beneficial Ownership of Common Stock” in the 2019 Proxy Statement is incorporated herein by reference.

Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information set forth under the captions “Transactions with Related Persons” and “Corporate Governance – Director Independence” in the 2019 Proxy Statement is incorporated herein by reference.

Item 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information set forth under the captions “Proposal 3 – Ratification of the Appointment of the Independent Registered Public Accounting Firm” and “– Audit Committee Pre-Approval Procedures” in the 2019 Proxy Statement is incorporated herein by reference.

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PART IV

Item 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) Financial Statements and Schedules:

(1) Consolidated Financial Statements of Peapack-Gladstone Financial Corporation.
Report of Independent Registered Public Accounting Firm.
Consolidated Statements of Condition as of December 31, 2018 and 2017.
Consolidated Statements of Income for the years ended December 31, 2018, 2017 and 2016.
Consolidated Statements of Comprehensive Income for the years ended December 31, 2018, 2017 and 2016.
Consolidated Statements of Changes in Shareholders' Equity for the years ended December 31, 2018, 2017 and 2016.
Consolidated Statements of Cash Flows for the years ended December 31, 2018, 2017 and 2016.
Notes to Consolidated Financial Statements.

The Consolidated Financial Statements of Peapack-Gladstone Financial Corporation as set forth in Item 8 of Part II of this Form 10-K for the year ended December 31, 2018 are incorporated by reference herein.

All financial statement schedules are omitted because they are either inapplicable or not required, or because the required information is included in the Consolidated Financial Statements or notes thereto contained in this 2018 Annual Report.

(b) Exhibits

(3) Articles of Incorporation and By-Laws:

A. Certificate of Incorporation as incorporated herein by reference to Exhibit 3 of the Registrant's Form 10-Q Quarterly Report filed on November 9, 2009 (SEC File No. 001-16197).

B. By-Laws of the Registrant as in effect on the date of this filing are incorporated herein by reference to Exhibit 3.2 of the Registrant's Form 8-K Current Report filed on December 20, 2017.

(4) Instruments Defining the Rights of Security Holders

A. Indenture, dated June 15, 2016, by and between the Company and U.S. Bank National Association, as Trustee, incorporated by reference to Exhibit 4.1 to the Registrant's Form 8-K Current Report filed on June 15, 2016.

B. First Supplemental Indenture, dated as of June 15, 2016, by and between the Company and U.S. Bank National Association, as Trustee, incorporated by reference to Exhibit 4.2 to the Registrant's Form 8-K Current Report filed on June 15, 2016.

C. Indenture, dated December 12, 2017, by and between the Company and U.S. Bank National Association, as Trustee, incorporated by reference to Exhibit 4.1 to the Registrant's Form 8-K Current Report filed on December 12, 2017.

D. First Supplemental Indenture, dated as of December 12, 2017, by and between the Company and U.S. Bank National Association, as Trustee, incorporated by reference to Exhibit 4.2 to the Registrant’s Form 8-K Current Report filed on December 12, 2017.

(10) Material Contracts:

A. “Directors’ Retirement Plan” dated as of March 31, 2001, incorporated by reference to Exhibit 10(J) of the Registrant’s Form 10-K Annual Report for the year ended December 31, 2003 (SEC File No. 001-16197). +

