

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

FORM 10-Q

(MARK ONE)

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

For the Quarter Ended September 30, 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 October 29, 2021: 18,634,618

PEAPACK-GLADSTONE FINANCIAL CORPORATION

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

	(unaudited) September 30, 2021	(audited) December 31, 2020
ASSETS		
Cash and due from banks	\$ 9,299	\$ 10,629
Federal funds sold	—	102
Interest-earning deposits	606,913	642,591
Total cash and cash equivalents	616,212	653,322
Securities available for sale	843,779	622,689
Equity security, at fair value	14,824	15,117
FHLB and FRB stock, at cost	12,950	13,709
Loans held for sale, at fair value	3,013	13,588
Loans held for sale, at lower of cost or fair value	17,235	18,520
Loans	4,575,398	4,372,437
Less: Allowance for loan and lease losses	65,133	67,309
Net loans	4,510,265	4,305,128
Premises and equipment	23,123	21,609
Other real estate owned	—	50
Accrued interest receivable	22,790	22,495
Bank owned life insurance	46,510	46,809
Goodwill	36,212	33,103
Other intangible assets	13,121	10,788
Finance lease right-of-use assets	3,769	4,330
Operating lease right-of-use assets	10,307	9,421
Other assets	66,175	99,764
TOTAL ASSETS	\$ 6,240,285	\$ 5,890,442
LIABILITIES		
Deposits:		
Noninterest-bearing demand deposits	\$ 986,765	\$ 833,500
Interest-bearing deposits:		
Checking	2,355,892	1,849,254
Savings	168,831	130,731
Money market accounts	1,287,686	1,298,885
Certificates of deposit - retail	426,981	530,222
Certificates of deposit - listing service	31,382	32,128
Subtotal deposits	5,257,537	4,674,720
Interest-bearing demand - brokered	85,000	110,000
Certificates of deposit - brokered	33,804	33,764
Total deposits	5,376,341	4,818,484
Short-term borrowings	—	15,000
Paycheck Protection Program Liquidity Facility	48,496	177,086
Finance lease liabilities	6,063	6,753
Operating lease liabilities	10,644	9,737
Subordinated debt, net	132,629	181,794
Deferred tax liabilities, net	27,575	32,978
Accrued expenses and other liabilities	95,523	121,488
TOTAL LIABILITIES	5,697,271	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, 20,615,903 at September 30, 2021 and 20,342,881 at December 31, 2020; outstanding shares, 18,627,910 at September 30, 2021 and 18,974,703 at December 31, 2020)	17,185	16,958
Surplus	330,392	326,592
Treasury stock at cost, 1,987,993 shares at September 30, 2021 and 1,368,178 shares at December 31, 2020	(55,893)	(36,477)
Retained earnings	260,365	221,441
Accumulated other comprehensive loss, net of income tax	(9,035)	(1,392)
TOTAL SHAREHOLDERS' EQUITY	543,014	527,122
TOTAL LIABILITIES & SHAREHOLDERS' EQUITY	\$ 6,240,285	\$ 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 September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
