

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

FORM 10-Q

(MARK ONE)

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

For the Quarter Ended June 30, 2021

OR

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

For the transition period from to

Commission File No. 001-16197

PEAPACK-GLADSTONE FINANCIAL CORPORATION

(Exact name of registrant as specified in its charter)

New Jersey
(State or other jurisdiction of
incorporation or organization)

22-3537895
(I.R.S. Employer
Identification No.)

500 Hills Drive, Suite 300
Bedminster, New Jersey 07921-0700
(Address of principal executive offices, including zip code)

(908) 234-0700
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, no par value	PGC	The NASDAQ Stock Market, LLC

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

Yes ☒ No ☐

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

Yes ☒ No ☐

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

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

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

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

Number of shares of Common Stock outstanding as of July 30, 2021: 18,829,877

PEAPACK-GLADSTONE FINANCIAL CORPORATION

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PEAPACK-GLADSTONE FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF CONDITION
(Dollars in thousands, except per share data)

	(unaudited) June 30, 2021	(audited) December 31, 2020
ASSETS		
Cash and due from banks	\$ 12,684	\$ 10,629
Federal funds sold	—	102
Interest-earning deposits	190,778	642,591
Total cash and cash equivalents	203,462	653,322
Securities available for sale	823,820	622,689
Equity security, at fair value	14,894	15,117
FHLB and FRB stock, at cost	12,901	13,709
Loans held for sale, at fair value	3,974	13,588
Loans held for sale, at lower of cost or fair value	11,179	18,520
Loans	4,568,833	4,372,437
Less: Allowance for loan and lease losses	63,505	67,309
Net loans	4,505,328	4,305,128
Premises and equipment	23,261	21,609
Other real estate owned	—	50
Accrued interest receivable	23,117	22,495
Bank owned life insurance	46,605	46,809
Goodwill	33,103	33,103
Other intangible assets	10,053	10,788
Finance lease right-of-use assets	3,956	4,330
Operating lease right-of-use assets	9,569	9,421
Other assets	66,466	99,764
TOTAL ASSETS	\$ 5,791,688	\$ 5,890,442
LIABILITIES		
Deposits:		
Noninterest-bearing demand deposits	\$ 959,494	\$ 833,500
Interest-bearing deposits:		
Checking	1,978,497	1,849,254
Savings	147,227	130,731
Money market accounts	1,213,992	1,298,885
Certificates of deposit - retail	446,143	530,222
Certificates of deposit - listing service	31,631	32,128
Subtotal deposits	4,776,984	4,674,720
Interest-bearing demand - brokered	85,000	110,000
Certificates of deposit - brokered	33,791	33,764
Total deposits	4,895,775	4,818,484
Short-term borrowings	—	15,000
Paycheck Protection Program Liquidity Facility	83,586	177,086
Finance lease liabilities	6,299	6,753
Operating lease liabilities	9,902	9,737
Subordinated debt, net	132,557	181,794
Deferred tax liabilities, net	27,362	32,978
Accrued expenses and other liabilities	97,748	121,488
TOTAL LIABILITIES	5,253,229	5,363,320
SHAREHOLDERS' EQUITY		
Preferred stock (no par value; authorized 500,000 shares; liquidation preference of \$1,000 per share)	—	—
Common stock (no par value; stated value \$0.83 per share; authorized 42,000,000 shares; issued shares, 20,590,810 at June 30, 2021 and 20,342,881 at December 31, 2020; outstanding shares, 18,829,877 at June 30, 2021 and 18,974,703 at December 31, 2020)	17,164	16,958
Surplus	328,035	326,592
Treasury stock at cost, 1,760,933 shares at June 30, 2021 and 1,368,178 shares at December 31, 2020	(48,461)	(36,477)
Retained earnings	247,136	221,441
Accumulated other comprehensive loss, net of income tax	(5,415)	(1,392)
TOTAL SHAREHOLDERS' EQUITY	538,459	527,122
TOTAL LIABILITIES & SHAREHOLDERS' EQUITY	\$ 5,791,688	\$ 5,890,442

See accompanying notes to consolidated financial statements

PEAPACK-GLADSTONE FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF INCOME
(Dollars in thousands, except per share data)
(Unaudited)

See accompanying notes to consolidated financial statements

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
INTEREST INCOME				
Interest and fees on loans	\$ 36,497	\$ 39,321	\$ 71,881	\$ 81,626
Interest on investments:				
Taxable	3,020	2,108	5,649	4,567
Tax-exempt	36	57	79	115
Interest on loans held for sale	36	54	91	75
Interest on interest-earning deposits	97	109	225	661
Total interest income	39,686	41,649	77,925	87,044
INTEREST EXPENSE				
Interest on savings and interest-bearing deposit accounts	1,689	3,131	3,478	9,574
Interest on certificates of deposit	1,027	3,147	2,497	6,841
Interest on borrowed funds	182	1,127	391	2,139
Interest on finance lease liability	76	87	155	177
Interest on subordinated debt	2,147	1,222	4,292	2,445
Subtotal - interest expense	5,121	8,714	10,813	21,176
Interest on interest-bearing demand - brokered	456	700	949	1,623
Interest on certificates of deposits - brokered	264	264	525	527
Total interest expense	5,841	9,678	12,287	23,326
NET INTEREST INCOME BEFORE PROVISION FOR LOAN AND LEASE LOSSES	33,845	31,971	65,638	63,718
Provision for loan and lease losses	900	4,900	1,125	24,900
NET INTEREST INCOME AFTER PROVISION FOR LOAN AND LEASE LOSSES	32,945	27,071	64,513	38,818
OTHER INCOME				
Wealth management fee income	13,034	9,996	25,165	19,951
Service charges and fees	896	695	1,742	1,511
Bank owned life insurance	466	318	1,077	646
Gain on loans held for sale at fair value (mortgage banking)	409	550	1,434	842
Gain/(loss) on loans held for sale at lower of cost or fair value	1,125	—	1,407	(3)
Fee income related to loan level, back-to-back swaps	—	202	—	1,620
Gain on sale of SBA loans	932	258	2,381	1,312
Corporate advisory fee income	121	65	1,219	140
Loss on swap termination	(842)	—	(842)	—
Other income	1,495	417	2,138	801
Securities gains/(losses), net	42	125	(223)	323
Total other income	17,678	12,626	35,498	27,143
OPERATING EXPENSES				
Compensation and employee benefits	19,910	19,186	41,900	38,412
Premises and equipment	4,074	4,036	8,187	8,079
FDIC insurance expense	529	455	1,114	705
Other operating expense	6,171	5,337	11,077	10,053
Total operating expenses	30,684	29,014	62,278	57,249
INCOME BEFORE INCOME TAX EXPENSE/(BENEFIT)	19,939	10,683	37,733	8,712
Income tax expense/(benefit)	5,521	2,441	10,137	(903)
NET INCOME	\$ 14,418	\$ 8,242	\$ 27,596	\$ 9,615
EARNINGS PER SHARE				
Basic	\$ 0.76	\$ 0.44	\$ 1.46	\$ 0.51
Diluted	\$ 0.74	\$ 0.43	\$ 1.42	\$ 0.51
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING				
Basic	18,963,237	18,872,070	18,956,807	18,865,206
Diluted	19,439,439	19,059,822	19,473,150	18,991,056

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
Net income	\$ 14,418	\$ 8,242	\$ 27,596	\$ 9,615
Comprehensive income/(loss):				
Unrealized (losses)/gains on available for sale securities:				
Unrealized holding (losses)/gains arising during the period	9,105	2,031	(8,513)	7,830
	<u>9,105</u>	<u>2,031</u>	<u>(8,513)</u>	<u>7,830</u>
Tax effect	(2,167)	(489)	2,036	(1,901)
Net of tax	<u>6,938</u>	<u>1,542</u>	<u>(6,477)</u>	<u>5,929</u>
Unrealized gains/(losses) on cash flow hedges:				
Unrealized holding gains/(losses) arising during the period	1,121	191	2,571	(8,688)
Reclassification adjustment for amounts included in net income	842	(9)	842	(80)
	<u>1,963</u>	<u>182</u>	<u>3,413</u>	<u>(8,768)</u>
Tax effect	(552)	(61)	(959)	2,338
Net of tax	<u>1,411</u>	<u>121</u>	<u>2,454</u>	<u>(6,430)</u>
Total other comprehensive income/(loss)	<u>8,349</u>	<u>1,663</u>	<u>(4,023)</u>	<u>(501)</u>
Total comprehensive income	<u>\$ 22,767</u>	<u>\$ 9,905</u>	<u>\$ 23,573</u>	<u>\$ 9,114</u>

See accompanying notes to consolidated financial statements

PEAPACK-GLADSTONE FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(Dollars in thousands, except per share amounts)
(Unaudited)
Three Months Ended June 30, 2021 and June 30, 2020

(In thousands, except share and per share data)	Preferred Stock	Common Stock	Surplus	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Loss	Total Shareholders' Equity
Balance at April 1, 2021 19,034,870 common shares outstanding	\$ —	\$ 17,140	\$ 326,251	\$ (40,856)	\$ 233,670	\$ (13,764)	\$ 522,441
Net income	—	—	—	—	14,418	—	14,418
Comprehensive income	—	—	—	—	—	8,349	8,349
Restricted stock units issued, 21,200 shares	—	17	(17)	—	—	—	—
Restricted stock units repurchased on vesting to pay taxes, (7,096) shares	—	(6)	(223)	—	—	—	(229)
Amortization of restricted stock units	—	—	1,807	—	—	—	1,807
Cash dividends declared on common stock (\$0.05 per share)	—	—	—	—	(952)	—	(952)
Share repurchase, (234,722) shares	—	—	—	(7,605)	—	—	(7,605)
Common stock options exercised, 2,000 shares	—	1	23	—	—	—	24
Exercise of warrants, 20,000 net of 12,722 shares used to exercise, 7,278 shares	—	7	(7)	—	—	—	—
Issuance of shares for Employee Stock Purchase Plan, 6,347 shares	—	5	201	—	—	—	206
Balance at June 30, 2021 18,829,877 common shares outstanding	<u>\$ —</u>	<u>\$ 17,164</u>	<u>\$ 328,035</u>	<u>\$ (48,461)</u>	<u>\$ 247,136</u>	<u>\$ (5,415)</u>	<u>\$ 538,459</u>

(In thousands, except share and per share data)	Preferred Stock	Common Stock	Surplus	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Loss	Total Shareholders' Equity
Balance at April 1, 2020 18,852,523 common shares outstanding	\$ —	\$ 16,854	\$ 320,269	\$ (36,477)	\$ 199,453	\$ (3,659)	\$ 496,440
Net income	—	—	—	—	8,242	—	8,242
Comprehensive income	—	—	—	—	—	1,663	1,663
Restricted stock units issued, 7,606 shares	—	6	(6)	—	—	—	—
Restricted stock units/awards repurchased on vesting to pay taxes, (2,580) shares	—	(2)	(40)	—	—	—	(42)
Amortization of restricted stock awards/units	—	—	1,723	—	—	—	1,723
Cash dividends declared on common stock (\$0.05 per share)	—	—	—	—	(938)	—	(938)
Common stock options exercised, 2,800 net of 2,149 shares used to exercise, 651 shares	—	3	(2)	—	—	—	1
Issuance of shares for Employee Stock Purchase Plan, 46,935 shares	—	39	852	—	—	—	891
Balance at June 30, 2020 18,905,135 common shares outstanding	<u>\$ —</u>	<u>\$ 16,900</u>	<u>\$ 322,796</u>	<u>\$ (36,477)</u>	<u>\$ 206,757</u>	<u>\$ (1,996)</u>	<u>\$ 507,980</u>

Six Months Ended June 30, 2021 and June 30, 2020

(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, 2021 18,974,703 common shares outstanding	\$ —	\$ 16,958	\$ 326,592	\$ (36,477)	\$ 221,441	\$ (1,392)	\$ 527,122
Net income	—	—	—	—	27,596	—	27,596
Comprehensive loss	—	—	—	—	—	(4,023)	(4,023)
Restricted stock units issued, 288,348 shares	—	240	(240)	—	—	—	—
Restricted stock units repurchased on vesting to pay taxes, (71,749) shares	—	(60)	(2,171)	—	—	—	(2,231)
Amortization of restricted stock units	—	—	3,422	—	—	—	3,422
Cash dividends declared on common stock (\$0.10 per share)	—	—	—	—	(1,901)	—	(1,901)
Share repurchase, (392,755) shares	—	—	—	(11,984)	—	—	(11,984)
Common stock options exercised, 2,820 net of 62 shares used to exercise, 2,758 shares	—	2	32	—	—	—	34
Exercise of warrants, 40,000 net of 26,200 shares used to exercise, 13,800 shares	—	12	(12)	—	—	—	—
Issuance of shares for Employee Stock Purchase Plan, 14,772 shares	—	12	412	—	—	—	424
Balance at June 30, 2021 18,829,877 common shares outstanding	<u>\$ —</u>	<u>\$ 17,164</u>	<u>\$ 328,035</u>	<u>\$ (48,461)</u>	<u>\$ 247,136</u>	<u>\$ (5,415)</u>	<u>\$ 538,459</u>

(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, 2020 18,926,810 common shares outstanding	\$ —	\$ 16,733	\$ 319,375	\$ (29,990)	\$ 199,029	\$ (1,495)	\$ 503,652
Net income	—	—	—	—	9,615	—	9,615
Comprehensive loss	—	—	—	—	—	(501)	(501)
Restricted stock units issued, 157,690 shares	—	131	(131)	—	—	—	—
Restricted stock units/awards repurchased on vesting to pay taxes, (39,686) shares	—	(33)	(610)	—	—	—	(643)
Amortization of restricted stock awards/units	—	—	3,264	—	—	—	3,264
Cash dividends declared on common stock (\$0.10 per share)	—	—	—	—	(1,887)	—	(1,887)
Share repurchase, (220,222) shares	—	—	—	(6,487)	—	—	(6,487)
Common stock options exercised, 8,400 net of 2,149 shares used to exercise, 6,251 shares	—	7	69	—	—	—	76
Exercise of warrants 20,000 net of 13,469 shares used to exercise, 6,531 shares	—	6	(6)	—	—	—	—
Issuance of shares for Employee Stock Purchase Plan, 46,935 shares	—	39	852	—	—	—	891
Issuance of common stock for acquisition, 20,826 shares	—	17	(17)	—	—	—	—
Balance at June 30, 2020 18,905,135 common shares outstanding	<u>\$ —</u>	<u>\$ 16,900</u>	<u>\$ 322,796</u>	<u>\$ (36,477)</u>	<u>\$ 206,757</u>	<u>\$ (1,996)</u>	<u>\$ 507,980</u>

See accompanying notes to consolidated financial statements

PEAPACK-GLADSTONE FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars in thousands)
(Unaudited)

	Six Months Ended June 30,	
	2021	2020
OPERATING ACTIVITIES:		
Net income	\$ 27,596	\$ 9,615
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	1,566	1,543
Amortization of premium and accretion of discount on securities, net	3,141	1,667
Amortization of restricted stock	3,422	3,264
Amortization of intangible assets	736	645
Amortization of subordinated debt costs	763	112
Provision for loan and lease losses	1,125	24,900
Deferred tax (benefit)/expense	(4,539)	483
Stock-based compensation and employee stock purchase plan expense	56	190
Fair value adjustment for equity security	223	(323)
Loans originated for sale (1)	(89,775)	(67,539)
Proceeds from sales of loans held for sale (1)	103,605	65,345
Gain on loans held for sale (1)	(3,815)	(2,154)
(Gain)/loss on loans held for sale at lower of cost or fair value	(1,407)	3
Gain on OREO sold	(51)	—
Gain on life insurance death benefit	(455)	—
Increase in cash surrender value of life insurance, net	(310)	(351)
Increase in accrued interest receivable	(622)	(5,462)
Decrease in other assets	10,798	802
Increase/(decrease) in accrued expenses and other liabilities	1,883	(11,641)
NET CASH PROVIDED BY OPERATING ACTIVITIES	53,940	21,099
INVESTING ACTIVITIES:		
Principal repayments, maturities and calls of securities available for sale	189,926	85,946
Redemptions of FHLB and FRB stock	808	34,573
Purchase of securities available for sale	(402,711)	(228,768)
Purchase of equity securities	—	(4,000)
Purchase of FHLB and FRB stock	—	(29,103)
Proceeds from sales of loans held for sale at lower of cost or fair value	54,123	10,067
Net increase in loans, net of participations sold	(247,101)	(496,481)
Proceeds from sales of other real estate	101	—
Purchase of premises and equipment	(2,895)	(1,705)
Proceeds from life insurance death benefit	816	—
NET CASH USED IN INVESTING ACTIVITIES	(406,933)	(629,471)
FINANCING ACTIVITIES:		
Net increase in deposits	77,291	608,327
Net decrease in short-term borrowings	(15,000)	(113,100)
Proceeds from Paycheck Protection Program Liquidity Facility	—	535,837
Repayments of Paycheck Protection Program Liquidity Facility	(93,500)	—
Repayments of FHLB advances	—	—
Dividends paid on common stock	(1,901)	(1,887)
Exercise of Stock Options, net of stock swaps	34	76
Restricted stock repurchased on vesting to pay taxes	(2,231)	(643)
Repayments of subordinated debt	(50,000)	—
Issuance of shares for employee stock purchase plan	424	891
Shares repurchased	(11,984)	(6,487)
NET CASH (USED IN)/PROVIDED BY FINANCING ACTIVITIES	(96,867)	1,023,014
Net (decrease)/increase in cash and cash equivalents	(449,860)	414,642
Cash and cash equivalents at beginning of period	653,322	208,185
Cash and cash equivalents at end of period	\$ 203,462	\$ 622,827
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the period for:		
Interest	\$ 12,542	\$ 23,380
Income tax, net	4,056	551
Transfer of loans to loans held for sale	45,776	25,423

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

See accompanying notes to consolidated financial statements

PEAPACK-GLADSTONE FINANCIAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Certain information and footnote disclosures normally included in the audited consolidated financial statements prepared in accordance with U.S. generally accepted accounting principles have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission. These unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Annual Report on Form 10-K for the year ended December 31, 2020 for Peapack-Gladstone Financial Corporation (the “Corporation” or the “Company”). In the opinion of the management of the Corporation, the accompanying unaudited Consolidated Interim Financial Statements contain all adjustments (consisting solely of normal and recurring accruals) necessary to present fairly the financial position as of June 30, 2021, and the results of operations, comprehensive income/(loss), shareholders’ equity for 2020 and cash flow statements for the three and six months ended June 30, 2021 and 2020. The results of operations for the three and six months ended June 30, 2021 are not necessarily indicative of the results that may be expected for the full year or for any future period.

Principles of Consolidation and Organization: The consolidated financial statements of the Company are prepared on the accrual basis and include the accounts of the Company and its wholly-owned subsidiary, Peapack-Gladstone Bank (the “Bank”). The consolidated financial statements also include the Bank’s wholly-owned subsidiaries:

- PGB Trust & Investments of Delaware
- Peapack Capital Corporation (“PCC”)
- Murphy Capital Management (“Murphy Capital”)
- Peapack-Gladstone Mortgage Group, Inc. owns 99 percent of Peapack Ventures, LLC and 79 percent of Peapack-Gladstone Realty, Inc., a New Jersey real estate investment company
- PGB Trust & Investments of Delaware owns one percent of Peapack Ventures, LLC
- Peapack Ventures, LLC owns the remaining 21 percent of Peapack-Gladstone Realty, Inc.
- PGB Securities, Inc. (formed in the second quarter of 2020)

While the following footnotes include the consolidated results of the Company, the Bank and their subsidiaries, these footnotes primarily reflect the Bank’s and its subsidiaries’ activities. All significant intercompany balances and transactions have been eliminated from the accompanying consolidated financial statements.

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

Segment Information: The Company’s business is conducted through two business segments: its banking segment, which involves the delivery of loan and deposit products to customers, and the Peapack Private Wealth Management Division (“Peapack Private”), which includes asset management services to individuals and institutions. Management uses certain methodologies to allocate income and expense to the business segments.

The Banking segment includes commercial (includes commercial and industrial (“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 services.

Peapack Private includes: investment management services for individuals and institutions; personal trust services, including services as executor, trustee, administrator and custodian; and other financial planning and advisory services. This segment also includes the activity from the Delaware subsidiary, PGB Trust & Investments of Delaware, and Murphy Capital. 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 assets under management (“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 short-term borrowings with original maturities of 90 days or less.

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, net of tax. The Company also has an investment in a Community Reinvestment Act ("CRA") investment fund, which is classified as an equity security.

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. 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. Both cash and stock 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.

U.S. Small Business Administration (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 \$83.1 million and \$65.5 million as of June 30, 2021 and December 31, 2020, respectively. SBA loans held for sale totaled \$5.6 million and \$6.0 million at June 30, 2021 and December 31, 2020, respectively.

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

Loans: Loans that Management has the intent and ability to hold for the foreseeable future or until maturity are stated at the principal amount outstanding. Interest on loans is recognized based upon the principal amount outstanding. Loans are stated at face value, less purchased premium and discounts and net deferred fees. Loan origination fees and certain direct loan origination costs are deferred and recognized on a level-yield method, over the life of the loan as an adjustment to the loan's yield. The definition of recorded investment in loans includes accrued interest receivable and deferred fees/cost, however, for the Company's loan disclosures, accrued interest and deferred fees/cost were 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 unless the asset is both well secured and in the process of collection. 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, in whole or in part, after an analysis is completed which indicates that collectability of the full principal balance is in doubt. Consumer closed-end loans are generally charged off after they become 120 days past due and open-end loans after 180 days. 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 may be returned to accrual status. Nonaccrual mortgage loans are generally charged off to the extent that 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, New York and Pennsylvania.

Allowance for Loan and Lease Losses: The allowance for loan and lease losses is a valuation allowance for credit losses that is Management's estimate of probable 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, level of and trends in delinquent, classified and nonperforming loans, 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.

The general component of the allowance covers non-impaired loans and is based primarily on the Company'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. As a result of the effects of the COVID-19 pandemic, the Company increased certain qualitative factors related to elevated levels of unemployment, economic forecasts and approved loan deferral payment requests as businesses both locally and nationally were shut down and have only gradually and partially reopened. The Company also considered qualitative factors related to 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 June 30, 2021 and December 31, 2020, the multiple was 2.25 times for non-impaired special mention loans and 3.25 times for non-impaired substandard loans.

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.

On March 27, 2020, the President of the United States signed the Coronavirus Aid, Relief, and Economic Security ("CARES") Act, which provides entities with optional temporary relief from certain accounting and financial reporting requirements under U.S. GAAP.

The CARES Act allows financial institutions to suspend application of certain current TDR accounting guidance under Accounting Standards Codification ("ASC") 310-40 for loan modifications related to the COVID-19 pandemic made between March 1, 2020 and the earlier of December 31, 2020 or 60 days after the end of the COVID-19 national emergency, provided certain criteria are met. This relief can be applied to loan modifications for borrowers that were not more than 30 days past due as of December 31, 2019 and to loan modifications that defer or delay the payment of principal or interest or change the interest rate on the loan. The revised CARES Act allows for loan modifications through January 1, 2022. In April 2020, federal and state banking regulators issued the Interagency Statement on Loan Modifications and Reporting for Financial Institutions Working with Customers Affected by the Coronavirus to provide further interpretation of when a borrower is experiencing financial difficulty, specifically indicating that if the modification is either short-term (e.g., six months) or mandated by a federal or state government in response to the COVID-19 pandemic, the borrower is not experiencing financial difficulty under ASC 310-40. The Company continues to prudently work with borrowers negatively impacted by the COVID-19 pandemic while managing credit risks and recognizing an appropriate allowance for loan and lease losses on its loan portfolio. The Company approved total loan modifications under the CARES Act of \$946.8 million, of which \$36.7 million remain outstanding as of June 30, 2021.

Another key program under the CARES Act is the Paycheck Protection Program ("PPP") administered by the SBA which has provided much needed funding to qualifying businesses and organizations. Under this program, the Company has provided fundings of approximately \$650 million. In the third quarter of 2020 and second quarter of 2021, the Company sold approximately \$355.0 million and \$56.5 million, respectively, of such loans, servicing rights released to a third party. The Company also referred approximately \$124 million of PPP loans to a third party during the first six months of 2021. The Company has approximately \$83.8 million of PPP loans remaining in its portfolio as of June 30, 2021 and believes that the majority of these loans will be forgiven by the SBA.

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

Primary Residential Mortgages. The Bank originates one to four family residential mortgage loans in the Tri-State area (New York, New Jersey and Connecticut), Pennsylvania and Florida. Loans are secured by first liens on the primary residence or investment property. Primary risk characteristics associated with residential mortgage loans typically involve major living or lifestyle changes to the borrower, including unemployment or other loss of income; unexpected significant expenses, such as for major medical issues or catastrophic events; and divorce or death. In addition, residential mortgage loans that have adjustable rates could expose the borrower to higher debt service requirements in a rising interest rate environment. Further, real estate values could drop significantly and cause the value of the property to fall below the loan amount, creating additional potential loss 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 loss 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 loss 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 a company, if privately held. Commercial and industrial loans are typically repaid first by the cash flows generated by the borrower's business operations. 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 competition, regulatory changes, and general economic conditions. Commercial and industrial loans are generally secured by business assets. 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. However, the ability of the Bank to foreclose and realize sufficient value from the assets is often highly uncertain.

Leasing and Equipment Finance. PCC 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 through 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 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.

Leases: At inception, contracts are evaluated to determine whether the contract constitutes a lease agreement. For contracts that are determined to be an operating lease, a corresponding right-of-use ("ROU") asset and operating lease liability are recorded in separate line items on the statement of condition. A ROU asset represents the Company's right to use an underlying asset during the lease term and a lease liability represents the Company's commitment to make contractually obligated lease payments. Operating lease ROU assets and liabilities are recognized at the commencement date of the lease and are based on the present value of lease payments over the lease term. The measurement of the operating lease ROU asset includes any lease payments made.