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B. “Directors’ Deferral Plan” dated as of March 31, 2001, incorporated by reference to Exhibit 10(K) of the Registrant’s Form 10-K Annual Report for the year ended December 31, 2003 (SEC File No. 001-16197). +
C. Peapack-Gladstone Financial Corporation Amended and Restated 2002 Stock Option Plan is incorporated by reference to Exhibit 10.2 of the Registrant’s Form 8-K Current Report filed on January 13, 2006 (SEC File No. 001-16197). +
D. Peapack-Gladstone Financial Corporation 2006 Long-Term Stock Incentive Plan is incorporated by reference to Exhibit 10 of the Registrant’s Form 10-Q Quarterly Report filed on May 10, 2006 (SEC File No. 001-16197). +
E. (1) Form of Restricted Stock Agreement, (2) Form of Restricted Stock Agreement for Outside Directors, (3) Form of Time-Based/Performance-Based Restricted Stock Agreement (4) Form of Non-qualified Stock Option Agreement, (5) Form of Incentive Stock Option Agreement and (6) Form of Non-qualified Stock Option Agreement for Outside Directors under the Peapack-Gladstone Financial Corporation 2012 Long-Term Stock Incentive Plan, incorporated by reference to Exhibits 10(H)(1), 10(H)(2), 10(H)(3), 10(H)(4), 10(H)(5) and 10(H)(6) of the Registrant’s Form 10-K Annual Report for the year ended December 31, 2013. +
F. (1) Form of Non-qualified Stock Option Agreement, (2) Form of Incentive Stock Option Agreement, (3) Form of Non-qualified Stock Option Agreement for Outside Directors under the Peapack-Gladstone Financial Corporation 2006 Long-Term Stock Incentive Plan incorporated by reference to Exhibit 10(I)(2), 10(I)(3) and 10(I)(4) of the Registrant’s Form 10-K for the year ended December 31, 2012. +
G. Peapack-Gladstone Financial Corporation 2012 Long-Term Stock Incentive Plan, as amended and restated, incorporated by reference to Exhibit 10 of the Registrant’s Form 10-Q Quarterly Report filed on November 7, 2016.+
H. Employment Agreement dated as of December 4, 2013, by and among the Company, the Bank and Douglas L. Kennedy incorporated by reference to Exhibit 10(L) of the Registrant’s Form 10-K Annual Report for the year ended December 31, 2013. +
I. Amended and Restated Employment Agreement dated as of December 4, 2013, by and among the Company, the Bank and Jeffrey J. Carfora incorporated by reference to Exhibit 10(O) of the Registrant’s Form 10-K Annual Report for the year ended December 31, 2013. +
J. Employment Agreement dated as of March 10, 2014, by and among the Company, the Bank and John P. Babcock incorporated by reference to Exhibit 10(N) of the Registrant’s Form 10-K Annual Report for the year ended December 31, 2016. +
K. Change in Control Agreement dated as of December 4, 2013, by and among the Company, the Bank and Douglas L. Kennedy incorporated by reference to Exhibit 10(Q) of the Registrant’s Form 10-K Annual Report for the year ended December 31, 2013. +
L. Amended and Restated Change in Control Agreement dated as of December 4, 2013, by and among the Company, the Bank and Jeffrey J. Carfora incorporated by reference to Exhibit 10(S) of the Registrant’s Form 10-K Annual Report for the year ended December 31, 2013. +
M. Change in Control Agreement dated as of March 20, 2017, by and among the Company, the Bank and Robert A. Plante incorporated by reference to Exhibit 10(N) of the Registrant’s Form 10-K Annual Report for the year ended December 31, 2017. +
N. Change in Control Agreement dated as of March 14, 2018, by and among the Company, the Bank and Lisa P. Chalkan. +
O. Deferred Compensation Retention Award Plan dated August 4, 2017, by and between Peapack-Gladstone Bank and Douglas L. Kennedy, incorporated by reference to Exhibit 10(A) from the Registrant’s Form 10-Q Quarterly Report for the quarter ended September 30, 2017. +

P. Deferred Compensation Retention Award Plan dated August 4, 2017, by and between Peapack-Gladstone Bank and John P. Babcock, incorporated by reference to Exhibit 10(A) from the Registrant's Form 10-Q Quarterly Report for the quarter ended September 30, 2017. +

Q. Deferred Compensation Retention Award Plan dated August 4, 2017, by and between Peapack-Gladstone Bank and Jeffrey J. Carfora, incorporated by reference to Exhibit 10(A) from the Registrant's Form 10-Q Quarterly Report for the quarter ended September 30, 2017. +

(21) List of Subsidiaries:

(a) Subsidiaries of the Company:

Name	Jurisdiction of Incorporation	Percentage of Voting Securities Owned by the Parent
Peapack-Gladstone Bank	New Jersey	100%

(b) Subsidiaries of the Bank:

Name		
PGB Trust and Investments of Delaware	Delaware	100%
Peapack-Gladstone Mortgage Group	New Jersey	100%
BGP RRE Holdings, LLC	New Jersey	100%
BGP CRE Painter Farm, LLC	New Jersey	100%
BGP CRE Heritage, LLC	New Jersey	100%
BGP CRE K&P Holdings, LLC	New Jersey	100%
BGP CRE Office Property, LLC	New Jersey	100%
PG Investment Company of Delaware	Delaware	100%
Peapack-Gladstone Realty, Inc.	New Jersey	100%
Peapack Capital Corporation	New Jersey	100%
Murphy Capital Management	New Jersey	100%
Quadrant Capital Management	New Jersey	100%
Lassus Wherley	New Jersey	100%
Peapack-Gladstone Financial Services, Inc. (Inactive)	New Jersey	100%

(23) Consent of Independent Registered Public Accounting Firm:

(23.1) Consent of Crowe LLP

(24) Power of Attorney

(31.1) Certification of Douglas L. Kennedy, Chief Executive Officer of Peapack-Gladstone, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

(31.2) Certification of Jeffrey J. Carfora, Chief Financial Officer of Peapack-Gladstone, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

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

(101) Interactive Data File

+Management contract and compensatory plan or arrangement.

Item 16. Form 10-K Summary

Not applicable.

SIGNATURES

Pursuant to the requirements of section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Peapack-Gladstone Financial Corporation
By: /s/ Douglas L. Kennedy
Douglas L. Kennedy

President and Chief Executive Officer

Dated: March 14, 2019

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities indicated.