INTEREST INCOME				
Interest and fees on loans	\$ 37,040	\$ 37,704	\$ 108,921	\$ 119,330
Interest on investments:				
Taxable	2,824	2,182	8,473	6,749
Tax-exempt	28	51	107	166
Interest on loans held for sale	33	78	124	153
Interest on interest-earning deposits	142	159	367	820
Total interest income	<u>40,067</u>	<u>40,174</u>	<u>117,992</u>	<u>127,218</u>
INTEREST EXPENSE				
Interest on savings and interest-bearing deposit accounts	1,880	2,066	5,358	11,640
Interest on certificates of deposit	836	2,529	3,333	9,370
Interest on borrowed funds	57	1,221	448	3,360
Interest on finance lease liability	74	84	229	261
Interest on subordinated debt	1,358	1,222	5,650	3,667
Subtotal - interest expense	<u>4,205</u>	<u>7,122</u>	<u>15,018</u>	<u>28,298</u>
Interest on interest-bearing demand - brokered	385	636	1,334	2,259
Interest on certificates of deposits - brokered	266	267	791	794
Total interest expense	<u>4,856</u>	<u>8,025</u>	<u>17,143</u>	<u>31,351</u>
NET INTEREST INCOME BEFORE PROVISION FOR LOAN AND LEASE LOSSES	<u>35,211</u>	<u>32,149</u>	<u>100,849</u>	<u>95,867</u>
Provision for loan and lease losses	1,600	5,150	2,725	30,050
NET INTEREST INCOME AFTER PROVISION FOR LOAN AND LEASE LOSSES	<u>33,611</u>	<u>26,999</u>	<u>98,124</u>	<u>65,817</u>
OTHER INCOME				
Wealth management fee income	13,860	10,119	39,025	30,070
Service charges and fees	959	785	2,701	2,296
Bank owned life insurance	311	314	1,388	960
Gain on loans held for sale at fair value (mortgage banking)	408	954	1,842	1,796
Gain on loans held for sale at lower of cost or fair value	—	7,429	1,407	7,426
Fee income related to loan level, back-to-back swaps	—	—	—	1,620
Gain on sale of SBA loans	1,569	79	3,950	1,391
Corporate advisory fee income	84	75	1,303	215
Loss on swap termination	—	—	(842)	—
Other income	660	456	2,798	1,257
Securities gains/(losses), net	(70)	—	(293)	323
Total other income	<u>17,781</u>	<u>20,211</u>	<u>53,279</u>	<u>47,354</u>
OPERATING EXPENSES				
Compensation and employee benefits	19,859	19,202	61,759	57,614
Premises and equipment	4,459	4,109	12,646	12,188
FDIC insurance expense	555	605	1,669	1,310
Swap valuation allowance	1,350	—	1,350	—
Other operating expense	5,962	4,545	17,039	14,598
Total operating expenses	<u>32,185</u>	<u>28,461</u>	<u>94,463</u>	<u>85,710</u>
INCOME BEFORE INCOME TAX EXPENSE	<u>19,207</u>	<u>18,749</u>	<u>56,940</u>	<u>27,461</u>
Income tax expense	5,036	5,202	15,173	4,299
NET INCOME	<u>\$ 14,171</u>	<u>\$ 13,547</u>	<u>\$ 41,767</u>	<u>\$ 23,162</u>
EARNINGS PER SHARE				
Basic	\$ 0.76	\$ 0.72	\$ 2.21	\$ 1.23
Diluted	\$ 0.74	\$ 0.71	\$ 2.15	\$ 1.22
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING				
Basic	18,763,316	18,908,337	18,891,601	18,879,688
Diluted	19,273,831	19,132,650	19,390,522	19,052,605