If the rate implicit in the lease is not readily determinable, the incremental collateralized borrowing rate is used to determine the present value of lease payments. This rate gives consideration to the applicable FHLB collateralized borrowing rates and is based on the information available at the commencement date. The Company has elected to apply the short-term lease measurement and recognition exemption to leases with an initial term of 12 months or less; therefore, these leases are not recorded on the Company's statement of condition, but rather, lease expense is recognized over the lease term on a straight-line basis. The Company's lease agreements may include options to extend or terminate the lease. The Company's decision to exercise renewal options is based on an assessment of its current business needs and market factors at the time of the renewal. The Company maintains certain property and equipment under direct financing and operating leases. Substantially all of the leases in which the Company is the lessee are comprised of real estate property for branches and office space and are classified as operating leases.

The ROU asset is measured at the amount of the lease liability adjusted for lease incentives received, any cumulative prepaid or accrued rent if the lease payments are uneven throughout the lease term, any unamortized initial direct costs, and any impairment

of the ROU asset. Operating lease expense consists of: a single lease cost allocated over the remaining lease term on a straight-line basis, variable lease payments not included in the lease liability, and any impairment of the ROU asset.

There are no terms or conditions related to residual value guarantees and no restrictions or covenants that would impact the Company's ability to pay dividends or to incur additional financial obligations.

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 cash flow 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. When hedge accounting is discontinued on a fair value hedge that no longer qualifies as an effective hedge, the derivative continues to be reported at fair value in the statement of condition, but the carrying amount of the hedged item is no longer adjusted for future changes in fair value. The adjustment to the carrying amount of the hedged item that existed at the date hedge accounting is discontinued is amortized over the remaining life of the hedged item into earnings.

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

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

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

The Company also offers facility specific / loan level swaps to its customers and offsets 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 the 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. The Company is exposed to losses if a customer counterparty fails to make its payments under a contract in which the Company is in a net receiving position. At this time, the Company anticipates that our counterparties will be able to fully satisfy their obligations under the agreements. All of the contracts to which the Company is a party settle monthly. Further, the Company has netting agreements with the dealers with which it does business.

Stock-Based Compensation: The Company's 2006 Long-Term Stock Incentive Plan, 2012 Long-Term Stock Incentive Plan and 2021 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. 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 amounts below. Options granted under these plans are, in general, exercisable not earlier than one year after the date of grant, at a price equal to the fair value of common stock on the date of grant and expire not more than ten years after the date of grant. Stock options may vest during a period of up to five years after the date of grant. Some options granted to officers at or above the senior vice president level were immediately exercisable at the date of grant. The Company has a policy of using authorized but unissued shares to satisfy option exercises.

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

For the Company’s stock option plans, changes in options outstanding during the six months ended June 30, 2021 were as follows:

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value (In thousands)
Balance, January 1, 2021	50,660	\$ 13.59		
Exercised during 2021	(2,820)	12.42		
Expired during 2021	—	—		
Forfeited during 2021	(2,480)	13.50		
Balance, June 30, 2021	45,360	\$ 13.67	1.21 years	\$ 789
Vested and expected to vest	45,360	\$ 13.67	1.21 years	\$ 789
Exercisable at June 30, 2021	45,360	\$ 13.67	1.21 years	\$ 789

The aggregate intrinsic value represents the total pre-tax intrinsic value (the difference between the Company’s closing stock price on the last trading day of the second quarter of 2021 and the exercise price, multiplied by the number of in-the-money options). The Company’s closing stock price on June 30, 2021 was \$31.07.

There were no stock options granted during the three or six months ended June 30, 2021.

The Company issued performance-based and service-based restricted stock units in 2021 and 2020. Service-based units vest ratably over a three- or five-year period. There were 21,200 service-based restricted stock units granted during the second quarter of 2021.

The performance-based awards are dependent upon the Company meeting certain performance criteria and, to the extent the performance criteria are met, will cliff vest at the end of the performance period which is generally three years. There were no performance-based restricted stock units granted in the second quarter of 2021.

Changes in non-vested shares dependent on performance criteria for the six months ended June 30, 2021 were as follows:

	Number of Shares	Weighted Average Grant Date Fair Value
Balance, January 1, 2021	221,600	\$ 20.47
Granted during 2021	51,710	31.36
Vested during 2021	(36,032)	35.33
Forfeited during 2021	(11,843)	26.32
Balance, June 30, 2021	225,435	\$ 20.29

Changes in service-based restricted stock awards/units for the six months ended June 30, 2021 were as follows:

	Number of Shares	Weighted Average Grant Date Fair Value
Balance, January 1, 2021	777,166	\$ 19.24
Granted during 2021	211,356	31.36
Vested during 2021	(252,316)	22.01
Forfeited during 2021	(23,314)	16.55
Balance, June 30, 2021	712,892	\$ 21.94

As of June 30, 2021, there was \$16.1 million of total unrecognized compensation cost related to service-based and performance-based units. That cost is expected to be recognized over a weighted average period of 1.59 years. Stock compensation expense recorded for the second quarters of 2021 and 2020 totaled \$1.8 million and \$1.7 million, respectively. Stock compensation expense recorded for the six months ended June 30, 2021 and 2020 totaled \$3.5 million and \$3.3 million, respectively.

Employee Stock Purchase Plan (“ESPP”): In July 2019, the Board appointed ESPP “committee” revised the ESPP. The ESPP provides for the granting of rights to purchase up to 150,000 shares of Peapack-Gladstone Financial Corporation common stock. In May 2020, shareholders approved an increase of 200,000 shares of Peapack-Gladstone Financial Corporation common stock to be issued under the ESPP.

Subject to certain eligibility requirements and restrictions, the ESPP provided for a single Offering Period of twelve months in duration, which commenced on May 16, 2019 and ended on May 15, 2020.

The ESPP was revised to allow for the purchase of shares during four three-month Offering Periods of each calendar year. The Offering Periods are February 16, May 16, August 16 and November 16 of each calendar year.

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 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 \$26,000 and \$149,000 of expense in salaries and employee benefits expense for the three months ended June 30, 2021 and 2020, respectively related to the ESPP. Total shares issued under the ESPP during the second quarter of 2021 and 2020 were 6,347 and 46,935, respectively.

The Company recorded \$56,000 and \$190,000 of expense in salaries and employee benefits expense for the six months ended June 30, 2021 and 2020, respectively related to the ESPP. Total shares issued under the ESPP for the six months ended June 30, 2021 and 2020 were 14,772 and 46,935, respectively.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
(Dollars in thousands, except per share data)				
Net income available to common shareholders	\$ 14,418	\$ 8,242	\$ 27,596	\$ 9,615
Basic weighted average shares outstanding	18,963,237	18,872,070	18,956,807	18,865,206
Plus: common stock equivalents	476,202	187,752	516,343	125,850
Diluted weighted average shares outstanding	19,439,439	19,059,822	19,473,150	18,991,056
Net income per share				
Basic	\$ 0.76	\$ 0.44	\$ 1.46	\$ 0.51
Diluted	0.74	0.43	1.42	0.51

For the three months ended June 30, 2021 and 2020, restricted stock units totaling 13,374 and 297,320 were not included in the computation of diluted earnings per share because they were anti-dilutive. For the six months ended June 30, 2021 and 2020, stock options and restricted stock units totaling 262,423 and 713,789 were not included in the computation of diluted earnings per share because they were 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.

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 2016 or by New Jersey tax authorities for years prior to 2015.

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

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

Restrictions on Cash: A large portion of cash on hand or on deposit with the Federal Reserve Bank (“FRB”) was required to meet regulatory reserve and clearing requirements. Prior to March 2020, reserves were in the form of cash and balances with the FRB and included in interest-earning deposits in our statement of condition. The FRB suspended cash reserve requirements effective March 26, 2020.

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

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

Risks and Uncertainties: The COVID-19 pandemic has had a devastating effect on businesses both locally and nationally. As a result, Congress passed the CARES Act to provide fast and direct economic assistance to American workers, families and businesses. The CARES Act contains substantial tax and spending provisions including direct financial aid to American families, extensive emergency funding for hospitals and medical providers, and economic stimulus to significant impacted industry sectors.

The Company expects COVID-19 to have an impact on our operations but cannot determine or estimate the full impact at this time. It is possible that estimates made in the Company’s consolidated financial statements could be materially and adversely impacted as a result of the conditions created by COVID-19, including estimates regarding expected provision for loan and lease losses and impairment of goodwill.

Goodwill and Other Intangible Assets: Goodwill is generally determined as the excess of the fair value of the consideration transferred, plus the fair value of any noncontrolling interests in the acquiree (if any), over the fair value of the net assets acquired and liabilities assumed as of the acquisition date. Goodwill and intangible assets acquired in a purchase business combination and determined to have an indefinite useful life are not amortized but tested for impairment at least annually or more frequently if events and circumstances exist that indicate that a goodwill impairment test should be performed.

The Company has selected 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 which includes assembled workforce has an indefinite life on our statement of financial condition. Intangible assets with definite useful lives are amortized over their estimated useful lives to their estimated residual values. Goodwill and assembled workforce are the intangible assets with an indefinite life on our balance sheet.

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

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 June 30, 2021 and December 31, 2020 follows:

(In thousands)	June 30, 2021			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S government-sponsored agencies	\$ 214,141	\$ 15	\$ (3,216)	\$ 210,940
Mortgage-backed securities—residential	553,129	6,613	(4,469)	555,273
SBA pool securities	45,565	112	(409)	45,268
State and political subdivisions	6,705	70	—	6,775
Corporate bond	5,500	64	—	5,564
Total	<u>\$ 825,040</u>	<u>\$ 6,874</u>	<u>\$ (8,094)</u>	<u>\$ 823,820</u>

(In thousands)	December 31, 2020			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. treasuries	\$ 2,613	\$ —	\$ —	\$ 2,613
U.S. government-sponsored agencies	84,424	2	(655)	83,771
Mortgage-backed securities—residential	467,915	8,604	(461)	476,058
SBA pool securities	49,457	31	(359)	49,129
State and political subdivisions	7,987	102	—	8,089
Corporate bond	3,000	29	—	3,029
Total	<u>\$ 615,396</u>	<u>\$ 8,768</u>	<u>\$ (1,475)</u>	<u>\$ 622,689</u>

The following tables present the Company's available for sale securities in a continuous unrealized loss position and the approximate fair value of these investments as of June 30, 2021 and December 31, 2020.

(In thousands)	June 30, 2021					
	Less Than 12 Months		Duration of Unrealized Loss 12 Months or Longer		Total	
	Approximate Fair Value	Unrealized Losses	Approximate Fair Value	Unrealized Losses	Approximate Fair Value	Unrealized Losses
U.S government-sponsored agencies	\$ 171,484	\$ (3,216)	\$ —	\$ —	\$ 171,484	\$ (3,216)
Mortgage-backed securities-residential	276,658	(4,292)	15,325	(177)	291,983	(4,469)
SBA pool securities	36,460	(409)	—	—	36,460	(409)
Total	<u>\$ 484,602</u>	<u>\$ (7,917)</u>	<u>\$ 15,325</u>	<u>\$ (177)</u>	<u>\$ 499,927</u>	<u>\$ (8,094)</u>

(In thousands)	December 31, 2020					
	Less Than 12 Months		Duration of Unrealized Loss 12 Months or Longer		Total	
	Approximate Fair Value	Unrealized Losses	Approximate Fair Value	Unrealized Losses	Approximate Fair Value	Unrealized Losses
U.S. government-sponsored agencies	\$ 73,769	\$ (655)	\$ —	\$ —	\$ 73,769	\$ (655)
Mortgage-backed securities-residential	103,340	(430)	13,914	(31)	117,254	(461)
SBA pool securities	39,720	(343)	2,095	(16)	41,815	(359)
Total	<u>\$ 216,829</u>	<u>\$ (1,428)</u>	<u>\$ 16,009</u>	<u>\$ (47)</u>	<u>\$ 232,838</u>	<u>\$ (1,475)</u>

Management believes that the unrealized losses on investment securities available for sale are temporary and are due to interest rate fluctuations and/or volatile market conditions rather than the credit-worthiness of the issuers. As of June 30, 2021, 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.

The Company has an investment in a CRA investment fund with a fair value of \$14.9 million at June 30, 2021. The investment is classified as an equity security in our Consolidated Statements of Condition. This security had a gain of \$42,000 for the three months ended June 30, 2021 and a loss of \$223,000 for the six months ended June 30, 2021. This amount is included in securities gains/(losses), net on the Consolidated Statements of Income.

3. LOANS AND LEASES

Loans outstanding, excluding those held for sale, by general ledger classification, as of June 30, 2021 and December 31, 2020, consisted of the following:

(Dollars in thousands)	June 30, 2021	% of Totals Loans	December 31, 2020	% of Total Loans
Residential mortgage	\$ 500,207	10.95%	\$ 502,829	11.50%
Multifamily mortgage	1,420,043	31.08	1,126,946	25.77
Commercial mortgage	702,777	15.38	691,294	15.81
Commercial loans (including equipment financing) (A)	1,846,728	40.42	1,950,981	44.62
Commercial construction	22,923	0.50	12,600	0.29
Home equity lines of credit	44,060	0.97	50,545	1.15
Consumer loans, including fixed rate home equity loans	31,889	0.70	37,016	0.85
Other loans	206	0.00	226	0.01
Total loans	<u>\$ 4,568,833</u>	<u>100.00%</u>	<u>\$ 4,372,437</u>	<u>100.00%</u>

(A) Includes PPP loans of \$84 million at June 30, 2021 and \$196 million at December 31, 2020.

In determining an appropriate amount for the allowance, the Bank segments and evaluates the loan portfolio based on federal Call Report codes. The following portfolio classes have been identified as of June 30, 2021 and December 31, 2020:

(Dollars in thousands)	June 30, 2021	% of Totals Loans	December 31, 2020	% of Total Loans
Primary residential mortgage	\$ 508,413	11.14%	\$ 512,841	11.74%
Home equity lines of credit	44,060	0.96	50,545	1.16
Junior lien loan on residence	3,580	0.08	4,527	0.10
Multifamily property	1,420,043	31.11	1,126,946	25.79
Owner-occupied commercial real estate	243,626	5.34	253,447	5.80
Investment commercial real estate	987,889	21.64	995,613	22.79
Commercial and industrial (A)	999,316	21.89	1,059,399	24.24
Lease financing	292,463	6.41	305,931	7.00
Farmland/agricultural production	3,324	0.07	3,068	0.07
Commercial construction loans	23,081	0.51	12,773	0.29
Consumer and other loans	38,768	0.85	44,483	1.02
Total loans	4,564,563	100.00%	4,369,573	100.00%
Net deferred costs	4,270		2,864	
Total loans including net deferred costs	<u>\$ 4,568,833</u>		<u>\$ 4,372,437</u>	

(A) Includes PPP loans of \$84 million at June 30, 2021 and \$196 million at December 31, 2020.

The following tables present the loan balances by portfolio class, based on impairment method, and the corresponding balances in the allowance for loan and lease losses (ALLL) as of June 30, 2021 and December 31, 2020:

(In thousands)	June 30, 2021					
	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	\$ 2,711	\$ 57	\$ 505,702	\$ 2,110	\$ 508,413	\$ 2,167
Home equity lines of credit	—	—	44,060	123	44,060	123
Junior lien loan on residence	—	—	3,580	8	3,580	8
Multifamily property	—	—	1,420,043	10,615	1,420,043	10,615
Owner-occupied commercial real estate	529	—	243,097	2,447	243,626	2,447
Investment commercial real estate	—	—	987,889	27,886	987,889	27,886
Commercial and industrial (A)	3,258	—	996,058	16,565	999,316	16,565
Lease financing	—	—	292,463	3,275	292,463	3,275
Farmland/agricultural production	—	—	3,324	43	3,324	43
Commercial construction loans	—	—	23,081	159	23,081	159
Consumer and other loans	—	—	38,768	217	38,768	217
Total ALLL	\$ 6,498	\$ 57	\$ 4,558,065	\$ 63,448	\$ 4,564,563	\$ 63,505

(A) The balance includes PPP loans of \$84 million which had no related reserve as these loans are guaranteed by the SBA.

(In thousands)	December 31, 2020					
	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	\$ 1,490	\$ 3	\$ 511,351	\$ 2,902	\$ 512,841	\$ 2,905
Home equity lines of credit	—	—	50,545	218	50,545	218
Junior lien loan on residence	—	—	4,527	15	4,527	15
Multifamily property	—	—	1,126,946	9,945	1,126,946	9,945
Owner-occupied commercial real estate	807	—	252,640	3,050	253,447	3,050
Investment commercial real estate	4,593	—	991,020	27,713	995,613	27,713
Commercial and industrial (A)	9,314	2,700	1,050,085	16,347	1,059,399	19,047
Lease financing	—	—	305,931	3,936	305,931	3,936
Farmland/agricultural production	—	—	3,068	43	3,068	43
Commercial construction loans	—	—	12,773	158	12,773	158
Consumer and other loans	—	—	44,483	279	44,483	279
Total ALLL	\$ 16,204	\$ 2,703	\$ 4,353,369	\$ 64,606	\$ 4,369,573	\$ 67,309

(A)The balance includes PPP loans of \$196 million which had no related reserve as these loans are guaranteed by the SBA.

Impaired loans include nonaccrual loans of \$6.0 million at June 30, 2021 and \$11.4 million at December 31, 2020. Impaired loans also include performing TDR loans of \$190,000 at June 30, 2021 and \$201,000 at December 31, 2020. The allowance allocated to TDR loans totaled \$57,000 and \$3,000 at June 30, 2021 and December 31, 2020, respectively, of which none was allocated to nonaccrual loans. All accruing TDR loans were paying in accordance with restructured terms as of June 30, 2021. The Company has not committed to lend additional amounts as of June 30, 2021 to customers with outstanding loans that are classified as TDR loans.

The following tables present loans individually evaluated for impairment by class of loans as of June 30, 2021 and December 31, 2020 (The average impaired loans on the following tables represent year to date impaired loans):

June 30, 2021				
(In thousands)	Unpaid Principal Balance	Recorded Investment	Specific Reserves	Average Impaired Loans
With no related allowance recorded:				
Primary residential mortgage	\$ 2,078	\$ 1,889	\$ —	\$ 1,785
Owner-occupied commercial real estate	550	529	—	593
Commercial and industrial	5,091	3,258	—	3,362
Total loans with no related allowance	\$ 7,719	\$ 5,676	\$ —	\$ 5,740
With related allowance recorded:				
Primary residential mortgage	\$ 822	\$ 822	\$ 57	\$ 271
Total loans with related allowance	\$ 822	\$ 822	\$ 57	\$ 271
Total loans individually evaluated for impairment	\$ 8,541	\$ 6,498	\$ 57	\$ 6,011

December 31, 2020				
(In thousands)	Unpaid Principal Balance	Recorded Investment	Specific Reserves	Average Impaired Loans
With no related allowance recorded:				
Primary residential mortgage	\$ 1,601	\$ 1,328	\$ —	\$ 5,544
Owner-occupied commercial real estate	817	807	—	516
Investment commercial real estate	4,593	4,593	—	6,582
Commercial and industrial	7,137	4,314	—	1,677
Total loans with no related allowance	\$ 14,148	\$ 11,042	\$ —	\$ 14,319
With related allowance recorded:				
Primary residential mortgage	\$ 162	\$ 162	\$ 3	\$ 526
Commercial and industrial	5,000	5,000	2,700	4,140
Total loans with related allowance	\$ 5,162	\$ 5,162	\$ 2,703	\$ 4,666
Total loans individually evaluated for impairment	\$ 19,310	\$ 16,204	\$ 2,703	\$ 18,985

Interest income recognized on impaired loans for the quarters ended June 30, 2021 and 2020 was not material. The Company did not recognize any income on non-accruing impaired loans for the three months and six months ended June 30, 2021 and 2020.

The following tables present the recorded investment in nonaccrual and loans past due over 90 days still on accrual by class of loans as of June 30, 2021 and December 31, 2020:

June 30, 2021		
(In thousands)	Nonaccrual	Loans Past Due 90 Days or Over And Still Accruing Interest
Primary residential mortgage	\$ 2,206	\$ —
Owner-occupied commercial real estate	529	—
Commercial and industrial	3,227	—
Total	\$ 5,962	\$ —

December 31, 2020		
(In thousands)	Nonaccrual	Loans Past Due 90 Days or Over And Still Accruing Interest
Primary residential mortgage	\$ 1,328	\$ —
Owner-occupied commercial real estate	807	—
Commercial and industrial	9,275	—
Total	\$ 11,410	\$ —

The following tables present the aging of the recorded investment in past due loans as of June 30, 2021 and December 31, 2020 by class of loans, excluding nonaccrual loans:

(In thousands)	June 30, 2021			
	30-59 Days Past Due	60-89 Days Past Due	90 Days or Greater Past Due	Total Past Due
Primary residential mortgage	\$ 503	\$ 89	\$ —	\$ 592
Commercial and industrial	946	140	—	1,086
Total	<u>\$ 1,449</u>	<u>\$ 229</u>	<u>\$ —</u>	<u>\$ 1,678</u>

(In thousands)	December 31, 2020			
	30-59 Days Past Due	60-89 Days Past Due	90 Days or Greater Past Due	Total Past Due
Primary residential mortgage	\$ 2,900	\$ 141	\$ —	\$ 3,041
Home equity lines of credit	181	—	—	181
Junior lien loan on residence	—	25	—	25
Multifamily property	—	269	—	269
Owner-occupied commercial real estate	268	—	—	268
Commercial and industrial	497	772	—	1,269
Total	<u>\$ 3,846</u>	<u>\$ 1,207</u>	<u>\$ —</u>	<u>\$ 5,053</u>

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.

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 large sample of relationships or new lending to existing relationships greater than \$1,000,000 booked since the prior review;
- All criticized and classified rated borrowers with relationship exposure of more than \$500,000;
- A large sample of Pass-rated (including Pass Watch) borrowers with total relationships in excess of \$1,000,000 and a small sample of Pass related relationships less than \$1,000,000;
- All leveraged loans of \$1,000,000 or greater;
- At least two borrowing relationships managed by each commercial banker;
- Any new Regulation “O” loan commitments over \$1,000,000; and
- 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 review excludes borrowers with commitments of less than \$500,000.

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

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

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

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

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

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

As of June 30, 2021, and based on the most recent analysis performed, the risk category of loans by class of loans is as follows:

(In thousands)	Pass	Special Mention	Substandard	Doubtful
Primary residential mortgage	\$ 500,297	\$ 1,818	\$ 6,298	\$ —
Home equity lines of credit	43,594	—	466	—
Junior lien loan on residence	3,562	—	18	—
Multifamily property	1,415,514	4,181	348	—
Owner-occupied commercial real estate	234,654	8,182	790	—
Investment commercial real estate	888,789	99,100	—	—
Commercial and industrial	960,816	35,242	3,258	—
Lease financing	292,463	—	—	—
Farmland/agricultural production	3,324	—	—	—
Commercial construction loans	23,003	78	—	—
Consumer and other loans	38,768	—	—	—
Total	<u>\$ 4,404,784</u>	<u>\$ 148,601</u>	<u>\$ 11,178</u>	<u>\$ —</u>

As of December 31, 2020, and based on the most recent analysis performed, the risk category of loans by class of loans is as follows:

(In thousands)	Pass	Special Mention	Substandard	Doubtful
Primary residential mortgage	\$ 504,795	\$ 1,398	\$ 6,648	\$ —
Home equity lines of credit	50,068	—	477	—
Junior lien loan on residence	4,483	—	44	—
Multifamily property	1,121,145	5,441	360	—
Owner-occupied commercial real estate	240,638	10,417	2,392	—
Investment commercial real estate	893,115	91,162	11,336	—
Commercial and industrial	989,281	53,604	16,514	—
Lease financing	305,931	—	—	—
Farmland/agricultural production	3,068	—	—	—
Commercial construction loans	12,692	81	—	—
Consumer and other loans	44,483	—	—	—
Total	<u>\$ 4,169,699</u>	<u>\$ 162,103</u>	<u>\$ 37,771</u>	<u>\$ —</u>

At June 30, 2021, \$6.5 million of substandard loans were also considered impaired, compared to December 31, 2020, when \$16.2 million of substandard loans were also considered impaired.