Signature	Title	Date
/s/ Douglas L. Kennedy Douglas L. Kennedy	President and Chief Executive Officer, and Director	March 14, 2019
/s/ Jeffrey J. Carfora Jeffrey J. Carfora	Senior Executive Vice President and Chief Financial Officer	March 14, 2019
/s/ Francesco S. Rossi Francesco S. Rossi	Senior Vice President and Chief Accounting Officer	March 14, 2019
/s/ F. Duffield Meyercord F. Duffield Meyercord	Chairman of the Board	March 14, 2019
/s/ Carmen M. Bowser Carmen M. Bowser	Director	March 14, 2019
/s/ Susan A. Cole Susan A. Cole	Director	March 14, 2019
/s/ Anthony J. Consi II Anthony J. Consi II	Director	March 14, 2019
/s/ Richard Daingerfield Richard Daingerfield	Director	March 14, 2019
/s/ Edward A. Gramigna Edward A. Gramigna	Director	March 14, 2019

/s/ Peter D. Horst Peter D. Horst	Director	March 14, 2019
/s/ Steven A. Kass Steven A. Kass	Director	March 14, 2019
/s/ Patrick J. Mullen Patrick J. Mullen	Director	March 14, 2019
/s/ Philip W. Smith III Philip W. Smith III	Director	March 14, 2019
/s/ Tony Spinelli Tony Spinelli	Director	March 14, 2019
/s/ Beth Welsh Beth Welsh	Director	March 14, 2019

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CHANGE-IN-CONTROL AGREEMENT

Lisa P. Chalkan

THIS CHANGE-IN-CONTROL AGREEMENT (this "Agreement"), effective as of March 14, 2018 (the "Effective Date"), by and among PEAPACK-GLADSTONE BANK (the "Bank"), a New Jersey state banking association which maintains its principal office at 500 Hills Drive, Bedminster, New Jersey 07921, PEAPACK-GLADSTONE FINANCIAL CORPORATION ("Peapack"), a New Jersey Corporation which maintains its principal office at 500 Hills Drive, Bedminster, New Jersey 07921 (Peapack and the Bank hereinafter collectively referred to as the "Company") and Lisa P. Chalkan (the "Executive").

WITNESSETH:

WHEREAS, the Company and the Executive desire to enter into this Agreement pursuant to which the Executive may be entitled to termination benefits in the event of a termination of employment following the Change in Control of the Company.

NOW, THEREFORE, in consideration of the mutual covenants and agreements contained herein, the Company and the Executive, each intending to be legally bound hereby agree as follows:

1.Definitions

a.Cause. For purposes of this Agreement "Cause" with respect to the termination by the Company of the Executive's employment shall mean (i) willful and continued failure by the Executive to perform his/her duties for the Company under this Agreement after at least one (1) warning in writing from the Board of Directors of Peapack (the "Board") identifying specifically any such failure; (ii) the willful engaging by the Executive in misconduct which causes material injury to the Company as specified in a written notice to the Executive from the Board; or (iii) conviction of a crime, other than a traffic violation, habitual drunkenness, drug abuse, or excessive absenteeism other than for illness, after a warning (with respect to drunkenness or absenteeism only) in writing from the Board to refrain from such behavior. No act or failure to act on the part of the Executive shall be considered willful unless done, or omitted to be done, by the Executive not in good faith and without reasonable belief that the action or omission was in the best interest of the Company.

b.Change in Control. "Change in Control" means any of the following events: (i) when any person (as such term is used in Sections 13(d) and 14(d)(2) of the Exchange Act), other than an affiliate of Peapack or a Subsidiary or an employee benefit plan established or maintained by Peapack, a Subsidiary or any of their respective affiliates, is or becomes the beneficial owner (as defined in Rule 13d 3 of the Exchange Act) directly or indirectly, of securities of Peapack representing more than thirty percent (30%) of the combined voting power of Peapack's then outstanding securities (a "Control Person"), (ii) upon the consummation of (A) a merger or consolidation of Peapack with or into another corporation (other than a merger or consolidation which is approved by at least two thirds of the Continuing Directors (as hereinafter defined) and the definitive agreement for which provides that at least two thirds of the directors of the surviving or resulting corporation immediately after the transaction are Continuing Directors (a "Non Control Transaction"), or (B) a sale or disposition of all or substantially all of Peapack's assets, (iii) if during any one (1) year period , individuals who at the beginning of such period constitute the Board (the "Continuing Directors") cease for any reason to constitute at least a majority thereof or, following a Non Control Transaction, a majority of the board of directors of the surviving or resulting corporation; provided that any individual whose election or nomination for election as a member of the Board (or, following a Non Control Transaction, the board of directors of the surviving or

resulting corporation) was approved by a vote of at least two thirds of the Continuing Directors then in office shall be considered a Continuing Director, or (iv) upon a sale of (A) common stock of the Bank if after such sale any person (as such term is used in Section 13(d) and 14(d)(2) of the Exchange Act) other than Peapack, an employee benefit plan established or maintained by Peapack or a Subsidiary, or an affiliate of Peapack or a Subsidiary, owns a majority of the Bank's common stock or (B) all or substantially all of the Bank's assets (other than in the ordinary course of business). No person shall be considered a Control Person for purposes of clause (i) above if (A) such person is or becomes the beneficial owner, directly or indirectly, of more than ten percent (10%) but less than twenty five percent (25%) of the combined voting power of Peapack's then outstanding securities if the acquisition of all voting securities in excess of ten percent (10%) was approved in advance by a majority of the Continuing Directors then in office or (B) such person acquires in excess of ten percent (10%) of the combined voting power of Peapack's then outstanding voting securities in violation of law and by order of a court of competent jurisdiction, settlement or otherwise, disposes or is required to dispose of all securities acquired in violation of law. Notwithstanding the