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Net income	\$ 14,171	\$ 13,547	\$ 41,767	\$ 23,162
Comprehensive income/(loss):				
Unrealized (losses)/gains on available for sale securities:				
Unrealized holding (losses)/gains arising during the period	(5,635)	(1,029)	(14,148)	6,801
	(5,635)	(1,029)	(14,148)	6,801
Tax effect	1,342	252	3,378	(1,649)
Net of tax	(4,293)	(777)	(10,770)	5,152
Unrealized gains/(losses) on cash flow hedges:				
Unrealized holding gains/(losses) arising during the period	936	1,439	3,507	(7,249)
Reclassification adjustment for amounts included in net income	—	(5)	842	(85)
	936	1,434	4,349	(7,334)
Tax effect	(263)	(408)	(1,222)	1,930
Net of tax	673	1,026	3,127	(5,404)
Total other comprehensive income/(loss)	(3,620)	249	(7,643)	(252)
Total comprehensive income	\$ 10,551	\$ 13,796	\$ 34,124	\$ 22,910

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 September 30, 2021 and September 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 July 1, 2021 18,829,877 common shares outstanding	\$ —	\$ 17,164	\$ 328,035	\$ (48,461)	\$ 247,136	\$ (5,415)	\$ 538,459
Net income	—	—	—	—	14,171	—	14,171
Comprehensive loss	—	—	—	—	—	(3,620)	(3,620)
Amortization of restricted stock units	—	—	1,807	—	—	—	1,807
Cash dividends declared on common stock (\$0.05 per share)	—	—	—	—	(942)	—	(942)
Share repurchase, 227,060 shares	—	—	—	(7,432)	—	—	(7,432)
Common stock options exercised, 400 shares	—	1	5	—	—	—	6
Exercise of warrants, 10,000 net of 6,416 shares used to exercise, 3,584 shares	—	2	(2)	—	—	—	—
Issuance of shares for Employee Stock Purchase Plan, 6,889 shares	—	6	226	—	—	—	232
Issuance of common stock for acquisition, 14,220 shares	—	12	321	—	—	—	333
Balance at September 30, 2021 18,627,910 common shares outstanding	<u>\$ —</u>	<u>\$ 17,185</u>	<u>\$ 330,392</u>	<u>\$ (55,893)</u>	<u>\$ 260,365</u>	<u>\$ (9,035)</u>	<u>\$ 543,014</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 July 1, 2020 18,905,135 common shares outstanding	\$ —	\$ 16,900	\$ 322,796	\$ (36,477)	\$ 206,757	\$ (1,996)	\$ 507,980
Net income	—	—	—	—	13,547	—	13,547
Comprehensive income	—	—	—	—	—	249	249
Amortization of restricted stock awards/units	—	—	1,798	—	—	—	1,798
Cash dividends declared on common stock (\$0.05 per share)	—	—	—	—	(945)	—	(945)
Issuance of shares for Employee Stock Purchase Plan, 5,598 shares	—	4	95	—	—	—	99
Issuance of common stock for acquisition 14,220 shares	—	12	(12)	—	—	—	—
Balance at September 30, 2020 18,924,953 common shares outstanding	<u>\$ —</u>	<u>\$ 16,916</u>	<u>\$ 324,677</u>	<u>\$ (36,477)</u>	<u>\$ 219,359</u>	<u>\$ (1,747)</u>	<u>\$ 522,728</u>

Nine Months Ended September 30, 2021 and September 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	—	—	—	—	41,767	—	41,767
Comprehensive loss	—	—	—	—	—	(7,643)	(7,643)
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	—	—	5,229	—	—	—	5,229
Cash dividends declared on common stock (\$0.15 per share)	—	—	—	—	(2,843)	—	(2,843)
Share repurchase, 619,815 shares	—	—	—	(19,416)	—	—	(19,416)
Common stock options exercised, 3,220 net of 62 shares used to exercise, 3,158 shares	—	3	37	—	—	—	40
Exercise of warrants, 50,000 net of 32,616 shares used to exercise, 17,384 shares	—	14	(14)	—	—	—	—
Issuance of shares for Employee Stock Purchase Plan, 21,661 shares	—	18	638	—	—	—	656
Issuance of common stock for acquisition, 14,220 shares	—	12	321	—	—	—	333
Balance at September 30, 2021 18,627,910 common shares outstanding	<u>\$ —</u>	<u>\$ 17,185</u>	<u>\$ 330,392</u>	<u>\$ (55,893)</u>	<u>\$ 260,365</u>	<u>\$ (9,035)</u>	<u>\$ 543,014</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	—	—	—	—	23,162	—	23,162
Comprehensive loss	—	—	—	—	—	(252)	(252)
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	—	—	5,062	—	—	—	5,062
Cash dividends declared on common stock (\$0.15 per share)	—	—	—	—	(2,832)	—	(2,832)
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, 52,533 shares	—	43	947	—	—	—	990
Issuance of common stock for acquisition, 35,046 shares	—	29	(29)	—	—	—	—
Balance at September 30, 2020 18,924,953 common shares outstanding	<u>\$ —</u>	<u>\$ 16,916</u>	<u>\$ 324,677</u>	<u>\$ (36,477)</u>	<u>\$ 219,359</u>	<u>\$ (1,747)</u>	<u>\$ 522,728</u>