The activity in the allowance for loan and lease losses for the three months ended June 30, 2021 is summarized below:

(In thousands)	April 1, 2021 Beginning ALLL	Charge-offs	Recoveries	Provision (Credit)	June 30, 2021 Ending ALLL
Primary residential mortgage	\$ 2,776	\$ (12)	\$ —	\$ (597)	\$ 2,167
Home equity lines of credit	198	—	76	(151)	123
Junior lien loan on residence	16	—	—	(8)	8
Multifamily property	10,427	—	—	188	10,615
Owner-occupied commercial real estate	2,864	—	—	(417)	2,447
Investment commercial real estate	26,693	—	—	1,193	27,886
Commercial and industrial	20,125	(5,000)	3	1,437	16,565
Lease financing	3,967	—	—	(692)	3,275
Farmland/agricultural production	47	—	—	(4)	43
Commercial construction loans	161	—	—	(2)	159
Consumer and other loans	262	(5)	7	(47)	217
Total ALLL	<u>\$ 67,536</u>	<u>\$ (5,017)</u>	<u>\$ 86</u>	<u>\$ 900</u>	<u>\$ 63,505</u>

The activity in the allowance for loan and lease losses for the three months ended June 30, 2020 is summarized below:

(In thousands)	April 1, 2020 Beginning ALLL	Charge-offs	Recoveries	Provision (Credit)	June 30, 2020 Ending ALLL
Primary residential mortgage	\$ 3,173	\$ —	\$ 36	\$ (135)	\$ 3,074
Home equity lines of credit	237	—	2	5	244
Junior lien loan on residence	23	—	—	(3)	20
Multifamily property	9,104	—	—	558	9,662
Owner-occupied commercial real estate	2,838	—	—	339	3,177
Investment commercial real estate	27,671	(400)	—	2,595	29,866
Commercial and industrial	17,124	(2,254)	2	1,346	16,218
Lease financing	3,141	—	—	208	3,349
Farmland/agricultural production	38	—	—	—	38
Commercial construction loans	40	—	—	9	49
Consumer and other loans	394	(5)	1	(22)	368
Total ALLL	<u>\$ 63,783</u>	<u>\$ (2,659)</u>	<u>\$ 41</u>	<u>\$ 4,900</u>	<u>\$ 66,065</u>

The activity in the allowance for loan and lease losses for the six months ended June 30, 2021 is summarized below:

(In thousands)	January 1, 2021 Beginning ALLL	Charge-offs	Recoveries	Provision (Credit)	June 30, 2021 Ending ALLL
Primary residential mortgage	\$ 2,905	\$ (12)	\$ —	\$ (726)	\$ 2,167
Home equity lines of credit	218	—	85	(180)	123
Junior lien loan on residence	15	—	—	(7)	8
Multifamily property	9,945	—	—	670	10,615
Owner-occupied commercial real estate	3,050	—	—	(603)	2,447
Investment commercial real estate	27,713	—	—	173	27,886
Commercial and industrial	19,047	(5,000)	10	2,508	16,565
Lease financing	3,936	—	—	(661)	3,275
Farmland/agricultural production	43	—	—	—	43
Commercial construction loans	158	—	—	1	159
Consumer and other loans	279	(20)	8	(50)	217
Total ALLL	<u>\$ 67,309</u>	<u>\$ (5,032)</u>	<u>\$ 103</u>	<u>\$ 1,125</u>	<u>\$ 63,505</u>

The activity in the allowance for loan and lease losses for the six months ended June 30, 2020 is summarized below:

(In thousands)	January 1, 2020 Beginning ALLL	Charge-offs	Recoveries	Provision (Credit)	June 30, 2020 Ending ALLL
Primary residential mortgage	\$ 2,090	\$ —	\$ 113	\$ 871	\$ 3,074
Home equity lines of credit	128	—	5	111	244
Junior lien loan on residence	13	—	—	7	20
Multifamily property	6,037	—	—	3,625	9,662
Owner-occupied commercial real estate	2,064	—	—	1,113	3,177
Investment commercial real estate	15,988	(400)	31	14,247	29,866
Commercial and industrial	14,353	(2,254)	5	4,114	16,218
Lease financing	2,642	—	—	707	3,349
Farmland/agricultural production	38	—	—	—	38
Commercial construction loans	27	—	—	22	49
Consumer and other loans	296	(13)	2	83	368
Total ALLL	<u>\$ 43,676</u>	<u>\$ (2,667)</u>	<u>\$ 156</u>	<u>\$ 24,900</u>	<u>\$ 66,065</u>

Loan Modifications:

The CARES Act allows financial institutions to suspend application of certain current TDR accounting guidance under ASC 310-40 for loan modifications related to the COVID-19 pandemic made between March 1, 2020 and the earlier of December 31, 2020 or 60 days after the end of the COVID-19 national emergency, provided certain criteria are met. The revised CARES Act extended loan modifications through January 1, 2022. This relief can be applied to loan modifications for borrowers that were not more than 30 days past due as of December 31, 2019 and to loan modifications that defer or delay the payment of principal or interest or change the interest rate on the loan. In April 2020, federal and state banking regulators issued the Interagency Statement on Loan Modifications and Reporting for Financial Institutions Working with Customers Affected by the Coronavirus to provide further interpretation of when a borrower is experiencing financial difficulty, specifically indicating that if the modification is either short-term (e.g., six months) or mandated by a federal or state government in response to the COVID-19 pandemic, the borrower is not experiencing financial difficulty under ASC 310-40.

As of June 30, 2021, the Bank has modified 541 loans with a balance of \$946.8 million resulting in the deferral of principal and/or interest. The table below summarizes the deferrals as of June 30, 2021. All of these loans were performing in accordance with their terms prior to modification and are in conformance with the CARES Act. Included in the table below is one loan related to our back to back swap program totaling \$19.9 million. Details with respect to loan modifications are as follows:

(Dollars in thousands)	Number of Loans	Post-Modification Outstanding Recorded Investment
Primary residential mortgage	6	\$ 2,065
Junior lien loan on residence	1	19
Owner-occupied commercial real estate	1	117
Investment commercial real estate	1	19,887
Commercial and industrial	4	12,656
Commercial construction loans	1	1,956
Total	<u>14</u>	<u>\$ 36,700</u>

The future performance of these loans, specifically beyond the term of the deferral, is uncertain. To recognize a credit allowance commensurate with the existing risk, the Company assigned qualitative factors for each of the above portfolio classes for allowance purposes.

Troubled Debt Restructurings:

The Company has allocated \$57,000 and \$3,000 of specific reserves on TDRs as of June 30, 2021 and December 31, 2020, respectively. There were no unfunded commitments to lend additional amounts to customers with outstanding loans that are classified as TDRs.

The following table presents loans by class modified as TDRs during the three-month period ended June 30, 2021:

(Dollars in thousands)	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Primary residential mortgage	1	\$ 822	\$ 822
Commercial and industrial	1	2,317	2,317
Total	2	\$ 3,139	\$ 3,139

The following table presents loans by class modified as TDRs during the three-month period ended June 30, 2020:

(Dollars in thousands)	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Primary residential mortgage	1	\$ 139	\$ 139
Total	1	\$ 139	\$ 139

The following table presents loans by class modified as TDRs during the six-month period ended June 30, 2021:

(Dollars in thousands)	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Primary residential mortgage	1	\$ 822	\$ 822
Commercial and industrial	1	2,317	2,317
Total	2	\$ 3,139	\$ 3,139

The following table presents loans by class modified as TDRs during the six-month period ended June 30, 2020:

(Dollars in thousands)	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Primary residential mortgage	2	\$ 391	\$ 391
Commercial and industrial	1	45	45
Total	3	\$ 436	\$ 436

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

There were no loans that were modified as TDRs for which there was a payment default within twelve months of modification at June 30, 2021.

The following table presents loans by class modified as TDRs that failed to comply with the modified terms in the twelve months following modification and resulted in a payment default at June 30, 2020:

(Dollars in thousands)	Number of Loans	Recorded Investment
Primary residential mortgage	1	\$ 200
Commercial and industrial	1	45
Total	2	\$ 245

In order to determine whether a borrower is experiencing financial difficulty, an evaluation is performed of the probability that the borrower will be in payment default on any of its debt in the foreseeable future without the modification. This evaluation is performed under the Company's internal underwriting policy. The modification of the terms of such loans may include one or more of the following: (1) a reduction of the stated interest rate of the loan to a rate that is lower than the current market rate for new debt with similar risk; (2) an extension of an interest only period for a predetermined period of time; (3) an extension of the maturity date; or (4) an extension of the amortization period over which future payments will be computed. At the time a loan is restructured, the Bank performs a full re-underwriting analysis, which includes, at a minimum, obtaining current financial statements and tax returns, copies of all leases, and an updated independent appraisal of the property. A loan will continue to accrue interest if it can be reasonably determined that the borrower should be able to perform under the modified terms, that the loan has not been chronically delinquent (both to debt service and real estate taxes) or in nonaccrual status since its inception, and that there have been no charge-offs on the loan. Restructured loans with previous charge-offs would not accrue interest at the time of the TDR. At a minimum, six 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. DEPOSITS

Certificates of deposit, over \$250,000, totaled \$157.0 million and \$186.3 million at June 30, 2021 and December 31, 2020, respectively. These totals exclude brokered certificates of deposit.

The following table sets forth the details of total deposits as of June 30, 2021 and December 31, 2020:

(Dollars in thousands)	June 30, 2021		December 31, 2020	
Noninterest-bearing demand deposits	\$ 959,494	19.60%	\$ 833,500	17.30%
Interest-bearing checking (1)	1,978,497	40.41	1,849,254	38.38
Savings	147,227	3.01	130,731	2.71
Money market	1,213,992	24.80	1,298,885	26.96
Certificates of deposit - retail	446,143	9.11	530,222	11.00
Certificates of deposit - listing service	31,631	0.64	32,128	0.67
Subtotal deposits	4,776,984	97.57	4,674,720	97.02
Interest-bearing demand - Brokered	85,000	1.74	110,000	2.28
Certificates of deposit - Brokered	33,791	0.69	33,764	0.70
Total deposits	\$ 4,895,775	100.00%	\$ 4,818,484	100.00%

- (1) Interest-bearing checking includes \$668.1 million at June 30, 2021 and \$652.5 million at December 31, 2020 of reciprocal balances in the Reich & Tang or Promontory Demand Deposit Marketplace program.

The scheduled maturities of certificates of deposit, including brokered certificates of deposit, as of June 30, 2021 are as follows:

(In thousands)	
2021	\$ 237,388
2022	197,419
2023	13,030
2024	28,030
2025	29,167
Over 5 Years	6,531
Total	\$ 511,565

5. FEDERAL HOME LOAN BANK ADVANCES AND OTHER BORROWINGS

There were no overnight borrowings with the FHLB as of June 30, 2021 or December 31, 2020. At June 30, 2021, unused short-term overnight borrowing commitments totaled \$1.7 billion from the FHLB, \$22.0 million from correspondent banks and \$1.0 billion at the Federal Reserve Bank of New York.

The Company had \$83.6 million in borrowings from the Federal Reserve's Paycheck Protection Plan Lending Facility (the "PPPLF"), as of June 30, 2021 as compared to \$177.1 million at December 31, 2020. The borrowings have a rate of 0.35 percent, primarily all of which have a two year maturity. The Company utilized the PPPLF to fund PPP loan production during the second quarter of 2020. The borrowings are fully pledged by PPP loans as of June 30, 2021.

During the quarter ended June 30, 2021, the Company terminated an interest rate swap with a notional amount of \$15.0 million that was tied to a one-month FHLB advance totaling \$15.0 million.

The Company prepaid \$105.0 million of FHLB advances resulting in a prepayment penalty of \$4.8 million during 2020. The repayment of the FHLB advances is expected to provide a benefit to interest expense greater than the prepayment penalty over the remaining life of the advances.

6. BUSINESS SEGMENTS

The Company assesses its results among two operating segments, Banking and Peapack Private. 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. The Banking segment's effective tax rate for the three and six months ended June 30, 2020 was affected by a \$3.3 million income tax benefit recorded during the first quarter of 2020. For additional information related to this income tax benefit refer to the *Income Taxes* section of *Management's Discussion and Analysis*.

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.

Peapack Private

Peapack Private, which includes PGB Trust & Investments of Delaware and Murphy Capital, consists of 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 tables present the statements of income and total assets for the Company's reportable segments for the three and six months ended June 30, 2021 and 2020.

(In thousands)	Three Months Ended June 30, 2021		
	Banking	Peapack Private	Total
Net interest income	\$ 32,399	\$ 1,446	\$ 33,845
Noninterest income	4,194	13,484	17,678
Total income	36,593	14,930	51,523
Provision for loan and lease losses	900	—	900
Compensation and benefits	14,369	5,541	19,910
Premises and equipment expense	3,519	555	4,074
FDIC expense	529	—	529
Other operating expense	3,817	2,354	6,171
Total operating expense	23,134	8,450	31,584
Income before income tax expense	13,459	6,480	19,939
Income tax expense	3,721	1,800	5,521
Net income	\$ 9,738	\$ 4,680	\$ 14,418

(In thousands)	Three Months Ended June 30, 2020		
	Banking	Peapack Private	Total
Net interest income	\$ 30,453	\$ 1,518	\$ 31,971
Noninterest income	2,356	10,270	12,626
Total income	32,809	11,788	44,597
Provision for loan and lease losses	4,900	—	4,900
Compensation and employee benefits	13,774	5,412	19,186
Premises and equipment expense	3,487	549	4,036
FDIC insurance expense	455	—	455
Other operating expense	3,052	2,285	5,337
Total operating expense	25,668	8,246	33,914
Income before income tax expense	7,141	3,542	10,683
Income tax expense	1,257	1,184	2,441
Net income	\$ 5,884	\$ 2,358	\$ 8,242

(In thousands)	Six Months Ended June 30, 2021		
	Banking	Peapack Private	Total
Net interest income	\$ 62,625	\$ 3,013	\$ 65,638
Noninterest income	9,334	26,164	35,498
Total income	71,959	29,177	101,136
Provision for loan and lease losses	1,125	—	1,125
Compensation and employee benefits	30,797	11,103	41,900
Premises and equipment expense	7,089	1,098	8,187
FDIC insurance expense	1,114	—	1,114
Other operating expense	6,208	4,869	11,077
Total operating expense	46,333	17,070	63,403
Income before income tax expense	25,626	12,107	37,733
Income tax expense	6,880	3,257	10,137
Net income	\$ 18,746	\$ 8,850	\$ 27,596
Total assets at period end	\$ 5,700,105	\$ 91,583	\$ 5,791,688

(In thousands)	Six Months Ended June 30, 2020		
	Banking	Peapack Private	Total
Net interest income	\$ 60,862	\$ 2,856	\$ 63,718
Noninterest income	6,585	20,558	27,143
Total income	67,447	23,414	90,861
Provision for loan and lease losses	24,900	—	24,900
Compensation and employee benefits	26,981	11,431	38,412
Premises and equipment expense	6,908	1,171	8,079
FDIC insurance expense	705	—	705
Other operating expense	5,658	4,395	10,053
Total operating expense	65,152	16,997	82,149
Income before income tax (benefit)/expense	2,295	6,417	8,712
Income tax (benefit)/expense	(2,636)	1,733	(903)
Net income	\$ 4,931	\$ 4,684	\$ 9,615
Total assets at period end	\$ 6,203,441	\$ 77,774	\$ 6,281,215

7. FAIR VALUE

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

- Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.
- Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.
- Level 3: Significant unobservable inputs that reflect a company's own assumptions about the assumptions that market participants would use in pricing an 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 and lease 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 third party conducts a review of the appraisal for compliance with the Uniform Standards of Professional Appraisal Practice and appropriate analysis methods for the type of property. Subsequently, 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 appraisals 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 a 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 June 30, 2021.

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

Assets Measured on a Recurring Basis

		Fair Value Measurements Using		
		Quoted Prices in Active Markets For Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
(In thousands)	June 30, 2021			
Assets:				
Available for sale:				
U.S. government-sponsored agencies	\$ 210,940	\$ —	\$ 210,940	\$ —
Mortgage-backed securities-residential	555,273	—	555,273	—
SBA pool securities	45,268	—	45,268	—
State and political subdivisions	6,775	—	6,775	—
Corporate bond	5,564	—	5,564	—
CRA investment fund	14,894	14,894	—	—
Loans held for sale, at fair value	3,974	—	3,974	—
Derivatives:				
Loan level swaps	51,855	—	51,855	—
Total	\$ 894,543	\$ 14,894	\$ 879,649	\$ —
Liabilities:				
Derivatives:				
Cash flow hedges	\$ 6,203	\$ —	\$ 6,203	\$ —
Loan level swaps	51,855	—	51,855	—
Total	\$ 58,058	\$ —	\$ 58,058	\$ —

Assets Measured on a Recurring Basis

(In thousands)	December 31, 2020	Fair Value Measurements Using		
		Quoted Prices in Active Markets For Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Securities available for sale:				
U.S. treasuries	\$ 2,613	\$ —	\$ 2,613	\$ —
U.S. government-sponsored agencies	83,771	—	83,771	—
Mortgage-backed securities-residential	476,058	—	476,058	—
SBA pool securities	49,129	—	49,129	—
State and political subdivisions	8,089	—	8,089	—
Corporate bond	3,029	—	3,029	—
CRA investment fund	15,117	15,117	—	—
Loans held for sale, at fair value	13,588	—	13,588	—
Derivatives:				
Loan level swaps	79,529	—	79,529	—
Total	\$ 730,923	\$ 15,117	\$ 715,806	\$ —

Liabilities:				
Derivatives:				
Cash flow hedges	\$ 9,616	\$ —	\$ 9,616	\$ —
Loan level swaps	79,529	—	79,529	—
Total	\$ 89,145	\$ —	\$ 89,145	\$ —

The Company has elected the fair value option for certain 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 nor on nonaccrual as of June 30, 2021 and December 31, 2020.

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

(In thousands)	June 30, 2021	December 31, 2020
Residential loans contractual balance	\$ 3,911	\$ 13,295
Fair value adjustment	63	293
Total fair value of residential loans held for sale	\$ 3,974	\$ 13,588

There were no transfers between Level 1 and Level 2 during the three and six months ended June 30, 2021.

The following tables summarize, at the dates indicated, assets measured at fair value on a non-recurring basis:

		Fair Value Measurements Using		
		Quoted Prices in Active Markets For Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
(In thousands)	June 30, 2021			
Assets:				
Impaired loans:				
Primary residential mortgage	\$ 765	\$ —	\$ —	\$ 765

		Fair Value Measurements Using		
		Quoted Prices in Active Markets For Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
(In thousands)	December 31, 2020			
Assets:				
Impaired loans:				
Commercial and industrial	\$ 2,300	\$ —	\$ —	\$ 2,300

The carrying amounts and estimated fair values of financial instruments at June 30, 2021 are as follows:

(In thousands)	Carrying Amount	Fair Value Measurements at June 30, 2021 using			
		Level 1	Level 2	Level 3	Total
Financial assets					
Cash and cash equivalents	\$ 203,462	\$ 203,462	\$ —	\$ —	\$ 203,462
Securities available for sale	823,820	—	823,820	—	823,820
CRA investment fund	14,894	14,894	—	—	14,894
FHLB and FRB stock	12,901	—	—	—	N/A
Loans held for sale, at fair value	3,974	—	3,974	—	3,974
Loans held for sale, at lower of cost or fair value	11,179	—	11,844	—	11,844
Loans, net of allowance for loan and lease losses	4,505,328	—	—	4,697,207	4,697,207
Accrued interest receivable	23,117	—	2,190	20,927	23,117
Accrued interest receivable loan level swaps (A)	4,716	—	4,716	—	4,716
Loan level swaps	51,855	—	51,855	—	51,855
Financial liabilities					
Deposits	\$ 4,895,775	\$ 4,384,210	\$ 516,107	\$ —	\$ 4,900,317
Paycheck Protection Program Liquidity Facility	83,586	—	83,586	—	83,586
Subordinated debt	132,557	—	—	130,523	130,523
Accrued interest payable	1,028	126	827	75	1,028
Accrued interest payable loan level swaps	4,716	—	4,716	—	4,716
Cash flow hedges	6,203	—	6,203	—	6,203
Loan level swap	51,855	—	51,855	—	51,855

(A) Included in other assets in the Consolidated Statement of Condition.

The carrying amounts and estimated fair values of financial instruments at December 31, 2020 are as follows:

		Fair Value Measurements at December 31, 2020 using			
(In thousands)	Carrying Amount	Level 1	Level 2	Level 3	Total
Financial assets					
Cash and cash equivalents	\$ 653,322	\$ 653,322	\$ —	\$ —	\$ 653,322
Securities available for sale	622,689	—	622,689	—	622,689
CRA investment fund	15,117	15,117	—	—	15,117
FHLB and FRB stock	13,709	—	—	—	N/A
Loans held for sale, at fair value	13,588	—	13,588	—	13,588
Loans held for sale, at lower of cost or fair value	18,520	—	19,115	—	19,115
Loans, net of allowance for loan and lease losses	4,305,128	—	—	4,462,243	4,462,243
Accrued interest receivable	22,495	—	1,653	20,842	22,495
Loan level swaps	79,529	—	79,529	—	79,529
Financial liabilities					
Deposits	\$ 4,818,484	\$ 4,222,370	\$ 604,036	\$ —	\$ 4,826,406
Short-term borrowings	15,000	—	15,000	—	15,000
Paycheck Protection Program Liquidity Facility	177,086	—	177,086	—	177,086
Subordinated debt	181,794	—	—	183,348	183,348
Accrued interest payable	1,650	150	1,347	153	1,650
Cash flow hedges	9,616	—	9,616	—	9,616
Loan level swaps	79,529	—	79,529	—	79,529

8. REVENUE FROM CONTRACTS WITH CUSTOMERS

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

The following tables present the sources of noninterest income for the periods indicated:

(In thousands)	For the Three Months Ended June 30,	
	2021	2020
Service charges on deposits		
Overdraft fees	\$ 87	\$ 72
Interchange income	370	270
Other	439	353
Wealth management fees (a)	13,034	9,996
Gains/(losses) on sales of OREO	51	—
Other (b)	3,697	1,935
Total noninterest other income	\$ 17,678	\$ 12,626

(In thousands)	For the Six Months Ended June 30,	
	2021	2020
Service charges on deposits		
Overdraft fees	\$ 180	\$ 219
Interchange income	687	550
Other	875	742
Wealth management fees (a)	25,165	19,951
Gains/(losses) on sales of OREO	51	—
Other (b)	8,540	5,681
Total noninterest other income	\$ 35,498	\$ 27,143

(a) Includes investment brokerage fees.

(b) 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 periods indicated:

(In thousands) Revenue by Operating Segment	For the Three Months Ended June 30, 2021			For the Three Months Ended June 30, 2020		
	Banking	Wealth Management	Total	Banking	Wealth Management	Total
Service charges on deposits						
Overdraft fees	\$ 87	\$ —	\$ 87	\$ 72	\$ —	\$ 72
Interchange income	370	—	370	270	—	270
Other	439	—	439	353	—	353
Wealth management fees (a)	—	13,034	13,034	—	9,996	9,996
Gains/(losses) on sales of OREO	51	—	51	—	—	—
Other (b)	3,247	450	3,697	1,661	274	1,935
Total noninterest income	<u>\$ 4,194</u>	<u>\$ 13,484</u>	<u>\$ 17,678</u>	<u>\$ 2,356</u>	<u>\$ 10,270</u>	<u>\$ 12,626</u>

(In thousands) Revenue by Operating Segment	For the Six Months Ended June 30, 2021			For the Six Months Ended June 30, 2020		
	Banking	Wealth Management	Total	Banking	Wealth Management	Total
Service charges on deposits						
Overdraft fees	\$ 180	\$ —	\$ 180	\$ 219	\$ —	\$ 219
Interchange income	687	—	687	550	—	550
Other	875	—	875	742	—	742
Wealth management fees (a)	—	25,165	25,165	—	19,951	19,951
Gains/(losses) on sales of OREO	51	—	51	—	—	—
Other (b)	7,541	999	8,540	5,074	607	5,681
Total noninterest income	<u>\$ 9,334</u>	<u>\$ 26,164</u>	<u>\$ 35,498</u>	<u>\$ 6,585</u>	<u>\$ 20,558</u>	<u>\$ 27,143</u>

(a) Includes investment brokerage fees.

(b) 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 deposit 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 is the 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 for the second quarter of 2021 by \$32,000 compared to \$23,000 for the same quarter in 2020. Cardholder rewards reduced interchange income by \$61,000 and \$55,000 for the six months ended June 30, 2021 and 2020, respectively.

Wealth management fees (gross): The Company earns wealth management fees from its contracts with wealth management clients to manage assets for investment, and/or to transact on their accounts. These fees are primarily earned over time as the Company charges its clients on a monthly or quarterly basis in accordance with its investment advisory agreements. Fees 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 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 gain on the sale of OREO of \$51,000 for the three and six months ended June 30, 2021.