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foregoing, solely to the extent necessary to comply with Section 409A of the Code, a Change in Control shall not be deemed to occur under this Agreement unless it constitutes a “change in control” under Section 409A of the Code and the final regulations promulgated thereunder.

c.Contract Period. “Contract Period” shall mean the period commencing the day immediately preceding a Change in Control and ending on the earlier of (i) the second anniversary of the Change in Control or (ii) the death of the Executive. For the purpose of this Agreement, a Change in Control shall be deemed to have occurred at the date specified in the definition of Change-in-Control.

d.Exchange Act. “Exchange Act” means the Securities Exchange Act of 1934, as amended.

e.Good Reason. When used with reference to a voluntary termination by the Executive of his/her employment with the Company, “Good Reason” shall mean any of the following, if taken without the Executive’s express written consent:

(1)The assignment to the Executive of any duties materially inconsistent with, or the material reduction of powers or functions associated with, the Executive’s position, title, duties, responsibilities and status with the Company immediately prior to a Change in Control; A change in title or positions resulting merely from a merger of the Company into or with another bank or company which does not downgrade in any way the Executive’s powers, duties and responsibilities shall not meet the requirements of this Section;

(2)A material reduction by the Company in the Executive’s annual base compensation or bonus opportunity as in effect immediately prior to a Change in Control;

(3) The Company’s transfer of the Executive to another geographic location outside of New Jersey, which is more than twenty (25) miles from his/her present office location, except for required travel on the Company’s business to an extent substantially consistent with the Executive’s business travel obligations immediately prior to such Change in Control; or

(4)Any other action or inaction by the Company which constitutes a material breach of the terms of this Agreement; or

(5)The failure by the Company to obtain an assumption of the obligations of the Company to perform this Agreement by any successor to the Company.

Notwithstanding the foregoing, the Executive shall not have Good Reason for termination unless (A) the Executive gives written notice of termination for Good Reason within thirty (30) days after the event giving rise to Good Reason first occurs, (B) the Company does not correct the action or failure to act that constitutes the grounds for Good Reason, as set forth in the Executive’s notice of termination, within thirty (30) days after the date on which the Executive gives written notice of termination and (C) the Executive actually resigns within thirty (30) days following the expiration of the cure period.

f.Subsidiary. “Subsidiary” means any corporation in an unbroken chain of corporations, beginning with Peapack, if each of the corporations other than the last corporation in the unbroken chain owns stock possessing fifty percent (50)% or more of the total combined voting power of all classes of stock in one of the other corporations in such chain.

2.Employment. The Company hereby agrees to employ the Executive, and the Executive hereby accepts employment, during the Contract Period upon the terms and conditions set forth herein.

3.Position. During the Contract Period the Executive shall be employed in a senior executive position, with duties and responsibilities substantially similar with the Executive's duties and responsibilities as in effect immediately prior to the Change in Control. The Executive shall devote his/her full time and attention to the business of the Company, and shall not during the Contract Period be engaged in any other business activity. This Section shall not be construed as preventing the Executive from managing any of his/her investments which do not require any service on his/her part in the operation of such investments.

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4.Cash Compensation. The Company shall pay to the Executive compensation for his/her services during the Contract Period as follows:

a.Base Salary. An annual base salary equal to the annual base salary in effect as of the Change in Control. The annual salary shall be payable in installments in accordance with the Company's usual payroll method.

b.Annual Bonus. An annual cash bonus award opportunity, equal to at least the annual cash bonus award opportunity in effect immediately prior to the Change in Control. Any annual bonus earned by the Executive shall be paid to him after the end of the fiscal year to which it relates; provided that in no event shall the Executive's annual bonus be paid later than March 15 of the fiscal year following the fiscal year for which it was earned.

c.Annual Review. The Board of Directors of the Company during the Contract Period shall review annually, or at more frequent intervals which the Board determines is appropriate, the Executive's compensation and shall award him additional compensation to reflect the Executive's performance, the performance of the Company and competitive compensation levels, all as determined in the discretion of the Board of Directors.