See accompanying notes to consolidated financial statements

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

	Nine Months Ended September 30,	
	2021	2020
OPERATING ACTIVITIES:		
Net income	\$ 41,767	\$ 23,162
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	2,367	2,312
Amortization of premium and accretion of discount on securities, net	4,502	3,216
Amortization of restricted stock	5,229	5,062
Amortization of intangible assets	1,167	966
Amortization of subordinated debt costs	931	168
Provision for loan and lease losses	2,725	30,050
Deferred tax benefit	(3,247)	(2,336)
Stock-based compensation and employee stock purchase plan expense	93	199
Fair value adjustment for equity security	293	(323)
Loans originated for sale (1)	(131,427)	(125,466)
Proceeds from sales of loans held for sale (1)	142,141	117,892
Gain on loans held for sale (1)	(5,792)	(3,188)
Gain on loans held for sale at lower of cost or fair value	(1,407)	(7,426)
Gain on OREO sold	(51)	—
Gain on life insurance death benefit	(455)	—
Increase in cash surrender value of life insurance, net	(465)	(517)
Increase in accrued interest receivable	(295)	(11,674)
Decrease/(increase) in other assets	2,998	(2,659)
Increase/(decrease) in accrued expenses and other liabilities	7,390	(10,697)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>68,464</u>	<u>18,741</u>
INVESTING ACTIVITIES:		
Principal repayments, maturities and calls of securities available for sale	338,596	152,273
Redemptions of FHLB and FRB stock	807	34,737
Purchase of securities available for sale	(578,336)	(339,797)
Purchase of equity securities	—	(4,000)
Purchase of FHLB and FRB stock	(48)	(29,102)
Proceeds from sales of loans held for sale at lower of cost or fair value	54,123	372,406
Net increase in loans, net of participations sold	(253,638)	(409,005)
Proceeds from sales of other real estate	101	—
Purchase of premises and equipment	(3,371)	(2,506)
Purchase of wealth management company	(5,500)	—
Proceeds from life insurance death benefit	1,219	—
NET CASH USED IN INVESTING ACTIVITIES	<u>(446,047)</u>	<u>(224,994)</u>
FINANCING ACTIVITIES:		
Net increase in deposits	557,857	615,639
Net decrease in short-term borrowings	—	(113,100)
Proceeds from Paycheck Protection Program Liquidity Facility	—	535,838
Repayments of Paycheck Protection Program Liquidity Facility	(128,590)	(352,048)
Repayments of FHLB advances	(15,000)	—
Dividends paid on common stock	(2,843)	(2,832)
Exercise of Stock Options, net of stock swaps	40	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	656	990
Shares repurchased	(19,416)	(6,487)
NET CASH PROVIDED BY FINANCING ACTIVITIES	<u>340,473</u>	<u>677,433</u>
Net (decrease)/increase in cash and cash equivalents	(37,110)	471,180
Cash and cash equivalents at beginning of period	653,322	208,185
Cash and cash equivalents at end of period	<u>\$ 616,212</u>	<u>\$ 679,365</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the period for:		
Interest	\$ 16,128	\$ 30,260
Income tax, net	13,448	551
Transfer of loans to loans held for sale	45,776	364,910
Security purchases settled in subsequent period	—	15,088

(1) Includes mortgage loans originated with the intent to sell which are carried at fair value. In addition, this includes the guaranteed portion of U.S. 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 September 30, 2021, and the results of operations, comprehensive income/(loss), changes in shareholders’ equity and cash flow statements for the three and nine months ended September 30, 2021 and 2020. The results of operations for the three and nine months ended September 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: (1) its banking segment (“Banking”), which involves the delivery of loan and deposit products to customers, and (2) 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.