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

9. OTHER OPERATING EXPENSES

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

(In thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
Professional and legal fees	\$ 1,186	\$ 1,042	\$ 2,442	\$ 2,016
Telephone	312	395	646	719
Advertising	404	728	618	1,068
Amortization of intangible assets	368	321	736	645
Branch restructure	228	278	228	278
Write-off of subordinated debt costs	648	—	648	—
Other operating expenses	3,025	2,573	5,759	5,327
Total other operating expenses	\$ 6,171	\$ 5,337	\$ 11,077	\$ 10,053

10. ACCUMULATED OTHER COMPREHENSIVE INCOME/(LOSS)

The following is a summary of the accumulated other comprehensive income/(loss) balances, net of tax, for the three months ended June 30, 2021 and 2020:

(In thousands)	Balance at April 1, 2021	Other Comprehensive Income/(Loss) Before Reclassifications	Amount Reclassified From Accumulated Other Comprehensive Income/(Loss)	Other Comprehensive Income/(Loss) Three Months Ended June 30, 2021	Balance at June 30, 2021
Net unrealized holding gain/(loss) on securities available for sale, net of tax	\$ (7,894)	\$ 6,938	\$ —	\$ 6,938	\$ (956)
Gain/(loss) on cash flow hedges	(5,870)	805	606	1,411	(4,459)
Accumulated other comprehensive gain/(loss), net of tax	\$ (13,764)	\$ 7,743	\$ 606	\$ 8,349	\$ (5,415)

	Balance at April 1, 2020	Other Comprehensive Income/(Loss) Before Reclassifications	Amount Reclassified From Accumulated Other Comprehensive Income/(Loss)	Other Comprehensive Income/(Loss) Three Months Ended June 30, 2020	Balance at June 30, 2020
(In thousands)					
Net unrealized holding gain/(loss) on securities available for sale, net of tax	\$ 5,393	\$ 1,542	\$ —	\$ 1,542	\$ 6,935
Gain/(loss) on cash flow hedges	(9,052)	128	(7)	121	(8,931)
Accumulated other comprehensive loss, net of tax	<u>\$ (3,659)</u>	<u>\$ 1,670</u>	<u>\$ (7)</u>	<u>\$ 1,663</u>	<u>\$ (1,996)</u>

The following represents the reclassifications out of accumulated other comprehensive income/(loss) for the three months ended June 30, 2021 and 2020:

	Three Months Ended June 30,		Affected Line Item in Income Statement
(In thousands)	2021	2020	
Unrealized gains/(losses) on cash flow hedge derivatives:			
Reclassification adjustment for amounts included in net income	\$ —	\$ (9)	Interest expense
Reclassification adjustment for losses on termination of swaps included in net income	842	—	Other income
Tax effect	(236)	2	Income tax expense
Total reclassifications, net of tax	<u>\$ 606</u>	<u>\$ (7)</u>	

The following is a summary of the accumulated other comprehensive income/(loss) balances, net of tax, for the six months ended June 30, 2021 and 2020

	Balance at January 1, 2021	Other Comprehensive Income/(Loss) Before Reclassifications	Amount Reclassified From Accumulated Other Comprehensive Income/(Loss)	Other Comprehensive Income/(Loss) Six Months Ended June 30, 2021	Balance at June 30, 2021
(In thousands)					
Net unrealized holding gain/(loss) on securities available for sale, net of tax	\$ 5,521	\$ (6,477)	\$ —	\$ (6,477)	\$ (956)
Gain/(loss) on cash flow hedges	(6,913)	1,848	606	2,454	(4,459)
Accumulated other comprehensive loss, net of tax	<u>\$ (1,392)</u>	<u>\$ (4,629)</u>	<u>\$ 606</u>	<u>\$ (4,023)</u>	<u>\$ (5,415)</u>

(In thousands)	Balance at January 1, 2020	Other Comprehensive Income/(Loss) Before Reclassifications	Amount Reclassified From Accumulated Other Comprehensive Income/(Loss)	Other Comprehensive Income/(Loss) Six Months Ended June 30, 2020	Balance at June 30, 2020
Net unrealized holding gain/(loss) on securities available for sale, net of tax	\$ 1,006	\$ 5,929	\$ —	\$ 5,929	\$ 6,935
Gain/(loss) on cash flow hedges	(2,501)	(6,371)	(59)	(6,430)	(8,931)
Accumulated other comprehensive loss, net of tax	\$ (1,495)	\$ (442)	\$ (59)	\$ (501)	\$ (1,996)

The following represents the reclassifications out of accumulated other comprehensive income/(loss) for the six months ended June 30, 2021 and 2020:

(In thousands)	Six Months Ended June 30,		Affected Line Item in Income
	2021	2020	
Unrealized gains on cash flow hedge derivatives:			
Reclassification adjustment for amounts included in net income	\$ —	\$ (80)	Interest expense
Reclassification adjustment for losses on termination of swaps included in net income	842	—	Other income
Tax effect	(236)	21	Income tax expense
Total reclassifications, net of tax	\$ 606	\$ (59)	

11. 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 Swaps Designated as Cash Flow Hedges: Interest rate swaps with a notional amount of \$230.0 million as of June 30, 2021 and \$270.0 million as of December 31, 2020 were designated as cash flow hedges of certain interest-bearing deposits. On a quarterly basis, the Company performs a qualitative hedge effectiveness assessment. This assessment takes into consideration any adverse developments related to the counterparty's risk of default and any negative events or circumstances that affect the factors that originally enabled the Company to assess that it could reasonably support, qualitatively, an expectation that the hedging relationship was and will continue to be highly effective. As of June 30, 2021, there were no events or market conditions that would result in hedge ineffectiveness. The aggregate fair value of the 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.

The following table presents information about the interest rate swaps designated as cash flow hedges as of June 30, 2021 and December 31, 2020:

(Dollars in thousands)	June 30, 2021	December 31, 2020
Notional amount	\$ 230,000	\$ 270,000
Weighted average pay rate	1.96%	1.93%
Weighted average receive rate	0.19%	0.22%
Weighted average maturity	1.43 years	2.02 years
Unrealized loss, net	\$ (6,203)	\$ (9,616)
Number of contracts	11	13

Net interest expense recorded on these swap transactions totaled \$1.1 million and \$2.3 million for the three and six months ended June 30, 2021, respectively. Net interest expense recorded on these swap transactions totaled \$1.1 million and \$1.3 million for the three months and six months ended June 30, 2020, respectively.

Cash Flow Hedges

The following table presents the net gain/(loss) recorded in accumulated other comprehensive income/(loss) and the consolidated financial statements relating to the cash flow derivative instruments for the three months and six months ended June 30, 2021 and 2020:

(In thousands)	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2021	2020	2021	2020
Interest rate contracts				
Gain/(loss) recognized in OCI (effective portion)	\$ 1,411	\$ 121	\$ 2,454	\$ (6,430)
Gain/(loss) reclassified from OCI to interest expense	—	(7)	—	(59)
Gain/(loss) recognized in other noninterest income	(842)	—	(842)	—

During the first quarter of 2020, the Company recognized an unrealized after-tax gain of \$26,000 in accumulated other comprehensive income/(loss) related to the termination of three interest rate swaps designated as cash flow hedges. During the second quarter of 2019, the Company recognized an unrealized after-tax gain of \$189,000 in accumulated other comprehensive income/(loss) related to the termination of four interest rate swaps designated as cash flow hedges. These gains were amortized into earnings over the remaining life of the terminated swaps and completed amortization as of December 31, 2020. The Company did not recognize pre-tax interest income for the three and six months ended June 30, 2021, related to the amortization of the gain on the terminated interest rate swaps designated as cash flow hedges. The Company recognized pre-tax interest income of \$9,000 and \$80,000 for the three and six months ended June 30, 2020, related to the amortization of the gain on the terminated interest rate swaps designated as cash flow hedges.

During the second quarter of 2021, the Bank terminated interest rate swaps with a notional amount of \$40.0 million. The interest rate swaps were designated as cash flow hedges in which the Bank received a variable payment from our counterparty in exchange for making fixed-rate payments over the life of the swap agreements. Due to increased liquidity levels, management made the decision to pay off certain interest-bearing deposit liabilities that were being hedged. These liabilities will not be replaced; therefore, it will no longer be probable that the original forecasted transactions subject to the cash flow hedges will occur. As a result, the pre-tax loss on the termination of the interest rate swaps of \$842,000 was recorded in the income statement for the three and six months ended June 30, 2021.

(In thousands)	June 30, 2021	
	Notional Amount	Fair Value
Interest rate swaps related to interest-bearing deposits	\$ 230,000	\$ (6,203)
Total included in other assets	—	—
Total included in other liabilities	230,000	(6,203)

(In thousands)	December 31, 2020	
	Notional Amount	Fair Value
Interest rate swaps related to interest-bearing deposits	\$ 270,000	\$ (9,616)
Total included in other assets	—	—
Total included in other liabilities	270,000	(9,616)

Derivatives Not Designated as Accounting Hedges: The Company offers facility specific/loan level swaps to its customers and offsets 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 the 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. The accrued interest receivable and payable of \$4.7 million related to our swaps is recorded in other assets and other liabilities as of June 30, 2021.

Information about these swaps is as follows:

(Dollars in thousands)	June 30, 2021	December 31, 2020
Notional amount	\$ 778,584	\$ 823,134
Fair value	\$ 51,855	\$ 79,529
Weighted average pay rates	4.05%	4.02%
Weighted average receive rates	1.88%	1.91%
Weighted average maturity	5.92 years	6.5 years
Number of contracts	92	95

12. SUBORDINATED DEBT

In 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 then current three-month LIBOR rate plus 485 basis points, payable quarterly in arrears. During the second quarter of 2021, the Company used a portion of the proceeds from the December 2020 subordinated debt issuance to redeem the \$50.0 million June 2016 issuance. The remaining net issuance costs of \$648,000 were written-off during the quarter ended June 30, 2021.

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.

In 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 \$875,000 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 (approximately \$5 million), representing three years of interest payments, were retained by the Company for operational purposes.

In December 2020, the Company issued \$100.0 million in aggregate principal amount of fixed to floating subordinates notes (the “2020 Notes”) to certain institutional investors. The 2020 Notes are non-callable for five years, have a stated maturity of December 22, 2030, and bear interest at a fixed rate of 3.50 percent per year until December 22, 2025. From December 23, 2025 to the maturity date or early redemption date, the interest rate will reset quarterly to a level equal to the then current three-month SOFR plus 326 basis points, payable quarterly in arrears. Debt issuance costs incurred totaled \$1.9 million and are being amortized to maturity.

The Company may use the proceeds from the issuance of the 2020 Notes for stock repurchases and acquisitions of wealth management firms, as well as other general corporate purposes.

Subordinated debt is presented net of issuance costs 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 2020 Notes, the Company obtained ratings from Kroll Bond Rating Agency ("KBRA") and Moody's Investors Services ("Moody's"). KBRA assigned an investment grade rating of BBB- and Moody's assigned an investment grade rating of Baa3 for the 2020 Notes at the time of issuance.

13. LEASES

The Company maintains certain property and equipment under direct financing and operating leases. As of June 30, 2021, the Company's operating lease ROU asset and operating lease liability totaled \$9.6 million and \$9.9 million, respectively. As of December 31, 2020, the Company's operating lease ROU asset and operating lease liability totaled \$9.4 million and \$9.7 million, respectively. A weighted average discount rate of 2.81 percent and 3.11 percent was used in the measurement of the ROU asset and lease liability as of June 30, 2021 and December 31, 2020, respectively.

The Company's leases have remaining lease terms between five months to 16 years, with a weighted average lease term of 6.60 years at June 30, 2021. The Company's leases had remaining lease terms between one months to 16 years, with a weighted average lease term of 6.01 years, at December 31, 2020. The Company's lease agreements may include options to extend or terminate the lease. The Company's decision to exercise renewal options is based on an assessment of its current business needs and market factors at the time of the renewal.

Total operating lease costs were \$691,000 and \$812,000 for the three months ended June 30, 2021 and 2020, respectively. The variable lease costs were \$83,000 and \$87,000 for the three months ended June 30, 2021 and 2020, respectively.

Total operating lease costs were \$1.4 million and \$1.6 million for the six months ended June 30, 2021 and 2020, respectively. The variable lease costs were \$167,000 and \$176,000 for the six months ended June 30, 2021 and 2020, respectively.

The following is a schedule of the Company's operating lease liabilities by contractual maturity as of June 30, 2021:

(In thousands)		
2021	\$	2,694
2022		2,390
2023		1,891
2024		1,705
2025		1,121
Thereafter		2,638
Total lease payments		12,439
Less: imputed interest		2,537
Total present value of lease payments	\$	9,902

The following table shows the supplemental cash flow information related to the Company's direct finance and operating leases for the six months ended June 30, 2021 and 2020:

(In thousands)	For the Six Months Ended			
	2021		2020	
Right-of-use asset obtained in exchange for lease obligation	\$	1,412	\$	157
Operating cash flows from operating leases		1,226		1,446
Operating cash flows from direct finance leases		156		177
Financing cash flows from direct finance leases		374		374

14. ACCOUNTING PRONOUNCEMENTS

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, 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 elected to delay the adoption of ASU 2016-13, as approved by the CARES Act, until January 1, 2022. 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 has selected a third-party firm to assist in the development of a CECL 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 has also engaged a third-party firm to perform a model validation of our CECL model. The Company is also in the process of updating its policies and internal controls accordingly. The Company expects to recognize a one-time cumulative-effect adjustment to our ALLL as of January 1, 2022, consistent with regulatory expectations set forth in interagency guidance. 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.

In December 2019, the FASB issued ASU 2019-12, “Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes”. The amendments in this Update simplify the accounting for income taxes by removing certain exceptions to the general principles in Topic 740. This ASU removes the following exceptions: exception to the incremental approach for intra-period tax allocation when there is a loss from continuing operations and income or a gain from other items; exception to the requirement to recognize a deferred tax liability for equity method investments when a foreign subsidiary becomes an equity method investment; exception to the ability not to recognize a deferred tax liability for a foreign subsidiary when a foreign equity method investment becomes a subsidiary; and the exception to the general methodology for calculating income taxes in an interim period when a year-to-date loss exceeds the anticipated loss for the year. The guidance is effective for public business entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020. Early adoption is permitted. This ASU did not have a material impact on the Company’s consolidated financial statements.

In March 2020, the FASB issued ASU 2020-04, “Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting”. The amendments in this Update provide optional expedients and exceptions for applying generally accepted accounting principles (GAAP) to contracts, hedging relationships, and other transactions affected by reference rate reform if certain criteria are met. The amendments in this Update apply only to contracts and hedging relationships that reference LIBOR or another reference rate expected to be discontinued due to reference rate reform. The expedients and exceptions provided by the amendments do not apply to contract modifications made and hedging relationships entered into or evaluated after December 31, 2022. The amendments in this ASU can be adopted immediately and are effective through December 31, 2020. The Company is evaluating alternative reference rates including the Secured Overnight Financing Rate (SOFR) in preparation for a rate index replacement and the adoption of this ASU.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

FORWARD LOOKING STATEMENTS: This Quarterly Report on Form 10-Q may contain 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 operations, growth, financial results, 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 results to differ materially from those contemplated by such forward-looking statements include, among others, those risk factors identified in the Company's Form 10-K for the year ended December 31, 2020, in addition to/which include the following:

- 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 2021 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;
- impact of our business from a pandemic event on our business, operations, customers, allowance for loan losses and capital levels;
- 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 information technology ("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 business in new geographic markets;
- a 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 inability to retain key employees;
- demands for loans and deposits in our market areas;
- adverse changes in securities markets;
- changes in accounting policies and practices; and
- other unexpected material adverse changes in our operations or earnings.

Further, given its ongoing and dynamic nature, it is difficult to predict the full impact of the COVID-19 outbreak on our business. The extent of such impact will depend on future developments, which are highly uncertain, including when the coronavirus can be controlled and abated and when and whether the gradual reopening of businesses will result in a meaningful increase in economic activity. As the result of the COVID-19 pandemic and the related adverse local and national economic consequences, we could be subject to any of the following risks, any of which could have a material, adverse effect on our business, financial condition, liquidity, and results of operations:

- demand for our products and services may decline, making it difficult to grow assets and income;
- if the economy is unable to substantially reopen, and higher levels of unemployment continue for an extended period of time, loan delinquencies, problem assets, and foreclosures may increase, resulting in increased charges and reduced income;
- collateral for loans, especially real estate, may decline in value, which could cause loan losses to increase;

- our allowance for loan losses may increase if borrowers experience financial difficulties, which will adversely affect our net income;
- the net worth and liquidity of loan guarantors may decline, impairing their ability to honor commitments to us;
- a material decrease in net income or a net loss over several quarters could result in an elimination or a decrease in the rate of our quarterly cash dividend;
- our wealth management revenues may decline with continuing market turmoil;
- a worsening of business and economic conditions or in the financial markets could result in an impairment of certain intangible assets, such as goodwill;
- the unanticipated loss or unavailability of key employees due to the outbreak, which could harm our ability to operate our business or execute our business strategy, especially as we may not be successful in finding and integrating suitable successors;
- we may face litigation, regulatory enforcement and reputation risk as a result of our participation in the Paycheck Protection Program (“PPP”) and the risk that the SBA may not fund some or all PPP loan guaranties;
- our cyber security risks are increased as the result of an increase in the number of employees working remotely; and
- FDIC premiums may increase if the agency experience additional resolution costs.

Moreover, our operations depend on the management skills of our executive officers and directors, many of whom have held officer and director positions with us for many years. The unanticipated loss or unavailability of key employees due to the pandemic could hinder our ability to operate our business or execute our business strategy.

Except as may be required by applicable law or regulation, the Company undertakes no duty to update any forward-looking statements to conform the statement to actual results or change 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.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES: Management’s Discussion and Analysis of Financial Condition and Results of Operations is based upon the Company’s consolidated financial statements, which have been prepared in accordance with U.S. generally accepted accounting principles. The preparation of these financial statements requires the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. Note 1 to the Company’s Audited Consolidated Financial Statements for the year ended December 31, 2020 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 and lease losses involves a higher degree of complexity and requires Management to make difficult and subjective judgments, which often require assumptions or estimates about highly uncertain matters. Changes in these judgments, 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 and lease 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, classified loans and nonperforming loans, 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 and lease 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 and lease losses. Such agencies may require the Company to make additional provisions for loan and lease 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 New Jersey and, to a lesser extent, New York City. 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 any adverse economic conditions. Future adjustments to the provision for loan and lease losses and allowance for loan and lease losses may be necessary due to economic, operating, regulatory and other conditions beyond the Company’s control.

The Company accounts for its debt securities in accordance with ASC 320, “Investments - Debt Securities” and its equity security in accordance with ASC 321, “Investments – Equity Securities”. All securities are classified as available for sale and are carried at fair value, with unrealized holding gains and losses reported in other comprehensive income/(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” unrealized holding gains and losses are marked to market through the income statement.

EXECUTIVE SUMMARY: The following table presents certain key aspects of our performance for the three months ended June 30, 2021 and 2020.

(Dollars in thousands, except per share data)	For the Three Months Ended June 30,		Change
	2021	2020	2021 vs 2020
Results of Operations:			
Net interest income	\$ 33,845	\$ 31,971	\$ 1,874
Provision for loan and lease losses	900	4,900	(4,000)
Net interest income after provision for loan and lease losses	32,945	27,071	5,874
Wealth management fee income (1)	13,034	9,996	3,038
Other income (2)	4,644	2,630	2,014
Operating expense (3)	30,684	29,014	1,670
Income before income tax expense	19,939	10,683	9,256
Income tax expense	5,521	2,441	3,080
Net income	\$ 14,418	\$ 8,242	\$ 6,176
Total revenue (4)	\$ 51,523	\$ 44,597	\$ 6,926
Diluted average shares outstanding	19,439,439	19,059,822	379,617
Diluted earnings per share	\$ 0.74	\$ 0.43	\$ 0.31
Return on average assets annualized (ROAA)	0.97%	0.56%	0.41%
Return on average equity annualized (ROAE)	10.86	6.56	4.30

- (1) The June 2021 quarter included a full quarter of wealth management fee income and expense related to the December lift outs of teams from Lucas Capital Management (“Lucas”) and Noyes Capital Management (“Noyes”) – approximately \$625,000 of wealth management fee income and approximately \$350,000 of operating expenses were recorded in the 2021 quarter.
- (2) The quarter ended June 30, 2021 included a cost of \$842,000 related to the termination of certain interest rate swaps; a \$1.1 million gain on sale of PPP loans; \$722,000 of fee income related to referral of PPP loans to a third party; and \$153,000 of additional bank-owned life insurance (“BOLI”) income related to receipt of life insurance proceeds.
- (3) The June 2021 quarter included \$648,000 of expense related to the redemption of subordinated debt.
- (4) Total revenue equals net interest income plus wealth management fee income and other income.

The following table presents certain key aspects of our performance for the six months ended June 30, 2021 and 2020.

(Dollars in thousands, except per share data)	For the Six Months Ended June 30,		Change
	2021	2020	2021 vs 2020
Results of Operations:			
Net interest income	\$ 65,638	\$ 63,718	\$ 1,920
Provision for loan and lease losses (1)	1,125	24,900	(23,775)
Net interest income after provision for loan and lease losses	64,513	38,818	25,695
Wealth management fee income (2)	25,165	19,951	5,214
Other income (3)	10,333	7,192	3,141
Operating expense (4)	62,278	57,249	5,029
Income before income tax expense	37,733	8,712	29,021
Income tax expense/(benefit) (5)	10,137	(903)	11,040
Net income	\$ 27,596	\$ 9,615	\$ 17,981
Total revenue (6)	\$ 101,136	\$ 90,861	\$ 10,275
Diluted average shares outstanding	19,473,150	18,991,056	482,094
Diluted earnings per share	\$ 1.42	\$ 0.51	\$ 0.91
Return on average assets annualized (ROAA)	0.93%	0.35%	0.58%
Return on average equity annualized (ROAE)	10.45	3.80	6.65

- (1) The June 2020 six months included a provision for loan and lease losses of \$24.9 million, primarily due to the environment at that time created by the COVID-19 pandemic.
- (2) The six months ended June 30, 2021 included wealth management fee income and expense related to the December lift outs of teams from Lucas and Noyes – approximately \$1.2 million of wealth management fee income and approximately \$700,000 of operating expenses were recorded in 2021 for these teams.
- (3) The 2021 six months included a cost of \$842,000 related to the termination of certain interest rate swaps; a \$1.4 million gain on loans held at lower of cost or fair value; \$722,000 of fee income related to referral of PPP loans to a third party; and \$455,000 of additional BOLI income related to receipt of life insurance proceeds.
- (4) The six months ended June 30, 2021 quarter included \$648,000 of expense related to the redemption of subordinated debt and \$1.5 million of severance expense related to certain corporate restructuring within several areas of the Bank.
- (5) The June 2020 six months included a \$3.2 million tax benefit related to the carryback of tax net operating losses (“NOL”)s to prior years when the Federal tax rate was 14 percent higher.
- (6) Total revenue equals net interest income plus wealth management fee income and other income

	June 30, 2021	December 31, 2020	Change 2021 vs 2020
Selected Balance Sheet Ratios:			
Total capital (Tier I + II) to risk-weighted assets	15.74%	17.67%	(1.93)%
Tier I leverage ratio	8.67	8.53	0.14
Loans to deposits	93.32	90.74	2.58
Allowance for loan and lease losses to total loans	1.39	1.54	(0.15)
Allowance for loan and lease losses to nonperforming loans	1,065.16	589.91	475.25
Nonperforming loans to total loans	0.13	0.26	(0.13)

For the quarter ended June 30, 2021, the Company recorded revenue of \$51.52 million, pretax income of \$19.94 million, net income of \$14.42 million and diluted earnings per share of \$0.74, compared to revenue of \$44.60 million, pretax income of \$10.68 million, net income of \$8.24 million and diluted earnings per share of \$0.43 for the same three-month period last year. The 2021 quarter included increased noninterest income, principally wealth management income, gain on sale of PPP loans, PPP referral income, and income from capital markets activities (which includes mortgage banking income, back-to-back swap income, SBA loan income, and corporate advisory fee income), partially offset by a loss on a hedging swap termination. The 2021 quarter also included a significantly reduced provision for loan losses when compared to the same quarter last year. The 2021 quarter included a \$900,000 provision while the 2020 quarter included a \$4.90 million provision, which was due to the economic environment at that time created by the COVID-19 pandemic, which led to increased qualitative loss factors when calculating the allowance for loan losses. Fee income generated by capital markets activity totaled \$1.46 million for the second

quarter of 2021, an increase of \$387,000 from \$1.08 million for the same period in 2020, despite a decline in loan level back-to-back swap income of \$202,000. Income from these programs are not linear each quarter, as some quarters will be higher than others.

The Company recorded revenue of \$101.14 million, pretax income of \$37.73 million, net income of \$27.60 million and diluted earnings per share of \$1.42 for the six months ended June 30, 2021 compared to revenue of \$90.86 million, pretax income of \$8.71 million, net income of \$9.62 million and diluted earnings per share of \$0.51 for the same 2020 period. The six months ended June 30, 2021 included increased net interest income and noninterest income offset by increased operating expenses (due in part to the wealth management firms acquired in December 2020) and a significantly reduced provision for loan and lease losses. The increase in noninterest income was principally due to wealth management income, gain on sale of PPP loans, PPP referral income, and income from capital markets activities (which includes mortgage banking income, back-to-back swap income, SBA loan income, and corporate advisory fee income), partially offset by a loss on a hedging swap termination. Fee income generated by capital markets activity totaled \$5.03 million for the first six months of 2021, an increase of \$1.12 million from \$3.91 million for the same period in 2020, despite a decline in loan level back-to-back swap income of \$1.6 million. Income from these programs are not linear each quarter, as some quarters will be higher than others. The six months ended June 30, 2021 also included \$1.5 million of severance expense related to certain corporate restructuring within several areas of the Bank. The six months ended June 30, 2020 included a tax benefit of \$3.2 million recorded in the first quarter of 2020 caused by the changes in the treatment of tax NOLs under the provisions of the CARES Act.

COVID-19 UPDATE: The COVID-19 pandemic has had a devastating effect on businesses both locally and nationally. In March 2020, Congress passed the CARES Act to provide fast and direct economic assistance to American workers, families and businesses. The CARES Act contains substantial tax and spending provisions including direct financial aid to American families, extensive emergency funding for hospitals and medical providers, and economic stimulus to significant impacted industry sectors. Below are some of the measures the Company has implemented in response to COVID-19.

The Company has an Incident Response Team comprised of senior and departmental leaders that meet frequently to monitor and address the ongoing developments and challenges presented by the COVID-19 pandemic. The following represent responses by Management as a result of COVID-19:

- The Company's branch offices are open with fully operational lobbies and drive-thru facilities (effective May 3rd), ATM access, and on-line banking;
- Management has leveraged technology to support employees that are working remotely;
- Retail client initiatives have been introduced including:
 - 1) The Company has approved deferral requests under the CARES Act of approximately \$946.8 million of which \$37 million remain as of June 30, 2021.
 - 2) Waived all late fees for April/May/June 2020; and
 - 3) The Company continued to utilize the PPP to assist both clients and community organizations with funding needs related to the pandemic during the six months of 2021. The Company funded \$57 million of PPP loans and referred another \$124 million directly to a third party for processing and servicing.

The Company will continue to prudently extend credit to our clients. The Company expects COVID-19 to have an impact on our operations but cannot determine or estimate the ultimate impact at this time.

CONTRACTUAL OBLIGATIONS: For a discussion of our contractual obligations, see the information set forth in the Corporation's Annual Report on Form 10-K for the year ended December 31, 2020 under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations – Contractual Obligations."

OFF-BALANCE SHEET ARRANGEMENTS: For a discussion of our off-balance sheet arrangements, see the information set forth in the Corporation's Annual Report on Form 10-K for the year ended December 31, 2020 under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations – Off-Balance Sheet Arrangements."