5.Expenses and Other Benefits.

a.Expenses. During the Contract Period, the Company shall pay or reimburse the Executive for all reasonable entertainment, travel or other expenses incurred by the Executive in connection with the performance of his/her duties under this Agreement, subject to the Executive's presentation of appropriate documentation in accordance with such procedures as the Company may from time to time establish.

b.Retirement or Welfare Benefits. During the Contract Period, the Executive shall participate in employee retirement and welfare benefit plans made available to the Company's senior level executives as a group or to its employees generally, as such retirement and welfare plans may be in effect from time to time and subject to the eligibility requirements of the plans. Nothing in this Agreement shall prevent the Company from amending or terminating any retirement, welfare or other employee benefit plans or programs from time to time as the Company deems appropriate.

c.Other Benefits. During the Contract Period, the Executive shall be entitled to vacation and sick days, including other fringe benefits and perquisites, each at the levels commensurate with those provided to other senior level executives of the Company, in accordance with the Company's policies as in effect from time to time.

6.Termination for Cause. The Company shall have the right to terminate the Executive for Cause, upon written notice to him of the termination which notice shall specify the reasons for the termination. In the event of termination for Cause the Executive shall not be entitled to any further benefits under this Agreement.

7.Disability. During the Contract Period if the Executive becomes permanently disabled so as to qualify for full benefits under the Company's then-existing long-term disability insurance policy, or is unable to perform his/her duties hereunder for four (4) consecutive months in any twelve (12) month period, the Company may terminate the employment of the Executive. In such event, the Executive shall not be entitled to any further benefits under this Agreement.

8.Death Benefits. Upon the Executive's death during the Contract Period, his/her estate shall not be entitled to any further benefits under this Agreement.

9.Termination Without Cause or Resignation for Good Reason. The Company may terminate the Executive without Cause during the Contract Period by written notice to the Executive providing thirty (30) days' notice. The Executive may resign for Good Reason during the Contract Period upon thirty (30) days' written notice in accordance with the

requirements of Section 1(e). If the Company terminates the Executive's employment during the Contract Period without Cause or if the Executive Resigns for Good Reason, the Company shall pay the Executive the severance amounts set forth in this Section 9 below, subject to (i) the Executive's execution and non-revocation of a written release of all claims against the Company and all related parties with respect to all matters arising out of the Executive's employment by the Company, or the termination thereof, substantially in the form attached hereto as Exhibit A (the "Release"), and (ii) the Executive's continued compliance with the restrictive covenants referenced in Section 11 below.

a.The Executive shall receive a lump sum cash severance payment in an amount equal to (A) 2.0 times the Executive's annual Base Salary at the rate in effect at the time of the Executive's termination, plus (B) 2.0 times the greater of (i) the Executive's average annual bonus paid by the Company to the Executive for the three (3) fiscal years preceding the fiscal year in which the Executive's termination of employment occurs, or (ii) the annual bonus paid by the Company to

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the Executive for the last completed fiscal year. The severance amount shall be paid in a lump sum within thirty (30) days of the Executive's Termination of Employment.

b.Provided that the Executive is eligible for and timely elects COBRA continuation coverage, during the 18-month period following the Executive's termination date, the Company shall reimburse the Executive for the monthly COBRA cost of continued coverage for the Executive, and, where applicable, his/her spouse and dependents, paid by the Executive under the Company's group health plan pursuant to Section 4980B of the Code, less the amount that the Executive would be required to contribute for such health coverage if the Executive were an active employee of the Company (the "Monthly COBRA Costs"). Notwithstanding the foregoing, the Company reserves the right to restructure the foregoing continued coverage arrangement in any manner reasonably necessary or appropriate to avoid penalties or negative tax consequences to the Company or the Executive, as determined by the Company in its sole and absolute discretion.

c.The Executive shall not have a duty to mitigate the damages suffered by him in connection with the termination by the Company of his/her employment without Cause or a resignation for Good Reason during the Contract Period.

d.Notwithstanding anything contained herein to the contrary, upon termination of the Executive's employment for any reason, the Executive shall be deemed to have automatically resigned from all positions, including as an officer and, if applicable, as a director or member of the Board and any committees thereof, or the board of directors or committees of any of the Company's subsidiaries or affiliates or any other fiduciary positions with the Company or its subsidiaries or affiliates.

10.Resignation Without Good Reason. The Executive shall be entitled to resign from the employment of the Company at any time during the Contract Period without Good Reason, but upon such resignation the Executive shall not be entitled to any additional compensation for the time after which he ceases to be employed by the Company, and shall not be entitled to any of the other benefits provided hereunder. No such resignation shall be effective unless in writing with thirty (30) days' notice thereof.

11.Non-Disclosure of Confidential Information; Non-Competition and Non-Solicitation.

a.Non-Disclosure of Confidential Information. Except in the course of his/her employment with the Company and in the pursuit of the business of the Company or any of its subsidiaries or affiliates, the Executive shall not, at any time during or following the Contract Period, disclose or use, any confidential information or proprietary data of the Company or any of its subsidiaries or affiliates. The Executive agrees that, among other things, all information concerning the identity of and the Company's relations with its customers is confidential information.

b.Non-Compete; Non-Solicitation.