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 \$91.4 million and \$65.5 million as of September 30, 2021 and December 31, 2020, respectively. SBA loans held for sale totaled \$11.6 million and \$6.0 million at September 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, nonaccrual or TDR 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 in 2020 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 re-evaluated the qualitative factors related to the pandemic and reduced these factors during the first nine months of 2021. 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 September 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 \$947.0 million, of which \$33.1 million remain outstanding as of September 30, 2021.

Another key program under the CARES Act is the Paycheck Protection Program ("PPP") administered by the SBA which provided 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 \$48.7 million of PPP loans remaining in its portfolio as of September 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 its 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 nine months ended September 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	(3,220)	12.80		
Expired during 2021	—	—		
Forfeited during 2021	(2,680)	13.24		
Balance, September 30, 2021	44,760	\$ 13.67	0.97 years	\$ 881
Vested and expected to vest	44,760	\$ 13.67	0.97 years	\$ 881
Exercisable at September 30, 2021	44,760	\$ 13.67	0.97 years	\$ 881

The aggregate intrinsic value represents the difference between the Company’s closing stock price on the last trading day of the third quarter of 2021 and the exercise price, multiplied by the number of in-the-money options. The Company’s closing stock price on September 30, 2021 was \$33.36.

There were no stock options granted during the three or nine months ended September 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 no service-based restricted stock units granted during the third 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 third quarter of 2021.

Changes in non-vested shares dependent on performance criteria for the nine months ended September 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, September 30, 2021	225,435	\$ 20.29

Changes in service-based restricted stock awards/units for the nine months ended September 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	(24,309)	17.13
Balance, September 30, 2021	711,897	\$ 21.93

As of September 30, 2021, there was \$14.3 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 1.52 years. Stock compensation expense of \$1.8 million was recorded for both the third quarters of 2021 and 2020, respectively. Stock compensation expense recorded for the nine months ended Septembers 30, 2021 and 2020 totaled \$5.3 million and \$5.1 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 \$37,000 and \$9,000 of expense in salaries and employee benefits expense for the three months ended September 30, 2021 and 2020, respectively related to the ESPP. Total shares issued under the ESPP during the third quarter of 2021 and 2020 were 6,889 and 5,598, respectively.

The Company recorded \$93,000 and \$199,000 of expense in salaries and employee benefits expense for the nine months ended September 30, 2021 and 2020, respectively related to the ESPP. Total shares issued under the ESPP for the nine months ended September 30, 2021 and 2020 were 21,661 and 52,533, 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.

(Dollars in thousands, except per share data)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Net income available to common shareholders	\$ 14,171	\$ 13,547	\$ 41,767	\$ 23,162
Basic weighted average shares outstanding	18,763,316	18,908,337	18,891,601	18,879,688
Plus: common stock equivalents	510,515	224,313	498,921	172,917
Diluted weighted average shares outstanding	19,273,831	19,132,650	19,390,522	19,052,605
Net income per share				
Basic	\$ 0.76	\$ 0.72	\$ 2.21	\$ 1.23
Diluted	0.74	0.71	2.15	1.22

For the three months ended September 30, 2021 all restricted stock units were included in the computation of diluted earnings per share because they were all dilutive. For the three months ended September 30, 2020, restricted stock units totaling 374,366 were not included in the computation of diluted earnings per share because they were anti-dilutive. For the nine months ended September 30, 2021 and 2020, restricted stock units totaling 261,610 and 207,466 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 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 September 30, 2021 and December 31, 2020 follows:

September 30, 2021				
(In thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S government-sponsored agencies	\$ 280,102	\$ —	\$ (5,669)	\$ 274,433
Mortgage-backed securities—residential	515,651	5,663	(6,183)	515,131
SBA pool securities	43,685	95	(850)	42,930
State and political subdivisions	5,696	54	—	5,750
Corporate bond	5,500	35	—	5,535
Total	<u>\$ 850,634</u>	<u>\$ 5,847</u>	<u>\$ (12,702)</u>	<u>\$ 843,779</u>

December 31, 2020				
(In thousands)	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 September 30, 2021 and December 31, 2020.