EARNINGS ANALYSIS

NET INTEREST INCOME ("NII") / NET INTEREST MARGIN ("NIM") / AVERAGE BALANCE SHEET:

The primary source of the Company's operating income is net interest income, which is the difference between interest and dividends earned on earning assets and fees earned on loans, and interest paid on interest-bearing liabilities. Earning assets include loans, 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 as a percent of total interest earning assets on an annualized basis. 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 summarize the Company’s net interest income and margin for the periods indicated:

(Dollars in thousands)	Three Months Ended June 30, 2021		Three Months Ended June 30, 2020	
	NII	NIM	NII	NIM
NII/NIM excluding the below	\$ 32,446	2.56%	\$ 29,881	2.45%
Prepayment premiums received on loan paydowns	501	0.04%	376	0.03%
Effect of maintaining excess interest earning cash	(115)	-0.15%	(263)	-0.19%
Effect of PPP loans	1,013	-0.07%	1,977	-0.02%
NII/NIM as reported	<u>\$ 33,845</u>	<u>2.38%</u>	<u>\$ 31,971</u>	<u>2.27%</u>

(Dollars in thousands)	Six Months Ended June 30, 2021		Six Months Ended June 30, 2020	
	NII	NIM	NII	NIM
NII/NIM excluding the below	\$ 63,001	2.51%	\$ 61,403	2.54%
Prepayment premiums received on loan paydowns	1,205	0.05%	901	0.04%
Effect of maintaining excess interest earning cash	(300)	-0.18%	(563)	-0.15%
Effect of PPP loans	1,732	-0.06%	1,977	-0.02%
NII/NIM as reported	<u>\$ 65,638</u>	<u>2.32%</u>	<u>\$ 63,718</u>	<u>2.41%</u>

Net interest income, on a fully tax-equivalent basis, increased \$1.6 million for the second quarter of 2021 to \$34.0 million as compared to \$32.4 million for the same quarter in 2020. The net interest margin was 2.38 percent and 2.27 percent for the three months ended June 30, 2021 and 2020, respectively, an increase of 11 basis points. The Company recorded net interest income, on a fully tax-equivalent basis, of \$66.1 million for the six months ended June 30, 2021 compared to \$64.7 for the same 2020 period. The net interest margin declined nine basis points to 2.32 percent from 2.41 percent for the six months ended June 30, 2021 and 2020, respectively. As a commercial bank, the Company is asset sensitive with a large portion of its commercial loan portfolio tied to one-month London Interbank Offered Rate (“LIBOR”). The increase in the NIM for the second quarter of 2021 when compared to the quarter ended June 30, 2020 was due to the Bank strategically lowering its cost of interest-bearing liabilities and use of excess liquidity to grow loans. The decrease in NIM for the six months ended June 30, 2021 when compared to the same 2020 period was a function of the large decline in one-month LIBOR which occurred during the second quarter of 2020 and higher levels of interest-earning assets (such as interest-earning deposits, investment securities, and PPP loans) with lower yields.

Net interest income benefitted from interest and fees from PPP loans for the three and six months ended June 30, 2021. As of June 30, 2021, the Company had \$84.1 million of PPP loans, with net deferred fees of \$334,000 that will be amortized to net interest income over the life of the loans, which have a stated maturity of two to five years. However, these loans may be eligible for loan forgiveness by the SBA at an earlier date, which would accelerate the amortization of the net deferred fees.

Future net interest income is expected to be benefitted by the repricing of the Company’s time certificates of deposit (“CDs”). Over the twelve-month period ending June 30, 2022, approximately \$400 million of CDs with an average rate of approximately 0.62 percent will mature.

The following table summarizes the loans that the Company closed during the periods indicated:

(In thousands)	For the Three Months Ended	
	June 30, 2021	June 30, 2020
Residential mortgage loans originated for portfolio	\$ 37,083	\$ 18,627
Residential mortgage loans originated for sale	25,432	37,061
Total residential mortgage loans	62,515	55,688
Commercial real estate loans	12,243	748
Multifamily properties	255,820	11,960
C&I loans (A) (B)	141,285	99,294
Small business administration (C)	15,976	595,651
Wealth Lines of Credit (A)	3,200	500
Total commercial loans	428,524	708,153
Installment loans	25	950
Home equity lines of credit (A)	4,140	4,280
Total loans closed	\$ 495,204	\$ 769,071
(In thousands)	For the Six Months Ended	
	June 30, 2021	June 30, 2020
Residential mortgage loans originated for portfolio	\$ 52,897	\$ 33,458
Residential mortgage loans originated for sale	71,305	56,452
Total residential mortgage loans	124,202	89,910
Commercial real estate loans	50,606	9,606
Multifamily properties	340,829	73,958
C&I loans (A) (B)	270,426	142,202
Small business administration (C)	74,706	609,481
Wealth Lines of Credit (A)	5,675	3,750
Total commercial loans	742,242	838,997
Installment loans	88	1,206
Home equity lines of credit (A)	6,039	7,912
Total loans closed	\$ 872,571	\$ 938,025

(A) Includes loans and lines of credit that closed in the period but were not necessarily funded.

(B) Includes equipment finance leases and loans.

(C) Includes PPP loans of \$9 million and \$57 million for the three and six months ended June 30, 2021 and \$596 million for each of the three and six months ended June 30, 2020.

At June 30, 2021, December 31, 2020 and June 30, 2020, the Bank had a concentration in commercial real estate (“CRE”) loans as defined by applicable regulatory guidance as follows:

	June 30, 2021	December 31, 2020	June 30, 2020
Multifamily mortgage loans as a percent of total regulatory capital of the Bank	223%	188%	201%
Non-owner occupied commercial real estate loans as a percent of total regulatory capital of the Bank	158	168	187
Total CRE concentration	381%	356%	388%

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.

The following table reflects the components of the average balance sheet and of net interest income for the periods indicated:

Average Balance Sheet Unaudited Three Months Ended						
(Dollars in thousands)	June 30, 2021			June 30, 2020		
	Average Balance	Income/Expense	Annualized Yield	Average Balance	Income/Expense	Annualized Yield
ASSETS:						
Interest-earning assets:						
Investments:						
Taxable (1)	\$ 884,374	\$ 3,020	1.37%	\$ 437,288	\$ 2,108	1.93%
Tax-exempt (1) (2)	6,891	81	4.70	10,137	129	5.09
Loans (2) (3):						
Residential mortgages	498,594	3,826	3.07	530,087	4,497	3.39
Commercial mortgages	1,941,330	15,056	3.10	2,083,310	16,147	3.10
Commercial	1,942,802	16,984	3.50	2,038,530	18,204	3.57
Commercial construction	20,952	180	3.44	3,296	44	5.34
Installment	34,319	255	2.97	52,859	371	2.81
Home equity	45,042	377	3.35	54,869	453	3.30
Other	219	5	9.13	318	7	8.81
Total loans	4,483,258	36,683	3.27	4,763,269	39,723	3.34
Federal funds sold	91	—	0.06	102	—	0.25
Interest-earning deposits	428,464	97	0.09	497,764	109	0.09
Total interest-earning assets	5,803,078	39,881	2.75%	5,708,560	42,069	2.95%
Noninterest-earning assets:						
Cash and due from banks	10,360			5,437		
Allowance for loan and lease losses	(67,593)			(64,109)		
Premises and equipment	23,307			21,462		
Other assets	182,421			234,357		
Total noninterest-earning assets	148,495			197,147		
Total assets	\$ 5,951,573			\$ 5,905,707		
LIABILITIES:						
Interest-bearing deposits:						
Checking	\$ 1,980,688	\$ 944	0.19%	\$ 1,748,753	\$ 1,642	0.38%
Money markets	1,235,464	727	0.24	1,207,816	1,473	0.49
Savings	144,044	18	0.05	118,878	16	0.05
Certificates of deposit - retail	488,148	1,027	0.84	676,498	3,147	1.86
Subtotal interest-bearing deposits	3,848,344	2,716	0.28	3,751,945	6,278	0.67
Interest-bearing demand - brokered	105,604	456	1.73	150,330	700	1.86
Certificates of deposit - brokered	33,783	264	3.13	33,729	264	3.13
Total interest-bearing deposits	3,987,731	3,436	0.34	3,936,004	7,242	0.74
FHLB advances and borrowings	166,343	182	0.44	330,514	1,127	1.36
Finance lease liabilities	6,380	76	4.76	7,270	87	4.79
Subordinated debt	181,317	2,147	4.74	83,496	1,222	5.85
Total interest-bearing liabilities	4,341,771	5,841	0.54%	4,357,284	9,678	0.89%
Noninterest-bearing liabilities:						
Demand deposits	948,851			873,926		
Accrued expenses and other liabilities	129,980			171,814		
Total noninterest-bearing liabilities	1,078,831			1,045,740		
Shareholders' equity	530,971			502,683		
Total liabilities and shareholders' equity	\$ 5,951,573			\$ 5,905,707		
Net interest income (tax-equivalent basis)		\$ 34,040			\$ 32,391	
Net interest spread			2.21%			2.06%
Net interest margin (4)			2.38%			2.27%
Tax equivalent adjustment		\$ (195)			\$ (420)	
Net interest income		\$ 33,845			\$ 31,971	

- (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 a tax-equivalent basis as a percentage of total average interest-earning assets.

Average Balance Sheet
Unaudited
Six Months Ended

(Dollars in thousands)	June 30, 2021			June 30, 2020		
	Average Balance	Income/Expense	Annualized Yield	Average Balance	Income/Expense	Annualized Yield
ASSETS:						
Interest-earning assets:						
Investments:						
Taxable (1)	\$ 823,120	\$ 5,649	1.37%	\$ 424,547	\$ 4,567	2.15%
Tax-exempt (1) (2)	7,433	179	4.82	10,335	260	5.03
Loans (2) (3):						
Residential mortgages	500,084	7,780	3.11	532,601	9,073	3.41
Commercial mortgages	1,891,125	29,476	3.12	2,019,559	34,629	3.43
Commercial	1,937,776	33,439	3.45	1,898,334	36,798	3.88
Commercial construction	18,294	319	3.49	4,462	132	5.92
Installment	35,997	531	2.95	53,421	835	3.13
Home equity	46,937	776	3.31	55,261	1,067	3.86
Other	233	10	8.58	341	16	9.38
Total loans	4,430,446	72,331	3.27	4,563,979	82,550	3.62
Federal funds sold	96	—	0.11	102	—	0.25
Interest-earning deposits	491,547	225	0.09	374,665	661	0.35
Total interest-earning assets	5,752,642	78,384	2.73%	5,373,628	88,038	3.28%
Noninterest-earning assets:						
Cash and due from banks	10,743			5,477		
Allowance for loan and lease losses	(69,367)			(54,238)		
Premises and equipment	22,972			21,304		
Other assets	204,390			197,904		
Total noninterest-earning assets	168,738			170,447		
Total assets	\$ 5,921,380			\$ 5,544,075		
LIABILITIES:						
Interest-bearing deposits:						
Checking	\$ 1,944,734	\$ 1,922	0.20%	\$ 1,644,776	\$ 5,089	0.62%
Money markets	1,247,464	1,521	0.24	1,199,932	4,454	0.74
Savings	139,648	35	0.05	114,892	31	0.05
Certificates of deposit - retail	510,693	2,497	0.98	687,258	6,841	1.99
Subtotal interest-bearing deposits	3,842,539	5,975	0.31	3,646,858	16,415	0.90
Interest-bearing demand - brokered	107,790	949	1.76	165,165	1,623	1.97
Certificates of deposit - brokered	33,776	525	3.11	33,722	527	3.13
Total interest-bearing deposits	3,984,105	7,449	0.37	3,845,745	18,565	0.97
FHLB advances and borrowings	176,120	391	0.44	256,956	2,139	1.66
Finance lease liabilities	6,493	155	4.77	7,373	177	4.80
Subordinated debt	181,555	4,292	4.73	83,467	2,445	5.86
Total interest-bearing liabilities	4,348,273	12,287	0.57%	4,193,541	23,326	1.11%
Noninterest-bearing liabilities:						
Demand deposits	898,866			708,242		
Accrued expenses and other liabilities	145,919			136,738		
Total noninterest-bearing liabilities	1,044,785			844,980		
Shareholders' equity	528,322			505,554		
Total liabilities and shareholders' equity	\$ 5,921,380			\$ 5,544,075		
Net interest income (tax-equivalent basis)		\$ 66,097			\$ 64,712	
Net interest spread			2.16%			2.17%
Net interest margin (4)			2.32%			2.41%
Tax equivalent adjustment		\$ (459)			\$ (994)	
Net interest income		\$ 65,638			\$ 63,718	

- (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 a tax-equivalent basis as a percentage of total average interest-earning assets.

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

	For the Three Months Ended June 30, 2021		
	Difference due to		Change In Income/ Expense
	Change In:		
(In Thousands):	Volume	Rate	
ASSETS:			
Investments	\$ 1,495	\$ (631)	\$ 864
Loans	(2,174)	(866)	(3,040)
Interest-earning deposits	(12)	—	(12)
Total interest income	\$ (691)	\$ (1,497)	\$ (2,188)
LIABILITIES:			
Interest-bearing checking	\$ 92	\$ (790)	\$ (698)
Money market	29	(775)	(746)
Savings	3	(1)	2
Certificates of deposit - retail	(710)	(1,410)	(2,120)
Certificates of deposit - brokered	—	—	—
Interest bearing demand brokered	(195)	(49)	(244)
Borrowed funds	(481)	(464)	(945)
Capital lease obligation	(11)	—	(11)
Subordinated debt	1,159	(234)	925
Total interest expense	\$ (114)	\$ (3,723)	\$ (3,837)
Net interest income	\$ (577)	\$ 2,226	\$ 1,649

	For the Six Months Ended June 30, 2021		
	Difference due to		Change In Income/ Expense
	Change In:		
(In Thousands):	Volume	Rate	
ASSETS:			
Investments	\$ 2,763	\$ (1,762)	\$ 1,001
Loans	(2,107)	(8,112)	(10,219)
Interest-earning deposits	159	(595)	(436)
Total interest income	\$ 815	\$ (10,469)	\$ (9,654)
LIABILITIES:			
Interest-bearing checking	\$ 319	\$ (3,486)	\$ (3,167)
Money market	189	(3,122)	(2,933)
Savings	4	—	4
Certificates of deposit - retail	(1,460)	(2,884)	(4,344)
Certificates of deposit - brokered	1	(3)	(2)
Interest bearing demand brokered	(516)	(158)	(674)
Borrowed funds	(1,369)	(379)	(1,748)
Capital lease obligation	(22)	—	(22)
Subordinated debt	2,319	(472)	1,847
Total interest expense	\$ (535)	\$ (10,504)	\$ (11,039)
Net interest income	\$ 1,350	\$ 35	\$ 1,385

Interest income on interest-earning assets, on a fully tax-equivalent basis, totaled \$39.9 million for the second quarter of 2021 compared to \$42.1 million for the same quarter of 2020, reflecting a decrease of \$2.2 million, or 5 percent. Interest income on interest-earning assets, on a fully tax-equivalent basis, totaled \$78.4 million for the six months ended June 30, 2021 compared to \$88.0 million for the same period of 2020, reflecting a decrease of \$9.7 million, or 11 percent. The decrease in the three and six months ended June 30, 2021, as compared to the same periods in 2020, reflected a decrease in the average yield on interest-earnings assets, partially offset by an increase in the average balance of interest-earning assets.

Average interest-earning assets totaled \$5.80 billion for the second quarter of 2021, an increase of \$94.5 million, or 2 percent, from the same period of 2020. Average interest-earning assets increased by \$379.0 million or 7 percent to \$5.75 billion for the six months ended June 30, 2021 when compared to the same period in 2020. The increase in the average balance of interest-earning

assets for the three and six months ended June 30, 2021, reflected an increase in the average balance of investment securities, partially offset by a decline in the average balance of loans for those same periods. The average balance of the commercial mortgage portfolio decreased \$142.0 million to \$1.94 billion for the three months ended June 30, 2021, when compared to \$2.08 billion for the same period in 2020. The average balance of the commercial mortgage portfolio declined \$128.4 million to \$1.89 billion for the six months ended June 30, 2021 from \$2.02 billion for the same period in 2020. The decline in the commercial mortgage portfolio was due to increased paydowns during the first few months of 2021 partially offset by higher levels of multifamily originations of \$255.8 million during the second quarter of 2021 as compared to \$12.0 million for the second quarter of 2020. The increased multi-family production helped to offset loan portfolio run-off and utilize excess liquidity. The average balance of the commercial loan portfolio declined by \$95.7 million to \$1.94 billion for the three months ended June 30, 2021 when compared to \$2.04 billion for the three months ended June 30, 2020, primarily due to the forgiveness and sale of PPP loans. Total PPP loans (excluding PPP loans held for sale of \$46 million at March 31, 2021) declined \$103.1 million to \$83.8 million at June 30, 2021 from \$186.9 million at March 31, 2021. The average balance of the commercial loan portfolio increased \$39.4 million to \$1.94 billion for the first six months of 2021, from \$1.90 billion for the six months ended June 30, 2020. The average balance of the residential mortgage portfolio decreased by \$31.5 million or 6 percent to \$498.6 million during the second quarter of 2021 from the same period in 2020. For the six months ended June 30, 2021 the residential mortgage portfolio declined \$32.5 million to \$500.1 million for the six months ended June 30, 2021 from \$532.6 million for the same period in 2020. The decline in the residential portfolio for the three and six months ended June 30, 2021 is due to the sale of these fixed rate loans as part of the Company's balance sheet management.

The average balance of investment securities totaled \$891.3 million for the second quarter of 2021 compared to \$447.4 million for the same quarter of 2020, reflecting an increase of \$443.8 million, or 99 percent. The average balance of investment securities totaled \$830.6 million for the six months ended June 30, 2021 compared to \$434.9 million for the same period of 2020, reflecting an increase of \$395.7 million, or 91 percent. The increase in the average balance of investment securities for the three and six months ended June 30, 2021 was due to the purchase of securities to maintain the size of the portfolio in anticipation of maturities in 2021 and to utilize excess liquidity.

The average balance of interest-earning deposits totaled \$428.5 million for the three months ended June 30, 2021 when compared to \$497.8 million for the same period in 2020, reflecting a decrease of \$69.3 million or 14 percent. The decrease in the average balance of interest-earning deposits for the three months ended June 30, 2021 was primarily due the Company using excess balance sheet liquidity to fund multifamily originations. The six months ended June 30, 2021 reflected an increase of \$116.9 million in average interest-earning deposits to \$491.5 million, from \$374.7 million for the same 2020 period. The increase for the six months ended June 30, 2021 is due to the timing of loan originations which mostly occurred during the second quarter of 2021.

For the quarters ended June 30, 2021 and 2020, the average yields earned on interest-earning assets were 2.75 percent and 2.95 percent, respectively, a decrease of 20 basis points. For the six months ended June 30, 2021 and 2020, the average yields earned on interest-earning assets were 2.73 percent and 3.28 percent, respectively, a decrease of 55 basis points. The decrease in average yields on interest-earning assets for the three-month and six-month periods were due to a declining rate environment and elevated levels of interest-bearing cash, investment securities, and PPP loans at lower yields. One-month LIBOR has declined by approximately 150 basis points from the beginning of 2020. The Federal Open Market Committee also reduced the target Federal Funds rate to 0 percent to 0.25 percent in March 2020 due to the economic disruption caused by COVID-19. With the transformation to a commercial bank balance sheet and business model, the Company's interest rate sensitivity models indicate the Company is asset sensitive as of June 30, 2021, and that net interest income would improve in a rising rate environment but decline in a falling rate environment.

For the second quarter of 2021, the average balance of interest-bearing deposits was \$3.99 billion, an increase of \$51.7 million, or 1 percent, from \$3.94 billion for the same period of 2020. The six months ended June 30, 2021 reflected an increase of \$138.4 million to \$3.98 billion when compared to \$3.85 billion for the same period in 2020. The growth in customer deposits (excluding brokered CDs and brokered interest-bearing demand deposits, but including reciprocal funds discussed below) was due to an increase in retail deposits from our branch network; a focus on providing high-touch client service; new deposit relationships related to PPP; and a full array of treasury management products that support core deposit growth. The growth was partially offset by a decline of \$44.7 million and \$57.4 million in the average balance of brokered deposits for the three and six months ended June 30, 2021 when compared to the same 2020 periods.

Average rates paid on total interest-bearing deposits were 0.34 percent and 0.74 percent for the second quarters of 2021 and 2020, respectively, a decrease of 40 basis points. Average rates paid on total interest-bearing deposits were 0.37 percent and 0.97 percent for the six months ended June 30, 2021 and 2020, respectively, a decrease of 60 basis points. The decrease in the average rate paid on deposits was principally due to repricing of our deposit base to align with the recent Federal Reserve rate decreases.

For the three months ended June 30, 2021, the average balance of borrowings was \$166.3 million a decrease of \$164.2 million from \$330.5 million as compared to the same period in 2020. The average rate paid on borrowings was 0.44 percent for the three months ended June 30, 2021 as compared to 1.36 percent for the same period in 2020. For the six months ended June 30, 2021, the average balance of borrowings was \$176.1 million, a decrease of \$80.8 million from \$257.0 million as compared to the same period in 2020. The average rate paid on borrowings was 0.44 percent for the six months ended June 30, 2021 as compared to 1.67 percent for the same period in 2020. The decrease in borrowings was principally due to the Company's participation in the PPPLF which decreased as more PPP loans were forgiven in the second quarter of 2021 and by the Company's prepayment of \$105.0 million of FHLB advances with a weighted-average rate of 3.20 percent during the fourth quarter of 2020. The average rate paid on borrowings was lower for the three and six months ended June 30, 2021 as the PPPLF borrowings rate was 0.35 percent.

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 banks 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. Such reciprocal deposit balances are included in the Company's interest-bearing checking balances. The average balance of reciprocal deposits was \$750.9 million and \$732.3 million for the three and six months ended June 30, 2021, respectively, compared to \$646.3 million and \$562.3 million for the same three and six months ended June 30, 2020, respectively.

In June 2021, the Company redeemed \$50.0 million of subordinated debt bearing interest at an annual rate of 6.0 percent issued in June 2016 that was set to re-price to approximately 5.0 percent. In December 2020, the Company issued \$100.0 million of subordinated debt (\$98.2 million net of issuance costs) bearing interest at an annual rate of 3.50 percent for the first five years, and thereafter at an adjustable rate until maturity in December 2025 or earlier redemption. 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.

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. 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 noninterest income.

At June 30, 2021, the Company had investment securities available for sale with a fair value of \$823.8 million compared with \$622.7 million at December 31, 2020. The increase was due to purchases of residential mortgage-backed securities and U.S. government-sponsored agencies with excess liquidity as deposits and borrowings exceeded loan growth. A net unrealized loss (net of income tax) of \$956,000 and a net unrealized gain (net of income tax) of \$5.5 million were included in shareholders' equity at June 30, 2021 and December 31, 2020, respectively.

The Company has one equity security (a CRA investment security) with a fair value of \$14.9 million at June 30, 2021 compared with \$15.1 million at December 31, 2020, with changes in fair value recognized in the Consolidated Statements of Income. The Company recorded a \$42,000 unrealized gain and \$223,000 unrealized loss on the Consolidated Statements of Income for the three and six months ended June 30, 2021, respectively, as compared to an unrealized gain of \$125,000 and \$323,000 for the three and six months ended June 30, 2020, respectively.

The carrying value of investment securities available for sale as of June 30, 2021 and December 31, 2020 are shown below:

(In thousands)	June 30, 2021	December 31, 2020
U.S. treasuries	\$ —	\$ 2,613
U.S. government-sponsored agencies	210,940	83,771
Mortgage-backed securities-residential (principally U.S. government-sponsored entities)	555,273	476,058
SBA pool securities	45,268	49,129
State and political subdivisions	6,775	8,089
Corporate bond	5,564	3,029
Total	<u>\$ 823,820</u>	<u>\$ 622,689</u>

The following table presents the contractual maturities and yields of debt securities available for sale, stated at fair value, as of June 30, 2021:

(Dollars in thousands)	Within 1 Year	After 1 But Within 5 Years	After 5 But Within 10 Years	After 10 Years	Total
U.S. government-sponsored agencies	\$ —	\$ —	\$ 112,739	\$ 98,201	\$ 210,940
	—	—	1.30%	1.50%	1.40%
Mortgage-backed securities-residential (1)	\$ 25,162	\$ 20,750	\$ 39,833	\$ 469,528	\$ 555,273
	1.25%	2.38%	1.73%	1.45%	1.49%
SBA pool securities	\$ —	\$ —	\$ 7,275	\$ 37,993	\$ 45,268
	—	—	1.92%	1.16%	1.28%
State and political subdivisions (2)	\$ 3,051	\$ 3,724	\$ —	\$ —	\$ 6,775
	2.99%	2.15%	—	—	2.53%
Corporate bond	\$ —	\$ —	\$ 5,564	\$ —	\$ 5,564
	—	—	4.23%	—	4.23%
Total	\$ 28,213	\$ 24,474	\$ 165,411	\$ 605,722	\$ 823,820
	1.44%	2.34%	1.53%	1.44%	1.49%

(1) Shown using stated final maturity.

(2) Yields presented on a fully tax-equivalent basis.

Federal funds sold and interest-earning deposits are an additional part of the Company's liquidity and interest rate risk management strategies. The combined average balance of these investments during the three months ended June 30, 2021 was \$428.6 million compared to \$614.1 million for the quarter ended December 31, 2020. The higher level of federal funds sold and interest-earning deposits for both periods represented excess cash as deposit and borrowing growth and cash from maturing securities exceeded loan growth.