(1)During the term of the Executive's employment and for the one (1) year period commencing on the termination of the Executive's employment for any reason whatsoever during the Contract Period (the "Restricted Period"), the Executive shall not, without express prior written consent of the Company, directly or indirectly, own or hold any proprietary interest in, or be employed by or receive remuneration from, any corporation, partnership, sole proprietorship or other entity (collectively, an "entity") "engaged in competition" (as defined below) with the Company or any of its subsidiaries (a "Competitor"). For purposes of the preceding sentence, (i) the term "proprietary interest" means direct or indirect ownership of an equity interest in an entity other than ownership of less than two (2) percent of any class stock in a publicly-held entity, and (ii) an entity shall be considered to be "engaged in competition" if such entity is, or is a holding company for or a subsidiary of an entity which is engaged in the business of (A) providing banking, trust services, asset management advice, or similar financial services to consumers, businesses individuals or other entities, and (B) the entity, holding company or subsidiary maintains any physical offices for the transaction of such

business located within fifty (50) miles of the main office of the Company.

(2)During the Restricted Period, and for a period of one (1) year thereafter, the Executive shall not, either directly or indirectly, for himself or on behalf of or in conjunction with any other person, company, partnership, corporation or business of whatever nature, (i) call upon any person or entity which is or has been within twenty four (24) months prior to the termination or other cessation of the Executive's employment for any reason, a customer of the Company or any subsidiary (each a "Customer") for the direct or indirect purpose of soliciting or selling deposit, loan or trust products or services or (ii) induce any Customer to curtail, cancel, not renew, or not continue their business with the Company or any subsidiary.

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(3)During the Restricted Period, and for a period of one (1) year thereafter, the Executive shall not, without the express prior written consent of the Company, directly or indirectly, (i) solicit or assist any third party in soliciting for employment any person employed by the Company or any of its subsidiaries at the time of the termination of the Executive's employment (collectively, "Employees"), (ii) employ, attempt to employ or materially assist any third party in employing or attempting to employ any Employee, or (iii) otherwise act on behalf of any Competitor to interfere with the relationship between the Company or any of its subsidiaries and their respective Employees.

(4)The Executive acknowledges that the restrictions contained in this Section 11 are reasonable and necessary to protect the legitimate interests of the Company and that any breach by the Executive of any provision contained in this Section 11 will result in irreparable injury to the Company for which a remedy at law would be inadequate. Accordingly, the Executive acknowledges that the Company shall be entitled to temporary, preliminary and permanent injunctive relief against the Executive in the event of any breach or threatened breach by the Executive of the provisions of this Section 11, in addition to any other remedy that may be available to the Company whether at law or in equity. With respect to any provision of this Section 11 finally determined by a court of competent jurisdiction to be unenforceable, such court shall be authorized to reform this Agreement or any provision hereof so that it is enforceable to the maximum extent permitted by law. If the covenants of Section 11 are determined to be wholly or partially unenforceable in any jurisdiction, such determination shall not be a bar to or in any way diminish the Company's right to enforce such covenants in any other jurisdiction and shall not bar or limit the enforceability of any other provisions.

c.Specific Performance. The Executive agrees that the Company does not have an adequate remedy at law for the breach of this Section and agrees that he shall be subject to injunctive relief and equitable remedies as a result of the breach of this Section. The invalidity or unenforceability of any provision of this Agreement shall not affect the force and effect of the remaining valid portions.

d.Survival. This Section shall survive the termination of the Executive's employment hereunder and the expiration of this Agreement. The Company shall not be required to post any bond or other security in connection with any proceeding to enforce the provisions of this Section 11.

12.Section 280G of the Code.

a.Anything in this Agreement to the contrary notwithstanding, in the event that a Change in Control occurs and it shall be determined that any payment or distribution by the Company to or for the benefit of the Executive, whether paid or payable or distributed or distributable pursuant to the terms of this Agreement or otherwise ("Total Payments") would otherwise exceed the amount (the "Safe Harbor Amount") that could be received by the Executive without the imposition of an excise tax under Section 4999 of Code, then the Total Payments shall be reduced to the extent, and only to the extent, necessary to assure that their aggregate present value, as determined in accordance the applicable provisions of Section 280G of the Code, does not exceed the greater of the following dollar amounts (the "Benefit Limit"):

(1)the Safe Harbor Amount, or

(2)the greatest after-tax amount payable to the Executive after taking into account any excise tax imposed under Section 4999 of the Code on the Total Payments.

b.All determinations to be made under this Section 12 shall be made by an independent public accounting firm chosen by the Company (the "Accounting Firm"). In determining whether such Benefit Limit is exceeded, the Accounting Firm shall make a reasonable determination of the value to be assigned to the restrictive covenants in effect for the Executive pursuant to Section 11 this Agreement, and the amount of the Executive's potential parachute payment

under Section 280G of the Code shall reduced by the value of those restrictive covenants to the extent consistent with Section 280G of the Code. All of the fees and expenses of the Accounting Firm in performing the determinations referred to in this Section 12 shall be borne solely by the Company.

c.To the extent a reduction to the Total Payments is required to be made in accordance with this Section 12, such reduction and/or cancellation of acceleration of equity awards shall occur in the order that provides the maximum economic benefit to the Executive. In the event that acceleration of equity awards is to be reduced, such acceleration of vesting also shall be canceled in the order that provides the maximum economic benefit to the Executive. Notwithstanding the foregoing, any reduction shall be made in a manner consistent with the requirements of Section 409A of the Code and where two economically equivalent amounts are subject to reduction but payable at different times, such amounts shall be reduced on a pro rata basis, but not below zero.