(In thousands)	September 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	\$ 259,893	\$ (5,209)	\$ 14,540	\$ (460)	\$ 274,433	\$ (5,669)
Mortgage-backed securities-residential	288,682	(6,015)	14,707	(168)	303,389	(6,183)
SBA pool securities	23,631	(330)	10,577	(520)	34,208	(850)
Total	<u>\$ 572,206</u>	<u>\$ (11,554)</u>	<u>\$ 39,824</u>	<u>\$ (1,148)</u>	<u>\$ 612,030</u>	<u>\$ (12,702)</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 September 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 \$14.8 million at September 30, 2021. The investment is classified as an equity security in our Consolidated Statements of Condition. This security had a loss of \$70,000 for the three months ended September 30, 2021 and a loss of \$293,000 for the nine months ended September 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 September 30, 2021 and December 31, 2020, consisted of the following:

(Dollars in thousands)	September 30, 2021	% of Totals Loans	December 31, 2020	% of Total Loans
Residential mortgage	\$ 507,865	11.10%	\$ 502,829	11.50%
Multifamily mortgage	1,497,683	32.73	1,126,946	25.77
Commercial mortgage	680,107	14.87	691,294	15.81
Commercial loans (including equipment financing) (A)	1,790,579	39.13	1,950,981	44.62
Commercial construction	25,718	0.56	12,600	0.29
Home equity lines of credit	42,512	0.93	50,545	1.15
Consumer loans, including fixed rate home equity loans	30,689	0.67	37,016	0.85
Other loans	245	0.01	226	0.01
Total loans	<u>\$ 4,575,398</u>	<u>100.00%</u>	<u>\$ 4,372,437</u>	<u>100.00%</u>

(A) Includes PPP loans of \$49 million at September 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 September 30, 2021 and December 31, 2020:

(Dollars in thousands)	September 30, 2021	% of Totals Loans	December 31, 2020	% of Total Loans
Primary residential mortgage	\$ 514,271	11.25%	\$ 512,841	11.74%
Home equity lines of credit	42,512	0.93	50,545	1.16
Junior lien loan on residence	3,218	0.07	4,527	0.10
Multifamily property	1,497,683	32.76	1,126,946	25.79
Owner-occupied commercial real estate	239,674	5.24	253,447	5.80
Investment commercial real estate	981,490	21.47	995,613	22.79
Commercial and industrial (A)	916,192	20.04	1,059,399	24.24
Lease financing	308,351	6.74	305,931	7.00
Farmland/agricultural production	4,461	0.10	3,068	0.07
Commercial construction loans	25,862	0.57	12,773	0.29
Consumer and other loans	38,032	0.83	44,483	1.02
Total loans	4,571,746	100.00%	4,369,573	100.00%
Net deferred costs	3,652		2,864	
Total loans including net deferred costs	\$ 4,575,398		\$ 4,372,437	

(A) Includes PPP loans of \$49 million at September 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 September 30, 2021 and December 31, 2020:

(In thousands)	September 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	\$ 2,886	\$ 80	\$ 511,385	\$ 1,995	\$ 514,271	\$ 2,075
Home equity lines of credit	—	—	42,512	119	42,512	119
Junior lien loan on residence	—	—	3,218	7	3,218	7
Multifamily property	—	—	1,497,683	10,568	1,497,683	10,568
Owner-occupied commercial real estate	494	—	239,180	2,293	239,674	2,293
Investment commercial real estate	19,887	7,137	961,603	22,847	981,490	29,984
Commercial and industrial (A)	3,074	—	913,118	16,266	916,192	16,266
Lease financing	—	—	308,351	3,369	308,351	3,369
Farmland/agricultural production	—	—	4,461	58	4,461	58
Commercial construction loans	—	—	25,862	165	25,862	165
Consumer and other loans	—	—	38,032	229	38,032	229
Total ALLL	\$ 26,341	\$ 7,217	\$ 4,545,405	\$ 57,916	\$ 4,571,746	\$ 65,133

(A) The balance includes PPP loans of \$49 million, which had no related reserve as these loans are guaranteed by the SBA.