OTHER INCOME: The following table presents other income, excluding income from wealth management, which is summarized and discussed subsequently:

(In thousands)	For the Three Months Ended June 30,		Change
	2021	2020	2021 vs 2020
Service charges and fees	\$ 896	\$ 695	\$ 201
Bank owned life insurance	466	318	148
Gain on sale of loans (mortgage banking)	409	550	(141)
Gain on loans held for sale at lower of cost or fair value	1,125	—	1,125
Fee income related to loan level, back-to-back swaps	—	202	(202)
Gain on sale of SBA loans	932	258	674
Corporate advisory fee income	121	65	56
Loss on swap termination	(842)	—	(842)
Other income	1,495	417	1,078
Securities gains, net	42	125	(83)
Total other income	\$ 4,644	\$ 2,630	\$ 2,014

(In thousands)	For the Six Months Ended June 30,		Change	
	2021	2020	2021 vs 2020	
Service charges and fees	\$ 1,742	\$ 1,511	\$ 231	
Bank owned life insurance	1,077	646	431	
Gain on sale of loans (mortgage banking)	1,434	842	592	
Gain/(loss) on loans held for sale at lower of cost or fair value	1,407	(3)	1,410	
Fee income related to loan level, back-to-back swaps	—	1,620	(1,620)	
Gain on sale of SBA loans	2,381	1,312	1,069	
Corporate advisory fee income	1,219	140	1,079	
Loss on swap termination	(842)	—	(842)	
Other income	2,138	801	1,337	
Securities gains, net	(223)	323	(546)	
Total other income	\$ 10,333	\$ 7,192	\$ 3,141	

The Company recorded total other income, excluding wealth management fee income, of \$4.6 million for the second quarter of 2021, reflecting an increase of \$2.0 million, or 77 percent, compared to the same period in 2020. For the six months ended June 30, 2021 the Company recorded total other income, excluding wealth management fee income, of \$10.3 million compared to \$7.2 million from the same 2020 period reflecting an increase of \$3.1 million or 44 percent.

For the second quarter of 2021, income from the sale of newly originated residential mortgage loans was \$409,000 compared to \$550,000 for the same quarter in 2020. For the six months ended June 30, 2021 and 2020, income from the sale of newly originated residential mortgage loans was \$1.4 million and \$842,000, respectively. This increase was the result of the increased volume of residential mortgage loans originated for sale during the first six months of 2021 due to more refinancing and home purchase activity in the current low interest rate environment.

For the three and six months ended June 30, 2021 the Company did not record any loan level, back-to-back swap income compared to \$202,000 and \$1.6 million for the same periods in 2021. 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 expects back-to-back swap activity will continue to be minimal in the current rate environment.

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 generally sells the guaranteed portion of the SBA loans in the secondary market, with the non-guaranteed portion of SBA loans held in the loan portfolio. The second quarter of 2021 included \$932,000 of gains on sales of SBA loans as compared to \$258,000 for the same quarter in 2020. The six months ended June 30, 2021 included \$2.4 million of gains on sale of SBA loans as compared to \$1.3 million for the same period in 2020. The three- and six-month June 2021 periods benefitted by certain changes to SBA lending requirements.

The Company recorded corporate advisory fee income of \$121,000 and \$1.2 million for the three and six months ended June 30, 2021, respectively, compared to \$65,000 and \$140,000 for the same periods in 2020. The six-month 2021 periods included the Company's first major corporate advisory/investment banking acquisition transaction. These transactions tend to be larger and take longer to complete.

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

The three and six months ended June 30, 2021 included \$153,000 and \$455,000 of additional income related to a net life insurance death benefit under its BOLI policies.

During the quarter and six months ended June 30, 2021 the Company recorded a gain on sale of \$1.1 million for the sale of \$57 million of PPP loans to a third party to create additional capacity to process our strong loan pipeline.

Other income included \$722,000 of income related to the referral of PPP loans to the same third party that the Company sold the PPP loans they originated to for the three and six months ended June 30, 2021.

During the three and six months ended June 30, 2021 the Company recognized a loss on the termination of \$842,000 for two interest rate swaps that had a notional value of \$40 million with a weighted average cost of 1.50 percent.

The three and six months ended June 30, 2021 included a gain on sale of an OREO property of \$51,000.

The remainder of the increase for the three and six months ended June 30, 2021 when compared to the same 2020 period was primarily due to an increase in commercial lending fees primarily unused credit line fees, loan servicing income and letter of credit fees.

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

(In thousands)	For the Three Months Ended June 30,		Change 2021 vs 2020
	2021	2020	
Compensation and employee benefits	\$ 19,910	\$ 19,186	\$ 724
Premises and equipment	4,074	4,036	38
FDIC assessment	529	455	74
Other Operating Expenses:			
Professional and legal fees	1,186	1,042	144
Telephone	312	395	(83)
Advertising	404	728	(324)
Amortization of intangible assets	368	321	47
Branch restructure	228	278	(50)
Write-off of subordinated debt costs	648	—	648
Other	3,025	2,573	452
Total operating expenses	<u>\$ 30,684</u>	<u>\$ 29,014</u>	<u>\$ 1,670</u>

(In thousands)	For the Six Months Ended June 30,		Change 2021 vs 2020
	2021	2020	
Compensation and employee benefits	\$ 41,900	\$ 38,412	\$ 3,488
Premises and equipment	8,187	8,079	108
FDIC assessment	1,114	705	409
Other Operating Expenses:			
Professional and legal fees	2,442	2,016	426
Telephone	646	719	(73)
Advertising	618	1,068	(450)
Amortization of intangible assets	736	645	91
Branch restructure	228	278	(50)
Write-off of subordinated debt costs	648	—	648
Other	5,759	5,327	432
Total operating expenses	<u>\$ 62,278</u>	<u>\$ 57,249</u>	<u>\$ 5,029</u>

Increased operating expenses in the three- and six-month periods ended June 30, 2021 was principally attributable to: accelerated expense related to the redemption of the subordinated debt, which is expected to benefit future earnings, expenses related to the Lucas and Noyes team lift outs completed in December 2020, hiring in line with the Company's strategic plan, normal salary increases and increased FDIC insurance premiums, which were partially offset by decreased advertising expense for the six month 2021 period due to strategically increased spending in 2020 related to the PPP program.

PEAPACK PRIVATE: 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 Peapack Private are available to provide wealth management, trust and investment services at the Bank's headquarters in Bedminster, at private banking locations in Morristown, New Providence, Princeton, Red Bank, Summit and Teaneck, New Jersey and at the Bank's subsidiaries, PGB Trust & Investments of Delaware, in Greenville, Delaware and Murphy Capital, in Bedminster, New Jersey.

The market value of the assets under management and/or administration ("AUM/AUA") of Peapack Private was \$9.8 billion at June 30, 2021, reflecting an 11 percent increase from \$8.8 billion at December 31, 2020 and an increase of 36 percent from \$7.2 billion at June 30, 2020. Effective December 18, 2020, the Bank completed the lift out of teams from Lucas, based in Red Bank, New Jersey, and from Noyes, based in New Vernon, New Jersey, which combined contributed approximately \$400 million of AUM/AUA at the time of acquisition.

In the June 2021 quarter, Peapack Private generated \$13.0 million in fee income compared to \$10.0 million for the June 2020 quarter, reflecting a 30 percent increase. For the six months ended June 30, 2021, Peapack Private generated \$25.2 million in fee income compared to \$20.0 million in fee income for the same period in 2020, reflecting a 26 percent increase. The growth in fee

income was due to several factors, including the acquisitions noted above, as well as continued new business, partially offset by normal levels of disbursements and outflows.

Operating expenses relative to Peapack Private were relatively flat when comparing both the three and six months ended June 30, 2021 to the same periods for 2020. Expenses are in line with the Company's Strategic Plan, particularly the hiring of key management and revenue-producing personnel.

Peapack Private currently generates adequate revenue to support the salaries, benefits and other expenses of the Division and Management believes it will continue to do so as the Company grows organically and/or by acquisition. Management believes that the Bank generates adequate liquidity to support the expenses of Peapack Private should it be necessary.

NONPERFORMING ASSETS: OREO, loans past due in excess of 90 days and still accruing, and nonaccrual loans are considered nonperforming assets.

The following table sets forth asset quality data as of the dates indicated:

(Dollars in thousands)	As of				
	June 30, 2021	March 31, 2021	December 31, 2020	September 30, 2020	June 30, 2020
Loans past due 90 days or more and still accruing	\$ —	\$ —	\$ —	\$ —	\$ —
Nonaccrual loans (1)	5,962	11,767	11,410	8,611	
Other real estate owned	—	50	50	50	
Total nonperforming assets	<u>\$ 5,962</u>	<u>\$ 11,817</u>	<u>\$ 11,460</u>	<u>\$ 8,661</u>	<u>\$ —</u>
Performing TDRs	\$ 190	\$ 197	\$ 201	\$ 2,278	\$ —
Loans past due 30 through 89 days and still accruing (2)(3)	\$ 1,678	\$ 1,622	\$ 5,053	\$ 6,609	\$ —
Loans subject to special mention	\$ 148,601	\$ 166,013	\$ 162,103	\$ 129,700	\$ —
Classified loans (1)	\$ 11,178	\$ 25,714	\$ 37,771	\$ 41,263	\$ —
Impaired loans (1)	\$ 6,498	\$ 11,964	\$ 16,204	\$ 15,514	\$ —
Nonperforming loans as a % of total loans (4)	0.13%	0.27%	0.26%	0.19%	
Nonperforming assets as a % of total assets (4)	0.10%	0.20%	0.19%	0.15%	
Nonperforming assets as a % of total loans plus other real estate owned (4)	0.13%	0.27%	0.26%	0.19%	

(1) Excludes one commercial loan held for sale of \$5.6 million at both June 30, 2021 and March 31, 2021. Excludes residential and commercial loans held for sale of \$8.5 million at December 31, 2020. Excludes one commercial loan held for sale of \$10.0 million at September 30, 2020.

(2) Excludes a residential loan held for sale of \$93,000 at December 31, 2020.

(3) December 31, 2020 includes \$1.3 million of residential loans that are classified as delinquent due to an escrow payment shortage due to a recent change in escrow payment requirement.

(4) Nonperforming loans/assets do not include performing TDRs.

The increase in special mention loans primarily relates to investment and owner-occupied commercial real estate classified loans and was the result of the Bank's credit analysis of sectors with COVID elevated residual risk (Hospitality and Food Services and Retail – Non-Grocery Anchored) and the downgrade of several loans within these categories during 2020.

PROVISION FOR LOAN AND LEASE LOSSES: The provision for loan and lease losses was \$900,000 and \$4.9 million for the second quarters of 2021 and 2020, respectively. For the six months ended June 30, 2021 and 2020, the provision for loan losses was \$1.1 million and \$24.9 million, respectively. The decreased provision for loan and lease losses for both the three and six months ended June 30, 2021 when compared to the three and six months ended June 30, 2020 reflect the reduced qualitative factors when calculating the allowance for loan losses due to the improvement in the unemployment rate and as loan deferrals entered into during the COVID-19 pandemic have decreased significantly from the prior year (declined from \$914 million at June

30, 2020 to \$37 million at June 30, 2021). The provision for loan losses for the second quarter of 2021 also reflected loan growth of \$297.9 million, excluding PPP loans, which partially offset the decline in qualitative factors related to loan deferrals. The Company's provision for loan and lease losses also reflect the Company's assessment of asset quality metrics, net charge-offs/recoveries, and the composition of the loan portfolio.

The allowance for loan and lease losses was \$63.5 million as of June 30, 2021, compared to \$67.3 million at December 31, 2020. As a percentage of loans, the allowance for loan and lease losses was 1.39 percent and 1.54 percent at June 30, 2021 and at December 31, 2020, respectively. The specific reserves recorded on impaired loans were \$57,000 at June 30, 2021 compared to \$2.7 million as of December 31, 2020. Total impaired loans were \$6.5 million and \$16.2 million as of June 30, 2021 and December 31, 2020, respectively. The general component of the allowance decreased from \$64.6 million at December 31, 2020 to \$63.4 million at June 30, 2021.

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

(Dollars in thousands)	June 30, 2021	March 31, 2021	December 31, 2020	September 30, 2020	June 30, 2020
Allowance for loan and lease losses:					
Beginning of period	\$ 67,536	\$ 67,309	\$ 66,145	\$ 66,065	\$ 63,783
Provision for loan and lease losses	900	225	2,350	5,150	4,900
Recoveries/(charge-offs), net	(4,931)	2	(1,186)	(5,070)	(2,618)
End of period	<u>\$ 63,505</u>	<u>\$ 67,536</u>	<u>\$ 67,309</u>	<u>\$ 66,145</u>	<u>\$ 66,065</u>
Allowance for loan and lease losses as a % of total loans (A)	1.39%	1.54%	1.54%	1.49%	1.36%
General allowance for loan and lease losses as a % of total loans (A)	1.39%	1.47%	1.48%	1.49%	1.27%
Allowance for loan and lease losses as a % of non-performing loans	1065.16%	573.94%	589.91%	768.15%	247.46%

(A) The June 30, 2020, September 30, 2020, December 31, 2020, March 31, 2021 and June 30, 2021 ALLL coverage ratios include PPP loans of \$521.6 million, \$202.0 million, \$195.6 million, \$186.9 million and \$83.8 million, respectively, in total loans.

INCOME TAXES: Income tax expense for the quarter ended June 30, 2021 was \$5.5 million as compared to \$2.4 million for the same period in 2020. During the six months ended June 30, 2021 the Company recorded income tax expense of \$10.1 million compared to a benefit of \$903,000 in the same six-month period in 2020.

The effective tax rate for the three months ended June 30, 2021 was 27.69 percent compared to 22.85 percent for the same quarter in 2020. The June 30, 2020 quarter included a benefit from a New Jersey state credit related to deferred tax liabilities effected by the surtax imposed by New Jersey in 2019. Excluding such benefit, the effective tax rate for the June 2020 quarter would have been approximately 26.5 percent.

The effective tax rate for the six months ended June 30, 2021 was 26.87 percent compared to a net tax benefit recorded for the first six months of 2020. During the first quarter of 2020, the Company recorded a \$3.34 million tax benefit, principally due to a \$3.2 million Federal income tax benefit that resulted from a tax NOL carryback. The Company had a \$23 million operating loss for tax purposes in 2018 (when the Federal tax rate was 21 percent) resulting from accelerated tax depreciation. Under the CARES Act, the Company was allowed to carry this NOL back to a period when the Federal tax rate was 35 percent, generating a permanent tax benefit.

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 business, 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.

Capital was benefitted by net income of \$27.6 million for the six months ended June 30, 2021, which was partially offset by the purchase of shares through the Company's stock repurchase program and a change in the unrealized loss on securities, net of tax of \$6.5 million. The Company repurchased 392,755 shares, at an average price of \$30.51, for a total cost of \$12.0 million during the six months ended June 30, 2021.

The Company employs quarterly capital stress testing – adverse case and severely adverse case. In the March 31, 2021 (the date of the most recent completed stress test), severely, adverse case, no growth scenario, the Bank remains well capitalized over a two-year stress period. With a Pandemic stress overlay, the Bank still remains well capitalized over the two-year stress period.

Quantitative measures established by regulation to ensure capital adequacy require the Company and the Bank to maintain minimum amounts and ratios of Total, Common Equity Tier 1 and Tier 1 capital (each as defined in the regulations) to risk-weighted assets (as defined), and of Tier 1 capital (as defined) to average assets (as defined). At June 30, 2021 and December 31, 2020, all of the Bank's capital ratios remain above the levels required to be considered "well capitalized" and the Company's capital ratios remain above regulatory requirements. The Company's capital ratios were not affected by our participation in the PPP. The Company pledged its PPP loans as collateral and utilized funding provided by the FRB's PPPLF. PPP loans funded by the PPPLF are risk-weighted at 0 percent for regulatory risk-based capital ratios and are excluded from average assets in the calculation of the regulatory leverage ratio.

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.

As a result of the recently enacted Economic Growth, Regulatory Relief, and Consumer Protection Act, the federal banking agencies are required to develop a "Community Bank Leverage Ratio" (the ratio of a bank's tangible equity capital to average total consolidated assets) for financial institutions with assets of less than \$10 billion. A "qualifying community bank" that exceeds this ratio will be deemed to be in compliance with all other capital and leverage requirements, including the capital requirements to be considered "well capitalized" under Prompt Corrective Action statutes. The federal banking agencies set the minimum capital for the Community Bank Leverage Ratio ("CBLR") at 9 percent, effective January 1, 2020. Under the CARES Act, the Community Bank Leverage Ratio was temporarily lowered to 8 percent. The Bank did not opt into the CBLR and will continue to comply with the requirements under Basel III. The Bank's leverage ratio was 10.13 percent at June 30, 2021.

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

(Dollars in thousands)	Actual		To Be Well Capitalized Under Prompt Corrective Action Provisions		For Capital Adequacy Purposes		For Capital Adequacy Purposes Including Capital Conservation Buffer (A)	
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of June 30, 2021:								
Total capital (to risk-weighted assets)	\$ 637,858	14.62%	\$ 436,316	10.00%	\$ 349,052	8.00%	\$ 458,131	10.50%
Tier I capital (to risk-weighted assets)	583,208	13.37	349,052	8.00	261,789	6.00	370,868	8.50
Common equity tier I (to risk-weighted assets)	583,179	13.37	283,605	6.50	196,342	4.50	305,421	7.00
Tier I capital (to average assets)	583,208	10.13	287,946	5.00	230,357	4.00	230,357	4.00
As of December 31, 2020:								
Total capital (to risk-weighted assets)	\$ 600,478	14.81%	\$ 405,587	10.00%	\$ 324,469	8.00%	\$ 425,866	10.50%
Tier I capital (to risk-weighted assets)	549,575	13.55	324,469	8.00	243,352	6.00	344,749	8.50
Common equity tier I (to risk-weighted assets)	549,540	13.55	263,631	6.50	182,514	4.50	283,911	7.00
Tier I capital (to average assets)	549,575	9.71	283,083	5.00	226,466	4.00	226,466	4.00

(A) See footnote on following table

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

(Dollars in thousands)	Actual		To Be Well Capitalized Under Prompt Corrective Action Provisions		For Capital Adequacy Purposes		For Capital Adequacy Purposes Including Capital Conservation Buffer (A)	
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of June 30, 2021:								
Total capital (to risk-weighted assets)	\$ 686,543	15.74%	N/A	N/A	\$ 349,002	8.00%	\$ 458,065	10.50%
Tier I capital (to risk-weighted assets)	499,344	11.45	N/A	N/A	261,751	6.00	370,814	8.50
Common equity tier I (to risk-weighted assets)	499,315	11.45	N/A	N/A	196,313	4.50	305,376	7.00
Tier I capital (to average assets)	499,344	8.67	N/A	N/A	230,317	4.00	230,317	4.00
As of December 31, 2020:								
Total capital (to risk-weighted assets)	\$ 716,210	17.67%	N/A	N/A	\$ 324,322	8.00%	\$ 425,673	10.50%
Tier I capital (to risk-weighted assets)	483,535	11.93	N/A	N/A	243,242	6.00	344,592	8.50
Common equity tier I (to risk-weighted assets)	483,500	11.93	N/A	N/A	182,431	4.50	283,782	7.00
Tier I capital (to average assets)	483,535	8.53	N/A	N/A	226,624	4.00	226,624	4.00

(A) 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) CET1 to risk-weighted assets, (ii) Tier 1 capital to risk-weighted assets or (iii) total capital to risk-weighted assets above the respective minimum but below the capital conservation buffer face constraints on dividends, equity repurchases and discretionary bonus payments to executive officers based on the amount of the shortfall.

The Company's regulatory total risk-based capital ratio was benefitted by the \$48.7 million (net) subordinated debt issuance that closed in June 2016. At that time, the Company down-streamed approximately \$40.0 million of proceeds to the Bank as capital, benefitting the Bank's regulatory capital ratios.

On December 12, 2017, the Company issued \$35.0 million in aggregate principal amount of fixed-to-floating subordinated notes due December 15, 2027. The Company down-streamed approximately \$29.1 million of those proceeds to the Bank as capital.

In addition, in December 2020, the Company issued \$100.0 million in aggregate principal amount of fixed-to-floating subordinated notes due December 22, 2030. The Company may use the proceeds from the issuance of the 2020 Notes for stock repurchases and acquisitions of wealth management firms, as well as other general corporate purposes. During the second quarter of 2021, the Company used a portion of the proceeds from the December 2020 subordinated debt issuance to redeem the \$50.0 million June 2016 issuance. The remaining net costs of \$648,000 were written-off during the quarter ended June 30, 2021.

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 \$200,000 per quarter to purchase additional shares of common stock, which up to January 30, 2019 were purchased at a 3 percent discount to market for plan participants. On January 30, 2019, the Company filed a Registration Statement on Form S-3 eliminating the 3 percent discount to market price. Voluntary share purchases 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. All shares purchased during the quarter ended June 30, 2021 were in the open market.

On July 27, 2021, the Board of Directors declared a regular cash dividend of \$0.05 per share payable on August 24, 2021 to shareholders of record on August 10, 2021.

Management believes the Company's capital position and capital ratios are adequate. Further, Management believes the Company has sufficient capital to support its planned balance sheet growth for the immediate future. The Company continually assesses other potential sources of capital 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 interest-earning deposits, totaled \$203.5 million at June 30, 2021. In addition, the Company had \$823.8 million in securities designated as available for sale at June 30, 2021. 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 \$788.5 million as of June 30, 2021 were pledged to secure public funds and for other purposes required or permitted by law. In addition, the Company generates significant liquidity from scheduled and unscheduled principal repayments of loans and mortgage-backed securities.

The Company approved loans of approximately \$650 million under the PPP and have a balance of \$83.8 million at June 30, 2021. The Federal Reserve has supplied a source of liquidity for the PPP to participating financial institutions through the PPPLF, which extends credit to eligible financial institutions, at a rate of 0.35 percent, that originate PPP loans, taking the loans as collateral at face value. The Company utilized this facility to fund its 2020 PPP loan originations.

As of June 30, 2021, the Company had approximately \$1.7 billion of secured funding available from the Federal Home Loan Bank. Additionally, the Company had \$1.0 billion of secured funding available from the Federal Reserve Discount Window, none of which was drawn.

Brokered interest-bearing demand ("overnight") deposits were \$85.0 million at June 30, 2021. The interest rate paid on these deposits allows the Bank to fund at attractive rates and engage in interest rate swaps to hedge its asset-liability interest rate risk. The Company ensures ample available collateralized liquidity as a backup to these short-term brokered deposits. As of June 30, 2021, the Company had transacted pay fixed, receive floating interest rate swaps totaling \$230.0 million in notional amount.

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. The Company believes it has sufficient liquidity given the current environment created by the COVID-19 pandemic.

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

ITEM 3. Quantitative and Qualitative Disclosures About Market Risk

ASSET/LIABILITY MANAGEMENT: 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 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 loans, 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 loans;
- Limit residential mortgage portfolio originations to adjustable-rate and/or shorter-term and/or “relationship” loans that result in core deposit and/or wealth management 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;
- Maintain adequate levels of capital; and
- Utilize loan sales.

The interest rate swap program is administered by the 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 as of June 30, 2021.

In addition, the Company initiated 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 June 30, 2021, \$778.6 million of notional value in swaps were executed and outstanding with borrowers under this program.

As noted above, the 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 models are based on the actual maturity and repricing characteristics of rate sensitive assets and liabilities. The models incorporate certain prepayment and interest rate assumptions, which management believes to be reasonable as of June 30, 2021. The models assume changes in interest rates without any proactive change in the balance sheet by management. In the models, the forecasted shape of the yield curve remained static as of June 30, 2021.

In an immediate and sustained 100 basis point increase in market rates at June 30, 2021, net interest income would increase approximately 4.7 percent for year 1 and 7.8 percent for year 2, compared to a flat interest rate scenario.

In an immediate and sustained 200 basis point increase in market rates at June 30, 2021, net interest income for year 1 would increase approximately 7.9 percent, when compared to a flat interest rate scenario. In year 2 net interest income would increase 13.9 percent, when 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 June 30, 2021.

(Dollars in thousands) Change In Interest Rates (Basis Points)	Estimated Increase/ Decrease in EVPE			EVPE as a Percentage of Present Value of Assets (2)	
	Estimated EVPE (1)	Amount	Percent	EVPE Ratio (3)	Increase/(Decrease) (basis points)
+200	\$ 676,581	\$ 16,761	2.54%	12.19%	79
+100	671,163	11,343	1.72	11.84	44
Flat interest rates	659,820	—	—	11.40	—
-100	613,855	(45,965)	(6.97)	10.52	(88)

- (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.

The Company's interest rate sensitivity models indicate the Company is asset sensitive as of June 30, 2021, and that net interest income would improve in a rising rate environment but decline in a falling rate environment.

ITEM 4. Controls and Procedures

The Corporation's management, with the participation of its Chief Executive Officer and Chief Financial Officer, have evaluated the effectiveness of the Corporation's disclosure controls and procedures (as defined in Rule 13a-15(e) or Rule 15d-15(e) under the Securities Exchange Act of 1934, as amended) as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on such evaluation, the Corporation's Chief Executive Officer and Chief Financial Officer have concluded that the Corporation's disclosure controls and procedures are effective as of the end of the period covered by this Quarterly Report on Form 10-Q.

The Corporation's Chief Executive Officer and Chief Financial Officer have also concluded that there have not been any changes in the Corporation's internal control over financial reporting during the quarter ended June 30, 2021 that have materially affected, or are reasonable likely to materially affect, the Corporation's internal control over financial reporting.

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

0PART II. OTHER INFORMATION

ITEM 1. Legal Proceedings

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

ITEM 1A. Risk Factors

There have been no material changes in risk factors applicable to the Company from those disclosed in “Risk Factors” in Item 1A of the Company’s Annual Report on Form 10-K for the year ended December 31, 2020 and Quarterly Report on Form 10-Q for the quarter ended June 30, 2021.