13.Term and Effect Prior to Change in Control.

a.Term. Except as otherwise provided for hereunder, this Agreement shall commence on the date hereof and shall remain in effect for a period of three (3) years from the date hereof (the “Initial Term”) or until the end of the Contract Period, whichever is later. The Initial Term shall be automatically extended for an additional one (1) year period on the anniversary date hereof (so that the Initial Term is always three (3) years) unless, prior to a Change in Control, the Board notifies the Executive in writing at any time that the Contract is not so extended, in which case the Initial Term shall end upon the later of (i) three (3) years after the date hereof, or (ii) two (2) years after the date of such written notice.

b.No Effect Prior to Change in Control. This Agreement shall not affect any rights of the Company to terminate the Executive prior to a Change in Control or any rights of the Executive granted in any other agreement or contract or plan with the Company. The rights, duties and benefits provided hereunder shall only become effective upon and after a Change in Control. If the full-time employment of the Executive by the Company is ended for any reason prior to a Change in Control, this Agreement shall terminate automatically and thereafter be of no further force and effect.

14.Severance Compensation and Benefits Not in Derogation of Other Benefits. Anything to the contrary herein contained notwithstanding, the payment or obligation to pay any monies, or granting of any benefits, rights or privileges to the Executive as provided in this Agreement shall not be in lieu or derogation of the rights and privileges that the Executive now has or will have under any plans or programs of or agreements with the Company, except that if the Executive received any payment hereunder, he shall not be entitled to any payment under the Company’s severance policies for officers and employees or under any employment agreement between the Executive and the Company.

15.Payroll and Withholding Taxes. All payments to be made or benefits to be provided hereunder by the Company shall be subject to applicable federal and state payroll or withholding taxes.

16.Application of Section 409A of the Code.

a.This Agreement shall be interpreted to avoid any penalty sanctions under Section 409A of the Code. If any payment or benefit cannot be provided or made at the time specified herein without incurring sanctions under Section 409A of the Code, then such benefit or payment shall be provided in full (to extent not paid in part at earlier date) at the earliest time thereafter when such sanctions shall not be imposed. For purposes of Section 409A of the Code, all payments to be made upon a termination of employment under this Agreement may only be made upon the Executive’s “separation from service” (within the meaning of such term under Section 409A of the Code), each payment made under this Agreement shall be treated as a separate payment, and the right to a series of installment payments under this Agreement shall be treated as a right to a series of separate payments. In no event shall the Executive, directly or indirectly, designate the fiscal year of payment, except as permitted under Section 409A of the Code. Notwithstanding any provision of this Agreement to the contrary, with respect to amounts under this Agreement are nonqualified deferred compensation subject to Section 409A, in no event shall the timing of the Executive’s execution of the Release, directly or indirectly, result in the Executive designating the calendar year of payment, and if a payment that is subject to execution of the Release could be made in more than one (1) taxable year, payment shall be made in the later taxable year.

b.Notwithstanding anything herein to the contrary, if, at the time of the Executive’s termination of employment with the Company, the Company has securities which are publicly traded on an established securities market and the Executive is a “specified employee” (as such term is defined in Section 409A of the Code) and it is necessary to postpone the commencement of any payments or benefits otherwise payable under this Agreement as a result of such termination of employment to prevent any accelerated or additional tax under Section 409A of the Code, then the

Company shall postpone the commencement of the payment of any such payments or benefits hereunder (without any reduction in such payments or benefits ultimately paid or provided to the Executive) that are not otherwise paid first within the ‘short-term deferral exception’ under Treas. Reg. §1.409A-1(b)(4), and then under the ‘separation pay exception’ under Treas. Reg. §1.409A-1(b)(9)(iii), until the first payroll date that occurs after the date that is 6 months following the Executive’s “separation of service” (as such term is defined under code Section 409A of the Code) with the Company. If any payments are postponed due to such requirements, such postponed amounts shall be paid in a lump sum to the Executive on the first payroll date that occurs after the date that is six (6) months following Executive’s separation of service with the Company. If the Executive dies during the postponement period prior to the payment of postponed amount, the amounts withheld on account of Section 409A of the Code shall be paid to the personal representative of the Executive’s estate within sixty (60) days after the date of the Executive’s death.