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

	Total Number of Shares Purchased As Part of Publicly Announced Plans or Programs	Total Number of Shares Withheld (1)	Average Price Paid Per Share	Approximate Dollar Value of Shares That May Yet Be Purchased Under the Plans Or Programs (2)
April 1, 2021 - April 30, 2021	—	—	\$ —	\$ 25,620,887
May 1, 2021 - May 31, 2021	137,661	—	32.49	\$ 21,148,674
June 1, 2021 - June 30, 2021	97,061	7,096	32.28	\$ 18,015,411
Total	234,722	7,096	32.40	

(1) Represents shares withheld to satisfy tax withholding obligations upon the exercise of stock options and vesting of restricted stock awards/units.

(2) On January 28, 2021, the Company’s Board of Directors approved a plan to repurchases up to 948,735 shares, which was approximately 5 percent of the outstanding shares as of that date, through March 31, 2022.

ITEM 3. Defaults Upon Senior Securities

None.

ITEM 4. Mine Safety Disclosures

Not applicable.

ITEM 5. Other Information

None.

ITEM 6. Exhibits

3	Articles of Incorporation and By-Laws: A. <u>Certificate of Incorporation of the Registrant, as amended, incorporated herein by reference to Exhibit 3 of the Registrant's Quarterly Report on Form 10-Q filed on November 9, 2009 (File No. 001-16197).</u> B. <u>By-Laws of the Registrant, incorporated herein by reference to Exhibit 3.2 of the Registrant's Current Report on Form 8-K filed on December 20, 2017 (File No. 001-16197).</u>
10.1	<u>Peapack-Gladstone Financial Corporation 2021 Long-Term Incentive Plan, incorporated herein by reference to Exhibit A to the Company's Definitive Proxy Statement for its 2021 Annual Meeting of Shareholders, filed on March 18, 2021 (File No. 001-16197).</u>
10.2	<u>Form of Employment Agreement with Douglas L. Kennedy, Jeffrey J. Carfora, John P. Babcock and Gregory M. Smith.</u>
10.3	<u>Change in Control Agreement with Robert A. Plante.</u>
31.1	<u>Certification of Douglas L. Kennedy, Chief Executive Officer of the Corporation, pursuant to Securities Exchange Act Rule 13a-14(a).</u>
31.2	<u>Certification of Jeffrey J. Carfora, Chief Financial Officer of the Corporation, pursuant to Securities Exchange Act Rule 13a-14(a).</u>
32	<u>Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, signed by Douglas L. Kennedy, Chief Executive Officer of the Corporation and Jeffrey J. Carfora, Chief Financial Officer of the Corporation.</u>
101.INS	Inline XBRL Instance Document – the instance document does not appear in the Interactive Data File because iXBRL tags are embedded within the Inline XBRL document.
101.SCH	Inline XBRL Taxonomy Extension Schema Document.
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document.
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101).

SIGNATURES

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

PEAPACK-GLADSTONE FINANCIAL CORPORATION

(Registrant)

DATE: August 9, 2021

By: /s/ Douglas L. Kennedy

Douglas L. Kennedy
President and Chief Executive Officer
(Principal Executive Officer)

DATE: August 9, 2021

By: /s/ Jeffrey J. Carfora

Jeffrey J. Carfora
Senior Executive Vice President and Chief Financial Officer
(Principal Financial Officer)

DATE: August 9, 2021

By: /s/ Francesco S. Rossi

Francesco S. Rossi
Chief Accounting Officer
(Principal Accounting Officer)

AMENDED AND RESTATED EMPLOYMENT AGREEMENT

This Employment Agreement (the “Agreement”) is made and entered into, effective as of August 5, 2021 (the “Effective Date”), by and among Peapack-Gladstone Financial Corporation, a New Jersey corporation (the “Company”), Peapack-Gladstone Bank, a New Jersey-chartered commercial bank (the “Bank”), and _____ (“Executive”). References to the “Bank” shall refer to both the Bank and the Company except where context indicates otherwise.

RECITALS

WHEREAS, the Bank desires to continue to employ Executive in an executive capacity in the conduct of its businesses, and Executive desires to be so employed on the terms contained herein;

WHEREAS, the Bank, the Company, and Executive previously entered into an employment agreement, dated _____, _____ (the “Prior Employment Agreement”);

WHEREAS, the Bank, the Company, and Executive previously entered into a change in control agreement, dated _____, _____, (the “Prior Change in Control Agreement” and together with the Prior Employment Agreement, the “Prior Agreements”), for avoidance of doubt, the term Prior Agreements does not include the Retirement Transition Agreement, and the accompanying Side Letter, entered into by and among the Bank, the Company and Executive dated _____ (the “Retirement Transition Agreement”);

WHEREAS, as of the Effective Date, the Prior Agreements shall terminate and shall be null and void and of no further effect.

NOW, THEREFORE, in consideration of the mutual covenants herein contained, and upon the other terms and conditions hereinafter provided, the parties hereby agree as follows:

1. POSITION AND RESPONSIBILITIES.

(a) **Employment.** During the Term (as defined in Section 2(a) below), Executive agrees to serve as _____ of the Bank and the Company or any successor executive position with the Bank and the Company that is agreed to and consented by Executive (the “Executive Position”), and will perform the duties and will have all powers associated with Executive Position as are appropriate for a person in the position of the Executive Position, as well as those as shall be assigned by the Board of Directors of Company or the Bank (the “Board”). Executive will report directly to the [**Board/Chief Executive Officer**]. During the period provided in this Agreement, Executive also agrees to serve, if elected, as an officer, director or trustee of any subsidiary or affiliate of the Bank and in such capacity carry out such duties and responsibilities reasonably appropriate to that office.

(b) **Responsibilities.** During Executive's employment hereunder, Executive will be employed on a full-time basis and devote Executive's full business time and best efforts, business judgment, skill and knowledge to the performance of Executive's duties and responsibilities related to the Executive Position. Except as otherwise provided in Section 1(c), Executive will not engage in any other business activity during the term of this Agreement except as may be approved by the Board.

(c) **Principal Place of Employment.** Executive's principal place of employment during the Term shall be at 500 Hills Drive, Bedminster, NJ 07921 or any other location(s) at which the Bank and Executive mutually agree.

(d) **Service on Other Boards and Committees.** The Bank encourages participation by Executive on community boards and committees and in activities generally considered to be in the public interest, but the Board shall have the right to approve or disapprove, in its sole discretion, Executive's participation on such boards and committees.

2. TERM.

(a) **Term and Annual Renewal.** Subject to Sections 2(b) and 2(c), the term of this Agreement and the period of Executive's employment hereunder will begin as of the Effective Date and will continue through December 31, 2023 (the "**Term**"). Commencing on January 1, 2022 and continuing on each January 1st thereafter (the "**Renewal Date**"), the Term will extend automatically for one additional year, so that the Term will be three (3) years from such Renewal Date, unless either the Bank or Executive by written notice to the other given at least 30 days prior to such Renewal Date notifies the other of its intent not to extend the same. If notice not to extend is given by either the Bank or Executive, this Agreement will terminate as of the last day of the then current Term. Reference herein to the "**Term**" shall refer to both such initial term and such extended terms.

At least 30 days prior to each Renewal Date, the disinterested members of the Board will conduct a comprehensive performance evaluation and review of Executive for purposes of determining whether to take action regarding non-renewal of the Agreement, and the results thereof will be included in the minutes of the Board's meeting.

(b) **Change in Control.** Notwithstanding anything in this Agreement to the contrary, in the event the Bank or the Company has entered into an agreement to effect a transaction that would be considered a Change in Control as defined under Section 5 hereof, the Term of this Agreement shall be extended automatically so that it is scheduled to expire no less than two (2) years beyond the effective time of the Change in Control, subject to extensions as set forth above in Section 2(a).

(c) **Continued Employment Following Expiration of Term.** Nothing in this Agreement mandates or prohibits a continuation of Executive's employment following the expiration of the term of this Agreement, upon the terms and conditions as the Bank and Executive may mutually agree.

3. COMPENSATION, BENEFITS AND REIMBURSEMENT.

(a) **Base Salary.** In consideration of Executive's performance of the responsibilities and duties set forth in this Agreement, Executive shall receive an annual base salary at a rate per annum equal to \$_____ per year ("Base Salary"). Such Base Salary shall be payable in accordance with the customary payroll practices of the Bank. Executive's Base Salary shall be reviewed annually for appropriate increases by the Chief Executive Officer, the Board or Compensation Committee of the Board (the "Compensation Committee"), as appropriate, pursuant to the normal performance review policies for senior level executives. During Term, Executive's Base Salary may be increased but not be decreased unless written consent is received from Executive. Any changes to Base Salary pursuant to this Section 3(a) shall become the "Base Salary" for purposes of this Agreement.

(b) **Bonus and Incentive Compensation.** Executive shall be eligible to receive an annual bonus during the Term pursuant to Executive's participation in the Executive Performance Plan or any other short-term and/or long-term incentive program in which senior management is eligible to participate (collectively, referred to as the "Incentive Program"). The annual bonus shall be based on the terms and conditions, including such performance goals, established by the Chief Executive Officer, the Board or the Compensation Committee, as appropriate, pursuant to the Incentive Program. Nothing paid to Executive under the Incentive Program will be deemed to be in lieu of the other compensation to which Executive is entitled under this Agreement. The terms of the Incentive Program shall determine the amount, time and manner of the payment of the bonuses earned thereunder.

(c) **Benefit Plans.** Executive will be entitled to participate in all employee benefit plans, arrangements and perquisites offered to salaried employees and senior level executives of the Bank, on the same terms and conditions as such plans are available to other salaried employees. [Executive shall also be entitled to receive an annual contribution pursuant to the Deferred Compensation Retention Award Plan Agreement dated August 4, 2017, and as further amended, between the Bank and Executive ("the "Deferred Compensation Agreement")]]. Without limiting the generality of the foregoing provisions of this Section 3(c), Executive also will be entitled to participate in any employee benefit plans including but not limited to retirement plans, pension plans, profit-sharing plans, health-and-accident plans, or any other employee benefit plan or arrangement made available by the Bank in the future to management employees, subject to and on a basis consistent with the terms, conditions and overall administration of such plans and arrangements as applicable to other management employees. Except as otherwise provided herein, the terms of the Bank's benefit plans or arrangements, including the Deferred Compensation Agreement, shall determine the benefits payable thereunder, if any, to Executive, including following Executive's termination of employment or retirement.

(d) **Vacation.** Executive will be entitled to no less than six weeks of paid vacation time each year during the term of this Agreement measured on a calendar year basis, in accordance with the Bank's customary practices, holidays and other paid absences in accordance with the Bank's policies and procedures for officers. Any unused paid time off during an annual period will be treated in accordance with the Bank's personnel policies as in effect from time to time.

(e) **Expense Reimbursements.** The Bank will reimburse Executive for all reasonable travel, entertainment and other reasonable expenses incurred by Executive during the course of performing Executive's obligations under this Agreement, including, without limitation, fees for memberships in such organizations as Executive and the Board mutually agree are necessary and appropriate in connection with the performance of Executive's duties under this Agreement. All reimbursements shall be made as soon as practicable upon substantiation of such expenses by Executive in accordance with the applicable policies and procedures of the Bank.

4. TERMINATION AND TERMINATION PAY.

Subject to Section 5 of this Agreement which governs the occurrence of a Change in Control, Executive's employment under this Agreement will terminate under the following circumstances:

(a) **Death.** This Agreement and Executive's employment with the Bank will terminate upon Executive's death, in which event the Bank's sole obligation shall be to pay or provide Executive's estate or beneficiary any "Accrued Obligations."

For purposes of this Agreement, "Accrued Obligations" means the sum of: (i) any Base Salary earned through Executive's Date of Termination, (ii) unpaid expense reimbursements (subject to, and in accordance with, Section 3(e) of this Agreement), (iii) unused paid time off that accrued through the Date of Termination, (iv) any earned but unpaid incentive compensation for the year immediately preceding the year of termination and (v) any vested benefits Executive may have under any employee benefit plan of the Bank through the Date of Termination, which vested benefits shall be paid and/or provided in accordance with the terms of such employee benefit plans. Unless otherwise provided by the applicable employee benefit plan, the Accrued Obligations, if any, will be paid to Executive (or Executive's estate or beneficiary) within 30 days following Executive's Date of Termination. Nothing in this Section shall entitle the Executive to any benefit or compensation under another plan, program or agreement, which would otherwise become cancelled or forfeited under the other plan, program or agreement.

(b) **Disability.** The Bank shall be entitled to terminate Executive's employment and this Agreement due to Executive's Disability. If Executive's employment is terminated due to Executive's Disability, the Bank's sole obligation under this Agreement shall be to pay or provide Executive any Accrued Obligations. For purposes of this Agreement, "Disability" means that Executive is deemed disabled for purposes of the Bank's long-term disability plan or policy that covers Executive or is determined to be disabled by the Social Security Administration.

(c) **Termination for Cause.** The Board may immediately terminate Executive's employment and this Agreement at any time for "Cause." In the event Executive's employment is terminated for Cause, the Bank's sole obligation will be to pay or provide to Executive any Accrued Obligations. Termination for "Cause" means termination because of, in the good faith determination of the Board, Executive's:

(i) material failure to perform the duties assigned to Executive related to the Executive Position or imposed upon Executive by applicable law, and such failure to perform constitutes self-dealing, willful misconduct or recklessness;

(ii) committing an act of dishonesty in the performance of Executive's duties related to the Executive Position or engaging in conduct materially detrimental to the business of the Bank;

(iii) conviction of a felony or misdemeanor involving moral turpitude;

(iv) material failure to perform Executive's duties related to the Executive Position, which such breach or failure is not remedied by Executive within 30 days after written demand from the Bank;

(v) knowingly failure to follow lawful, written directives of the Board; or

(vi) engagement in any material employment act or practice, including but not limited to sexual harassment, forbidden by the Bank in its employment manual as revised from time to time.

(d) **Resignation by Executive without Good Reason.** Executive may resign from employment during the term of this Agreement without Good Reason upon at least 30 days prior written notice to the Board, provided, however, that the Bank may accelerate the Date of Termination upon receipt of written notice of Executive's resignation. In the event Executive resigns without Good Reason, the Bank's sole obligation under this Agreement will be to pay or provide to Executive any Accrued Obligations.

(e) **Termination Without Cause or With Good Reason.**

(i) The Board may immediately terminate Executive's employment at any time for a reason other than Cause (a termination "Without Cause"), and Executive may, by written notice to the Board, terminate this Agreement at any time within 90 days following an event constituting "Good Reason," as defined below (a termination "With Good Reason"); provided, however, that the Bank will have 30 days to cure the "Good Reason" condition, but the Bank may waive its right to cure. In the event of termination as described under Section 4(e)(i) during the Term and subject to the requirements of Section 4(e)(iii), the Bank will pay or provide Executive with the following:

(A) any Accrued Obligations; and

(B) a gross severance payment equal to the greater of: (1) two times Executive's Base Salary in effect as of the Date of Termination; or (2) amount of Base Salary that Executive would have earned had Executive remained employed for the remaining Term (the "Severance Payment"). The Severance Payment will be payable in equal installments in accordance with the Bank's regular payroll practices during a two-year period, with the first payment to commence on the Bank's first regular payroll date after the Release (as defined in Section 4(e)(iii)) is executed and becomes irrevocable.

- (ii) “Good Reason” exists if, without Executive’s express written consent, any of the following occurs:
- (A) a material reduction in Executive’s Base Salary;
 - (B) a material reduction in Executive’s authority, duties or responsibilities from the position and attributes associated with the Executive Position;
 - (C) the Bank requiring Executive to be based primarily at any office or location resulting in an increase in Executive’s commute of 25 miles or more; or
 - (D) a material breach of this Agreement by the Bank.
- (iii) Notwithstanding anything to the contrary in Section 4(e)(i), Executive will not receive any payments or benefits under this Section 4(e) unless and until Executive executes a release of claims (the “Release”) against the Bank and any affiliate, and their officers, directors, successors and assigns, releasing said persons from any and all claims, rights, demands, causes of action, suits, arbitrations or grievances relating to the employment relationship, including claims under the Age Discrimination in Employment Act, but not including claims for benefits under tax-qualified plans or other benefit plans in which Executive is vested, claims for benefits required by applicable law or claims with respect to obligations set forth in this Agreement that survive the termination of this Agreement. The Release must be executed and become irrevocable by the 60th day following the Date of Termination, provided that if the 60-day period spans two (2) calendar years, then, to the extent necessary to comply with Code Section 409A, the payments and benefits described in this Section 4(e) will be paid, or commence, in the second calendar year.

(f) **Effect on Status as a Director.** In the event of Executive’s termination of employment under this Agreement for any reason, such termination will also constitute Executive’s resignation as a director of the Bank or the Company, or as a director or trustee of any subsidiary or affiliate thereof, to the extent Executive is acting as a director or trustee of any of the aforementioned entities.

(g) **Notice; Effective Date of Termination.** Notice of Termination of employment under this Agreement must be communicated by or to Executive or the Bank, as applicable, in accordance with Section 17. “Date of Termination” as referenced in this Agreement means Executive’s termination of employment pursuant to this Agreement, which will be effective on the earliest of: (i) immediately after the Bank gives notice to Executive of Executive’s termination Without Cause, unless the parties agree to a later date, in which case, termination will be effective as of such later date; (ii) immediately upon approval by the Board of termination of Executive’s employment for Cause; (iii) immediately upon Executive’s death or Disability; or (iv) 30 days after Executive gives written notice to the Bank of Executive’s resignation from employment

(including With Good Reason), provided that the Bank may set an earlier termination date at any time prior to the date of termination of employment, in which case Executive's resignation shall be effective as of such date.

5. CHANGE IN CONTROL.

(a) **Change in Control Defined.** For purposes of this Agreement, the term "Change in Control" means: (i) a change in the ownership of the Corporation; (ii) a change in the effective control of the Corporation; or (iii) a change in the ownership of a substantial portion of the assets of the Corporation as defined in accordance with Code Section 409A. For purposes of this Section 5(a), the term "Corporation" is defined to include the Bank, the Company or any of their successors, as applicable.

- (i) A change in the ownership of a Corporation occurs on the date that any one person, or more than one person acting as a group (as defined in Treasury Regulation 1.409A-3(i)(5)(v)(B)), acquires ownership of stock of the Corporation that, together with stock held by such person or group, constitutes more than 50 percent of the total fair market value or total voting power of the stock of such Corporation.
- (ii) A change in the effective control of the Corporation occurs on the date that either (A) any one person, or more than one person acting as a group (as defined in Treasury Regulation 1.409A-3(i)(5)(vi)(D)) acquires (or has acquired during the 12-month period ending on the date of the most recent acquisition by such person or persons) ownership of stock of the Corporation possessing 30 percent or more of the total voting power of the stock of the Corporation, or (B) a majority of the members of the Board is replaced during any 12-month period by directors whose appointment or election is not endorsed by a majority of the members of the Board prior to the date of the appointment or election, provided that this subsection "(B)" is inapplicable where a majority stockholder of the Corporation is another corporation.
- (iii) A change in ownership of a substantial portion of the Corporation's assets occurs on the date that any one person or more than one person acting as a group (as defined in Treasury Regulation 1.409A-3(i)(5)(vii)(C)) acquires (or has acquired during the 12-month period ending on the date of the most recent acquisition by such person or persons) assets from the Corporation that have a total gross fair market value equal to or more than 40 percent of the total gross fair market value of (A) all of the assets of the Corporation, or (B) the value of the assets being disposed of, either of which is determined without regard to any liabilities associated with such assets. For all purposes hereunder, the definition of Change in Control shall be construed to be consistent with the requirements of Treasury Regulation 1.409A-3(i)(5), except to the extent that such regulations are superseded by subsequent guidance.

(b) **Change in Control Benefits.** Upon the termination of Executive's employment by the Bank (or any successor) Without Cause or by Executive With Good Reason upon or within two (2) years following the effective time of a Change in Control, the Bank (or any successor) will pay or provide Executive, or Executive's estate in the event of Executive's subsequent death, with the following:

- (i) any Accrued Obligations;
- (ii) a cash lump sum payment (the "Change in Control Severance") in an amount equal to the sum of: (A) three (3) times the sum of Executive's Base Salary (or Executive's Base Salary in effect immediately prior to the Change in Control, if higher); plus (B) three (3) times the greater of (i) Executive's average annual bonus paid (but not less than target) by the Bank to Executive for the three (3) annual performance periods preceding the Date of Termination; or (ii) the annual bonus paid by the Bank to Executive with respect to the most recent annual performance period. The Change in Control Severance is payable within 30 days following Executive's Date of Termination; and
- (iii) Provided that Executive is eligible for and timely elects continuation coverage under the Consolidated Omnibus Budget Reconciliation Act of 1986, as amended ("COBRA"), the Bank will pay Executive 18 consecutive monthly cash payments (commencing with the first month following Executive's Date of Termination and continuing until the 18th month following Executive's Date of Termination) each equal to the monthly COBRA premium in effect as of the Date of Termination for the level of coverage in effect for Executive (including Executive's spouse and dependents, if applicable) under the Bank's group health plan (the "Monthly COBRA Costs"). Following the foregoing 18-month period, if Executive secures an individual policy for health coverage for Executive and, where applicable, Executive's spouse and dependents, the Bank will reimburse Executive for the monthly cost of such coverage for the period commencing on the first day following the 18-month period and ending on the last day of the 36-month following the Date of Termination; provided that the amount of the Bank's reimbursement for any month during this period will not exceed the Monthly COBRA Costs. Notwithstanding the foregoing, the Bank 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 Bank or Executive, as determined by the Bank in its sole and absolute discretion.

Notwithstanding the foregoing, the payments and benefits provided in this Section 5(b) shall be payable to Executive in lieu of any payments or benefits that are payable under Section 4(e).

6. COVENANTS OF EXECUTIVE.

(a) **Non-Solicitation/Non-Compete.** Executive hereby covenants and agrees that during the “Restricted Period,” Executive shall not, without the written consent of the Bank, either directly or indirectly:

- (i) solicit, offer employment to, or take any other action intended (or that a reasonable person acting in like circumstances would expect) to have the effect of causing any officer or employee of the Bank, or any of its respective subsidiaries or affiliates, to terminate his or her employment with the Bank and/or accept employment with another employer; or
- (ii) 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 Bank or any of its subsidiaries. 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 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 50 miles of the main office of the Bank; provided, however, that this Section 6(a)(ii) will not prohibit or otherwise restrict Executive’s ability, or the ability of any entity controlled by Executive, to become an investor or a fund manager (or have any type of employment or consulting relationship, including a full-time senior level employee position) with any hedge fund, investment partnership, investment corporation or any other collective investment vehicle that is engaged primarily in the purchase and/or sale of securities (a “Hedge Fund”), even if such Hedge Fund has an ownership interest in a Business; or
- (iii) call upon any person or entity which is or has been within 24 months prior to the termination or other cessation of Executive’s employment for any reason, a customer of the Bank or any subsidiary (each a “Customer”) for the direct or indirect purpose of soliciting or selling deposit, loan or trust products or services or induce any Customer to curtail, cancel, not renew, or not continue their business with the Bank or any subsidiary or affiliate.

The restrictions contained in this Section 6(a) shall not apply in the event of Executive’s termination of employment on or after the effective time of a Change in Control.

For purposes of this Section 6(a), the “Restricted Period” will be: (i) at all times during Executive’s period of employment with the Bank; and (ii) except as provided above, during

the period beginning on Executive's Date of Termination and ending on the one-year anniversary of the Date of Termination

(b) **Confidentiality.** Executive recognizes and acknowledges that Executive has been and will be the recipient of confidential and proprietary business information concerning the Bank, including without limitation, past, present, planned or considered business activities of the Bank, and Executive acknowledges and agrees that Executive will not, during or after the term of Executive's employment, disclose such confidential and proprietary information for any purposes whatsoever, except as may be expressly permitted in writing signed by the Bank, or as may be required by regulatory inquiry, law or court order.

(c) **Information/Cooperation.** Executive will, upon reasonable notice, furnish such information and assistance to the Bank as may be reasonably required by the Bank, in connection with any litigation in which it or any of its subsidiaries or affiliates is, or may become, a party; provided, however, that Executive shall not be required to provide information or assistance with respect to any litigation between Executive and the Bank or any other subsidiaries or affiliates.

(d) **Reliance.** Except as otherwise provided, all payments and benefits to Executive under this Agreement will be subject to Executive's compliance with this Section 6, to the extent applicable. The parties hereto, recognizing that irreparable injury will result to the Bank, its business and property in the event of Executive's breach of this Section 6, agree that, in the event of any such breach by Executive, the Bank will be entitled, in addition to any other remedies and damages available, to an injunction to restrain the violation hereof by Executive and all persons acting for or with Executive. Executive represents and admits that Executive's experience and capabilities are such that Executive can obtain employment in a business engaged in other lines of business than the Bank, and that the enforcement of a remedy by way of injunction will not prevent Executive from earning a livelihood. Nothing herein will be construed as prohibiting the Bank from pursuing any other remedies available to them for such breach or threatened breach, including the recovery of damages from Executive.

(e) **Survival.** Any termination of Executive's services or of this Agreement shall have no effect on the continuing operation of this Section 6, which shall survive in accordance with their terms.

(f) **Retirement Transition Agreement.** To the extent that Executive is a party to the Retirement Transition Agreement, if there are any inconsistencies with respect to the covenants of Executive set forth in the Retirement Transition Agreement as compared to the restrictive covenants of this Agreement, the restrictive covenants set forth in the Retirement Transition Agreement would govern.

7. SOURCE OF PAYMENTS.

All payments provided in this Agreement shall be timely paid by check or direct deposit from the general funds of the Bank (or any successor of the Bank).

8. EFFECT ON PRIOR AGREEMENTS AND EXISTING BENEFITS PLANS.

This Agreement contains the entire understanding between the parties hereto and supersedes the Prior Agreements between the Bank or any predecessor of the Bank and Executive, except that this Agreement shall not affect or operate to reduce any benefit or compensation inuring to Executive under another plan, program or agreement (other than the Prior Agreements) between the Bank and Executive.

9. NO ATTACHMENT; BINDING ON SUCCESSORS.

- (a) Except as required by law, no right to receive payments under this Agreement shall be subject to anticipation, commutation, alienation, sale, assignment, encumbrance, charge, pledge, or hypothecation, or to execution, attachment, levy, or similar process or assignment by operation of law, and any attempt, voluntary or involuntary, to affect any such action shall be null, void, and of no effect.
- (b) The Bank shall require any successor or assignee, whether direct or indirect, by purchase, merger, consolidation or otherwise, to all or substantially all the business or assets of the Bank, expressly and unconditionally to assume and agree to perform the Bank's obligations under this Agreement, in the same manner and to the same extent that the Bank would be required to perform if no such succession or assignment had taken place.

10. MODIFICATION AND WAIVER.

- (a) This Agreement may not be modified or amended except by an instrument in writing signed by the parties hereto.
- (b) No term or condition of this Agreement shall be deemed to have been waived, nor shall there be any estoppel against the enforcement of any provision of this Agreement, except by written instrument of the party charged with such waiver or estoppel. No such written waiver shall be deemed a continuing waiver unless specifically stated therein, and each such waiver shall operate only as to the specific term or condition waived and shall not constitute a waiver of such term or condition for the future as to any act other than that specifically waived.

11. APPLICABLE LAW AND OTHER MANDATORY PROVISIONS.

Notwithstanding anything herein contained to the contrary, the following provisions shall apply:

- (a) The Bank may terminate Executive's employment at any time, but any termination by the Bank other than termination for Cause shall not prejudice Executive's right to compensation or other benefits under this Agreement. Executive shall have no right to receive compensation or other benefits under this Agreement for any period after Executive's termination for Cause, other than the Accrued Obligations.
- (b) In no event shall the Bank (nor any affiliate) be obligated to make any payment pursuant to this Agreement that is prohibited by Section 18(k) of the Federal Deposit Insurance Act (codified at 12 U.S.C. sec. 1828(k)), 12 C.F.R. Part 359, or any other applicable law.

(c) Notwithstanding anything in this Agreement to the contrary, to the extent that a payment or benefit described in this Agreement constitutes “non-qualified deferred compensation” under Section 409A of the Code, and to the extent that such payment or benefit is payable upon Executive’s termination of employment, then such payments or benefits will be payable only upon Executive’s “Separation from Service.” For purposes of this Agreement, a “Separation from Service” will have occurred if the Bank and Executive reasonably anticipate that either no further services will be performed by Executive after the Date of Termination (whether as an employee or as an independent contractor) or the level of further services performed is less than 50 percent of the average level of bona fide services in the 36 months immediately preceding the termination. For all purposes hereunder, the definition of Separation from Service shall be interpreted consistent with Treasury Regulation Section 1.409A-1(h)(ii).

(d) Notwithstanding the foregoing, if Executive is a “Specified Employee” (i.e., a “key employee” of a publicly traded company within the meaning of Section 409A of the Code and the final regulations issued thereunder) and any payment under this Agreement is triggered due to Executive’s Separation from Service, then solely to the extent necessary to avoid penalties under Section 409A of the Code, no payment shall be made during the first six (6) months following Executive’s Separation from Service. Rather, any payment which would otherwise be paid to Executive during such period shall be accumulated and paid to Executive in a lump sum on the first day of the seventh month following such Separation from Service. All subsequent payments shall be paid in the manner specified in this Agreement.

(e) If the Bank cannot provide Executive or Executive’s dependents any continued health insurance or other welfare benefit required by this Agreement because Executive is no longer an employee, applicable rules and regulations prohibit such benefits or the payment of such benefits in the manner contemplated, or it would subject the Bank to penalties, then the Bank will pay Executive a cash lump sum payment reasonably estimated to be equal to the value of such benefits or the value of the remaining benefits at the time of such determination. Such cash payment will be made in a lump sum within 30 days after the later of Executive’s Date of Termination or the effective date of the rules or regulations prohibiting such benefits or subjecting the Bank to penalties. Notwithstanding the foregoing, if such cash payment would violate the requirements of Treasury Regulation Section 1.409A-3(j), Executive’s cash payment in lieu of the continued health insurance or welfare benefits as required by this Agreement will be payable at the same time the related premium payments would have been paid by the Bank and for the duration of the applicable coverage period.

(f) To the extent not specifically provided in this Agreement, any compensation or reimbursements payable to Executive shall be paid or provided no later than two and one-half (2.5) months after the calendar year in which such compensation is no longer subject to a substantial risk of forfeiture within the meaning of Treasury Regulation Section 1.409A-1(d).

(g) Each payment pursuant to this Agreement is intended to constitute a separate payment for purposes Treasury Regulation Section 1.409A-2(b)(2).

(h) Notwithstanding anything in this Agreement to the contrary, Executive understands that nothing contained in this Agreement limits Executive’s ability to file a charge or complaint with the Securities and Exchange Commission (“SEC”) about a possible securities law violation

without approval of the Bank (or any affiliate). Executive further understands that this Agreement does not limit Executive's ability to communicate with the SEC or otherwise participate in any investigation or proceeding that may be conducted by the SEC, including providing documents or other information, without notice to the Bank (or any affiliate) related to the possible securities law violation. This Agreement does not limit Executive's right to receive any resulting monetary award for information provided to the SEC.

- (i) Executive agrees that Executive shall be subject to any compensation clawback or recoupment policies that may be applicable to Executive as an employee of the Bank, 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.

12. SEVERABILITY.

If any provision of this Agreement is determined to be void or unenforceable, then the remaining provisions of this Agreement will remain in full force and effect.

13. GOVERNING LAW.

This Agreement shall be governed by the laws of the State of New Jersey, but only to the extent not superseded by federal law.

14. ARBITRATION.

Any dispute or controversy arising under or in connection with this Agreement shall be settled exclusively by arbitration, conducted within 50 miles of Bedminster, New Jersey, in accordance with the Commercial Rules of the American Arbitration Association then in effect. Judgment may be entered on the arbitrators' award in any court having jurisdiction. The above notwithstanding, the Bank may seek injunctive relief in a court of competent jurisdiction in New Jersey to restrain any breach or threatened breach of any provision of this Agreement, without prejudice to any other rights or remedies that may otherwise be available to the Bank.

15. INDEMNIFICATION.

The Bank will provide Executive (including Executive's heirs, executors and administrators) with coverage under a standard directors' and officers' liability insurance policy at its expense, and will indemnify Executive (and Executive's heirs, executors and administrators) in accordance with the charter and bylaws of the Bank and to the fullest extent permitted under applicable law against all expenses and liabilities reasonably incurred by Executive in connection with or arising out of any action, suit or proceeding in which Executive may be involved by reason of having been a trustee, director or officer of the Bank or any subsidiary or affiliate of the Bank.

16. TAX WITHHOLDING.

The Bank may withhold from any amounts payable to Executive hereunder all federal, state, local or other taxes that the Bank may reasonably determine are required to be withheld pursuant to any applicable law or regulation (it being understood that Executive is responsible for payment of all taxes in respect of the payments and benefits provided herein).

17. NOTICE.

For the purposes of this Agreement, notices and all other communications provided for in this Agreement shall be in writing and shall be deemed to have been duly given when delivered or mailed by certified or registered mail, return receipt requested, postage prepaid, addressed to the respective addresses set forth below or if sent by facsimile or email, on the date it is actually received.

To the Bank

Peapack Gladstone Bank
500 Hills Drive, Suite 300
Bedminster, New Jersey 07921
Attention: Corporate Secretary

To Executive:

Most recent address on file with the Bank

18. PRIOR AGREEMENTS.

Executive, the Bank and the Company hereby acknowledge and agree that as of the Effective Date: (1) this Agreement shall supersede and replace the Prior Agreements as of the Effective Date; and (2) the Prior Agreements shall terminate, be null and void and of no further effect.

[Signature Page Follows]

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date first written above.

PEAPACK-GLADSTONE BANK

By: _____
Name:
Title:

PEAPACK-GLADSTONE FINANCIAL CORPORATION

By: _____
Name:
Title:

EXECUTIVE

[Name]

SCHEDULE TO EXHIBIT

This Schedule of Executive Officers who have executed a form of employment agreement is included pursuant to Instruction 2 of Item 601(a) of Regulation S-K for the purposes of setting forth the material details in which the specific agreements differ from the form agreement filed herewith as Exhibit 10.2:

Name of Executive Officer	Title	Base Salary
Douglas L. Kennedy	President and Chief Executive Officer	\$731,000
Jeffrey J. Carfora	Chief Financial Officer	\$376,000
John P. Babcock	President, Wealth Management	\$545,000
Gregory M. Smith	President, Commercial Lending	\$340,000

CHANGE IN CONTROL AGREEMENT

This Change in Control Agreement (the “Agreement”) is made effective as of the 5th day of August, 2021 (the “Effective Date”), by and among Peapack-Gladstone Financial Corporation, a New Jersey corporation (the “Company”), Peapack-Gladstone Bank, a New Jersey-chartered commercial bank (the “Bank”), and Robert A. Plante (“Executive”). References to the “Bank” shall refer to both the Bank and the Company except where context indicates otherwise.

RECITALS

WHEREAS, Executive is currently employed as an executive officer of the Bank;

WHEREAS, the Bank desires to assure itself of Executive’s continued active participation in the business of the Bank; and

WHEREAS, in order to induce Executive to remain in the employ of the Bank and in consideration of Executive’s agreeing to remain in the employ of the Bank, the parties desire to specify the severance benefits which shall be due Executive in the event that his/her employment with the Bank is terminated under specified circumstances.

NOW THEREFORE, in consideration of the mutual agreements herein contained, and upon the other terms and conditions hereinafter provided, the parties hereby agree as follows:

1. **TERM OF AGREEMENT.**

(a) **Term and Annual Renewal.** Subject to Section 1(b), the term of this Agreement will begin as of the Effective Date and will continue through December 31, 2022 (the “Term”). Commencing on January 1, 2022 and continuing on each January 1st thereafter (the “Renewal Date”), the Term will extend automatically for one additional year, so that the Term will be two (2) years from such Renewal Date, unless either the Bank or Executive by written notice to the other given at least sixty (60) days prior to such Renewal Date notifies the other of its intent not to extend the same. If notice not to extend is given by either the Bank or Executive, this Agreement will terminate as of the last day of the then current Term. Reference herein to the “Term” shall refer to both such initial term and such extended terms.

(b) **Change in Control.** Notwithstanding the foregoing, in the event the Bank or the Company has entered into an agreement to effect a transaction that would be considered a Change in Control as defined under Section 2 hereof, the Term of this Agreement will be extended automatically so that it is scheduled to expire no less than two (2) years beyond the effective time of the Change in Control, subject to extensions as set forth above.

(c) **Other Termination Events.** This Agreement shall automatically terminate upon Executive’s termination of employment for any reason prior to the date on which the Bank or the Company has entered into an agreement to effect a transaction that would be considered a Change in Control as defined under Section 2 hereof.

2. DEFINITIONS.

(a) Base Salary. Executive's "Base Salary" for purposes of this Agreement shall mean the annual rate of base salary paid to Executive by the Bank.

(b) Change in Control. For purposes of this Agreement, the term "Change in Control" means: (i) a change in the ownership of the Corporation; (ii) a change in the effective control of the Corporation; or (iii) a change in the ownership of a substantial portion of the assets of the Corporation as defined in accordance with Code Section 409A. For purposes of this Section 2(b), the term "Corporation" is defined to include the Bank, the Company or any of their successors, as applicable.

A change in the ownership of a Corporation occurs on the date that any one person, or more than one person acting as a group (as defined in Treasury Regulation 1.409A-3(i)(5)(v)(B)), acquires ownership of stock of the Corporation that, together with stock held by such person or group, constitutes more than 50 percent of the total fair market value or total voting power of the stock of such Corporation.

A change in the effective control of the Corporation occurs on the date that either (A) any one person, or more than one person acting as a group (as defined in Treasury Regulation 1.409A-3(i)(5)(vi)(D)) acquires (or has acquired during the 12-month period ending on the date of the most recent acquisition by such person or persons) ownership of stock of the Corporation possessing 30 percent or more of the total voting power of the stock of the Corporation, or (B) a majority of the members of the Board is replaced during any 12-month period by directors whose appointment or election is not endorsed by a majority of the members of the Board prior to the date of the appointment or election, provided that this subsection "(B)" is inapplicable where a majority stockholder of the Corporation is another corporation.

A change in a substantial portion of the Corporation's assets occurs on the date that any one person or more than one person acting as a group (as defined in Treasury Regulation 1.409A-3(i)(5)(vii)(C)) acquires (or has acquired during the 12-month period ending on the date of the most recent acquisition by such person or persons) assets from the Corporation that have a total gross fair market value equal to or more than 40 percent of the total gross fair market value of (A) all of the assets of the Corporation, or (B) the value of the assets being disposed of, either of which is determined without regard to any liabilities associated with such assets. For all purposes hereunder, the definition of Change in Control shall be construed to be consistent with the requirements of Treasury Regulation 1.409A-3(i)(5), except to the extent that such regulations are superseded by subsequent guidance.

(c) Code. "Code" shall mean the Internal Revenue Code of 1986, as amended.

(d) Good Reason shall mean a termination by Executive following a Change in Control if, without Executive's express written consent, any of the following occurs:

- (i) a material reduction in Executive's Base Salary;
- (ii) a material reduction in Executive's authority, duties or responsibilities from the position and attributes associated with Executive's executive position with the Bank in effect as of the Effective Date or any successor executive position, as mutually agreed to by the Bank and Executive (the "Executive Position");
- (iii) the Bank requiring Executive to be based primarily at any office or location resulting in an increase in Executive's commute of 25 miles or more; or
- (iv) a material breach of this Agreement by the Bank;

provided, however, that prior to any termination of employment for Good Reason, Executive must first provide written notice to the Bank (or its successor) within 90 days following the initial existence of the condition, describing the existence of such condition, and the Bank shall thereafter have the right to remedy the condition within 30 days after the date the Bank received the written notice from Executive, but the Bank may waive its right to cure.

(e) Termination for Cause shall mean termination because of, in the good faith determination of the Board of Directors of the Bank (the "Board"), Executive's:

- (i) material failure to perform the duties assigned to Executive related to the Executive Position or imposed upon Executive by applicable law, and such failure to perform constitutes self-dealing, willful misconduct or recklessness;
- (ii) committing an act of dishonesty in the performance of Executive's duties related to the Executive Position or engaging in conduct materially detrimental to the business of the Bank;
- (iii) conviction of a felony or misdemeanor involving moral turpitude;
- (iv) material failure to perform Executive's duties related to the Executive Position, which such breach or failure is not remedied by Executive within 30 days after written demand from the Bank;
- (v) knowingly failure to follow lawful, written directives of the Board; or
- (vi) engagement in any material employment act or practice, including but not limited to sexual harassment, forbidden by the Bank in its employment manual as revised from time to time.

3. BENEFITS UPON TERMINATION.

(a) Upon the termination of Executive's employment by either: (1) the Bank (or any successor) for any reason other than for Cause; or (2) Executive for Good Reason, in either case, upon or within two (2) years following the effective time of the Change in Control, the Bank (or any successor) will pay or provide Executive, or Executive's estate in the event of Executive's subsequent death, with the following:

(i) a cash lump sum payment (the "Change in Control Severance") in an amount equal to the sum of: (A) two (2) times the sum of Executive's Base Salary (or Executive's Base Salary in effect immediately prior to the Change in Control, if higher); plus (B) two (2) times the greater of (i) Executive's average annual bonus paid (but not less than target) by the Bank to Executive for the three (3) annual performance periods preceding the Date of Termination; or (ii) the annual bonus paid by the Bank to Executive with respect to the most recent performance period. The Change in Control Severance is payable within 30 days following Executive's Date of Termination; and

(ii) Provided that Executive is eligible for and timely elects continuation coverage under the Consolidated Omnibus Budget Reconciliation Act of 1986, as amended ("COBRA"), the Bank will pay Executive 18 consecutive monthly cash payments (commencing with the first month following Executive's Date of Termination and continuing until the 18th month following Executive's Date of Termination) each equal to the monthly COBRA premium in effect as of the Date of Termination for the level of coverage in effect for Executive (including Executive's spouse and dependents, if applicable) under the Bank's group health plan.

4. NOTICE OF TERMINATION.

Any purported termination by the Bank or by Executive in connection with or following a Change in Control shall be communicated by Notice of Termination to the other party hereto. For purposes of this Agreement, a "Notice of Termination" shall mean a written notice which shall indicate the Date of Termination and, in the event of termination by Executive, the specific termination provision in this Agreement relied upon and shall set forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of Executive's employment under the provision so indicated. "Date of Termination" shall mean the date specified in the Notice of Termination (which, in the case of a termination for Cause, shall be immediate). In no event shall the Date of Termination exceed 30 days from the date the Notice of Termination is given. With respect to Good Reason, the Date of Termination shall be 30 days after Executive gives written notice to the Bank of Executive's resignation from employment for Good Reason, provided that the Bank may set an earlier termination date at any time prior to the date of termination of employment, in which case Executive's resignation shall be effective as of such date.

5. SOURCE OF PAYMENTS.

All payments provided in this Agreement shall be timely paid in cash or check from the general funds of the Bank (or any successor of the Bank).

6. NO ATTACHMENT.

Except as required by law, no right to receive payments under this Agreement shall be subject to anticipation, commutation, alienation, sale, assignment, encumbrance, charge, pledge, or hypothecation, or to execution, attachment, levy, or similar process or assignment by operation of law, and any attempt, voluntary or involuntary, to effect any such action shall be null, void, and of no effect.

7. ENTIRE AGREEMENT; MODIFICATION AND WAIVER.

(a) This Agreement contains the entire understanding between the parties hereto and supersedes any prior employment agreement between the Bank or any predecessor of the Bank and Executive, except that this Agreement shall not affect or operate to reduce any benefit or compensation inuring to Executive under another plan, program or agreement (other than an employment agreement) between the Bank and Executive. Nothing in this Agreement shall entitle the Executive to any benefit or compensation under another plan, program or agreement, which would otherwise become cancelled or forfeited under the other plan, program or agreement.

(b) This Agreement may not be modified or amended except by an instrument in writing signed by the parties hereto.

(c) No term or condition of this Agreement shall be deemed to have been waived, nor shall there be any estoppel against the enforcement of any provision of this Agreement, except by written instrument of the party charged with such waiver or estoppel. No such written waiver shall be deemed a continuing waiver unless specifically stated therein, and each such waiver shall operate only as to the specific term or condition waived and shall not constitute a waiver of such term or condition for the future or as to any act other than that specifically waived.

8. SEVERABILITY.

If any provision of this Agreement is determined to be void or unenforceable, then the remaining provisions of this Agreement will remain in full force and effect.

9. HEADINGS FOR REFERENCE ONLY.

The headings of sections and paragraphs herein are included solely for convenience of reference and shall not control the meaning or interpretation of any of the provisions of this Agreement.

10. GOVERNING LAW.

This Agreement shall be governed by the laws of the State of New Jersey but only to the extent not superseded by federal law.

11. ARBITRATION.

Any dispute or controversy arising under or in connection with this Agreement shall be settled exclusively by arbitration, conducted within 50 miles of Bedminster, New Jersey, in accordance with the Commercial Rules of the American Arbitration Association then in

effect. Judgment may be entered on the arbitrators' award in any court having jurisdiction. The above notwithstanding, the Bank may seek injunctive relief in a court of competent jurisdiction in New Jersey to restrain any breach or threatened breach of any provision of this Agreement, without prejudice to any other rights or remedies that may otherwise be available to the Bank.

12. OBLIGATIONS OF BANK.

The termination of Executive's employment, other than following a Change in Control, shall not result in any obligation of the Bank under this Agreement.

13. SUCCESSORS AND ASSIGNS.

The Bank shall require any successor or assignee, whether direct or indirect, by purchase, merger, consolidation or otherwise, to all or substantially all the business or assets of the Bank, expressly and unconditionally to assume and agree to perform the Bank's obligations under this Agreement, in the same manner and to the same extent that the Bank would be required to perform if no such succession or assignment had taken place.

14. CERTAIN APPLICABLE LAW.

(a) The Bank may terminate Executive's employment at any time, but any termination by the Bank other than termination for Cause shall not prejudice Executive's right to compensation or other benefits under this Agreement. Executive shall have no right to receive compensation or other benefits under this Agreement for any period after Executive's termination for Cause.

(b) In no event shall the Bank (nor any affiliate) be obligated to make any payment pursuant to this Agreement that is prohibited by Section 18(k) of the Federal Deposit Insurance Act (codified at 12 U.S.C. sec. 1828(k)), 12 C.F.R. Part 359, or any other applicable law.

(c) Notwithstanding anything in this Agreement to the contrary, to the extent that a payment or benefit described in this Agreement constitutes "non-qualified deferred compensation" under Section 409A of the Code, and to the extent that such payment or benefit is payable upon the Executive's termination of employment, then such payments or benefits will be payable only upon the Executive's "Separation from Service." For purposes of this Agreement, a "Separation from Service" will have occurred if the Bank and Executive reasonably anticipate that either no further services will be performed by Executive after the Date of Termination (whether as an employee or as an independent contractor) or the level of further services performed is less than 50 percent of the average level of bona fide services in the 36 months immediately preceding the termination. For all purposes hereunder, the definition of Separation from Service shall be interpreted consistent with Treasury Regulation Section 1.409A-1(h)(ii).

(d) If Executive is a "Specified Employee" (i.e., a "key employee" of a publicly traded company within the meaning of Section 409A of the Code and the final regulations issued thereunder) and any payment under this Agreement is triggered due to Executive's Separation from Service, then solely to the extent necessary to avoid penalties under Section 409A of the Code, no payment shall be made during the first six (6) months following Executive's Separation from Service. Rather, any payment which would otherwise be paid to Executive during such period shall be accumulated and paid to Executive in a lump sum on the first day of the seventh

month following such Separation from Service. All subsequent payments shall be paid in the manner specified in this Agreement.

(e) If the Bank cannot provide Executive or Executive's dependents any continued health insurance or other welfare benefits as required by this Agreement because Executive is no longer an employee, applicable rules and regulations prohibit such benefits or the payment of such benefits in the manner contemplated, or it would subject the Bank to penalties, then the Bank will pay Executive a cash lump sum payment reasonably estimated to be equal to the value of such benefits or the value of the remaining benefits at the time of such determination. Such cash payment will be made in a lump sum within 30 days after the later of Executive's Date of Termination or the effective date of the rules or regulations prohibiting such benefits or subjecting the Bank to penalties. Notwithstanding the foregoing, if such cash payment would violate the requirements of Treasury Regulation Section 1.409A-3(j), Executive's cash payment in lieu of the continued health insurance or welfare benefits as required by this Agreement will be payable at the same time the related premium payments would have been paid by the Bank and for the duration of the applicable coverage period.

15. TAX WITHHOLDING.

The Bank may withhold from any amounts payable to Executive hereunder all federal, state, local or other taxes that the Bank may reasonably determine are required to be withheld pursuant to any applicable law or regulation (it being understood that Executive is responsible for payment of all taxes in respect of the payments and benefits provided herein).

16. NOTICE.

For the purposes of this Agreement, notices and all other communications provided for in this Agreement shall be in writing and shall be deemed to have been duly given when delivered or mailed by certified or registered mail, return receipt requested, postage prepaid, addressed to the respective addresses set forth below or if sent by facsimile or email, on the date it is actually received.

To the Bank

Peapack-Gladstone Bank
500 Hills Drive, Suite 300
Bedminster, New Jersey 07921
Attention: Corporate Secretary

To Executive:

Most recent address on file with the Bank

17. PRIOR AGREEMENTS.

Executive and the Bank hereby acknowledge and agree that as of the Effective Date: (1) this Agreement shall supersede and replace the [INSERT PRIOR AGREEMENT] (the "Prior Agreement") as of the Effective Date; and (2) the Prior Agreement shall terminate and be null and void and of no further effect.

[Signature Page Follows]

SIGNATURES

IN WITNESS WHEREOF, the Bank has caused this Agreement to be executed by its duly authorized officer, and Executive has signed this Agreement, as of the Effective Date.

PEAPACK-GLADSTONE BANK

By: /s/ Jeffrey J. Carfora

PEAPACK-GLADSTONE FINANCIAL CORPORATION

By: /s/ Douglas L. Kennedy

EXECUTIVE

By: /s/ Robert A. Plante

CERTIFICATION

I, Douglas L. Kennedy, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Peapack-Gladstone Financial Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves Management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 9, 2021

By: /s/ Douglas L. Kennedy

Name: Douglas L. Kennedy

Title: President and Chief Executive Officer

CERTIFICATION

I, Jeffrey J. Carfora, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Peapack-Gladstone Financial Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves Management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 9, 2021

By: /s/ Jeffrey J. Carfora

Name: Jeffrey J. Carfora

Title: Senior Executive Vice President,
Chief Financial Officer

**CERTIFICATIONS PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q of Peapack-Gladstone Financial Corporation (the "Corporation"), for the quarterly period ended June 30, 2021 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Douglas L. Kennedy, as Chief Executive Officer of the Corporation, and Jeffrey J. Carfora, as Chief Financial Officer of the Corporation, each hereby certify, pursuant to 18 U.S.C. section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of his knowledge:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Corporation.

/s/ Douglas L. Kennedy

Name: Douglas L. Kennedy
Title: President and Chief Executive Officer
Date: August 9, 2021

/s/ Jeffrey J. Carfora

Name: Jeffrey J. Carfora
Title: Senior Executive Vice President
Chief Financial Officer
Date: August 9, 2021