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c.All reimbursements and in-kind benefits provided under this Agreement shall be made or provided in accordance with the requirements of Section 409A of the Code, including, where applicable, the requirement that (i) any reimbursement shall be for expenses incurred during the Executive's lifetime (or during a shorter period of time specified in this Agreement), (ii) the amount of expenses eligible for reimbursement, or in kind benefits provided, during a calendar year may not affect the expenses eligible for reimbursement, or in kind benefits to be provided, in any other calendar year, (iii) the reimbursement of an eligible expense shall be made on or before the last day of the calendar year following the year in which the expense is incurred and (iv) the right to reimbursement or in kind benefits is not subject to liquidation or exchange for another benefit.

17.Recoupment Policy. The Executive agrees that the Executive will be subject to any compensation clawback or recoupment policies that may be applicable to Executive as an employee of the Company, as in effect from time to time and as approved by the Board or a duly authorized committee thereof, whether or not approved before or after the Effective Date of this Agreement.

18.Severability. If any provision of this Agreement or application thereof to anyone or under any circumstances is adjudicated to be invalid or unenforceable in any jurisdiction, such invalidity or unenforceability shall not affect any other provision or application of this Agreement which can be given effect without the invalid or unenforceable provision or application and shall not invalidate or render unenforceable such provision or application in any other jurisdiction. If any provision is held void, invalid or unenforceable with respect to particular circumstances, it shall nevertheless remain in full force and effect in all other circumstances.

19.Section Headings. The Section headings herein have been inserted for convenience of reference only and shall in no way modify or restrict any of the terms or provisions hereof. When the context admits or requires, words used in the masculine gender shall be construed to include the feminine, the plural shall include the singular, and the singular shall include the plural.

20.Dispute Resolution. At the option of either the Company or the Executive, any dispute, controversy or question arising under, out of or relating to this Agreement, the Executive's employment or termination of employment, including but not limited to any and all statutory claims involving workplace discrimination or wrongful discharge, but excluding claims pursuant to Section 11 hereof, shall be referred for decision by arbitration in the State of New Jersey by a neutral arbitrator mutually selected by the parties hereto. Any arbitration proceeding shall be governed by the Rules of the American Arbitration Association then in effect or such last in effect (in the event such Association is no longer in existence). If the parties are unable to agree upon such a neutral arbitrator within twenty one (21) days after either party has given the other written notice of the desire to submit the dispute, controversy or question for decision as aforesaid, then either party may apply to the American Arbitration Association for a final and binding appointment of a neutral arbitrator; however, if the American Arbitration Association is not then in existence or does not act on the matter within forty five (45) days of any such application, either party may apply to a judge of the local court where the Bank is headquartered for an appointment of a neutral arbitrator to hear the parties and such judge is hereby authorized to make such appointment. In the event that either party exercises the right to submit a dispute, controversy or question arising hereunder to arbitration, the decision of the neutral arbitrator shall be final, conclusive and binding on all interested persons and no action at law or in equity shall be instituted or, if instituted, further prosecuted by either party other than to enforce the award of the neutral arbitrator. The award of the neutral arbitrator may be entered in any court that has jurisdiction. The Executive and the Company shall each bear all their own costs (including the fees and disbursements of counsel) incurred in connection with any such arbitration and shall each pay one-half of the costs of any arbitrator; provided that if the Executive ultimately prevails in any such arbitration, the Company shall reimburse the Executive for all such costs so incurred in connection with such arbitration.

21.Miscellaneous. This Agreement is the joint and several obligation of the Bank and Peapack. The terms of this Agreement shall be governed by, and interpreted and construed in accordance with the provisions of, the laws of New

Jersey. This Agreement supersedes all prior agreements and understandings with respect to the matters covered hereby, including expressly any prior agreement with the Company concerning change-in-control benefits. The amendment or termination of this Agreement may be made only in a writing executed by the Company and the Executive, and no amendment or termination of this Agreement shall be effective unless and until made in such a writing. This Agreement shall be binding upon any successor (whether direct or indirect, by purchase, merge, consolidation, liquidation or otherwise) to all or substantially all of the assets of the Company. This Agreement is personal to the Executive and the Executive may not assign any of his/her rights or duties hereunder but this Agreement shall be enforceable by the Executive's legal representatives, executors or administrators. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original, and it shall not be necessary in making proof of this Agreement to produce or account for more than one such counterpart.

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[Signatures on Following Page]

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IN WITNESS WHEREOF, Peapack-Gladstone Bank and Peapack-Gladstone Financial Corporation each have caused this Agreement to be executed by their duly authorized representatives pursuant to the authority of their Boards of Directors, and the Executive has personally executed this Agreement, all as of the day and year first written above.

ATTEST:	PEAPACK-GLADSTONE FINANCIAL CORPORATION
/s/ Mary E. Donovan Mary E. Donovan, Assistant Secretary	By:/s/ Douglas L. Kennedy
ATTEST:	PEAPACK-GLADSTONE BANK
/s/ Mary E. Donovan Mary E. Donovan, Assistant Secretary	By:/s/ Douglas L. Kennedy
WITNESS:	
	March 14, 2018
/s/ Meghan Schaffert	_/s/ Lisa P. Chalkan Executive

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EXHIBIT A

FORM OF RELEASE

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