	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
(In thousands)						
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 \$25.9 million at September 30, 2021 and \$11.4 million at December 31, 2020. Included in impaired loans is a commercial real estate loan with a balance of \$19.9 million and specific reserves of \$7.1 million at September 30, 2021. Impaired loans also include performing TDR loans of \$416,000 at September 30, 2021 and \$201,000 at December 31, 2020. The allowance allocated to TDR loans totaled \$57,000 and \$3,000 at September 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 September 30, 2021. The Company has not committed to lend additional amounts as of September 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 September 30, 2021 and December 31, 2020 (The average impaired loans on the following tables represent year to date impaired loans):

	September 30, 2021			
	Unpaid Principal Balance	Recorded Investment	Specific Reserves	Average Impaired Loans
(In thousands)				
With no related allowance recorded:				
Primary residential mortgage	\$ 1,947	\$ 1,750	\$ —	\$ 1,789
Owner-occupied commercial real estate	521	494	—	564
Commercial and industrial	4,986	3,074	—	3,289
Total loans with no related allowance	\$ 7,454	\$ 5,318	\$ —	\$ 5,642
With related allowance recorded:				
Primary residential mortgage	\$ 1,136	\$ 1,136	\$ 80	\$ 489
Investment commercial real estate	19,887	19,887	7,137	2,210
Total loans with related allowance	\$ 21,023	\$ 21,023	\$ 7,217	\$ 2,699
Total loans individually evaluated for impairment	\$ 28,477	\$ 26,341	\$ 7,217	\$ 8,341

(In thousands)	December 31, 2020			
	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 September 30, 2021 and 2020 was not material. The Company did not recognize any income on non-accruing impaired loans for the three months and nine months ended September 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 September 30, 2021 and December 31, 2020:

(In thousands)	September 30, 2021	
	Nonaccrual	Loans Past Due 90 Days or Over And Still Accruing Interest
Primary residential mortgage	\$ 2,495	\$ —
Owner-occupied commercial real estate	494	—
Investment commercial real estate	19,887	—
Commercial and industrial	3,049	—
Total	\$ 25,925	\$ —

(In thousands)	December 31, 2020	
	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 September 30, 2021 and December 31, 2020 by class of loans, excluding nonaccrual loans:

(In thousands)	September 30, 2021			
	30-59 Days Past Due	60-89 Days Past Due	90 Days or Greater Past Due	Total Past Due
Primary residential mortgage	\$ 997	\$ —	\$ —	\$ 997
Home equity lines of credit	114	—	—	114
Commercial and industrial	17	65	—	82
Total	\$ 1,128	\$ 65	\$ —	\$ 1,193

(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 September 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	\$ 507,378	\$ 325	\$ 6,568	\$ —
Home equity lines of credit	42,047	—	465	—
Junior lien loan on residence	3,200	—	18	—
Multifamily property	1,484,408	12,933	342	—
Owner-occupied commercial real estate	229,482	9,441	751	—
Investment commercial real estate	882,526	79,077	19,887	—
Commercial and industrial	878,203	14,083	23,906	—
Lease financing	308,351	—	—	—
Farmland/agricultural production	4,461	—	—	—
Commercial construction loans	25,786	76	—	—
Consumer and other loans	38,032	—	—	—
Total	<u>\$ 4,403,874</u>	<u>\$ 115,935</u>	<u>\$ 51,937</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 September 30, 2021, \$26.3 million of substandard loans were also considered impaired, compared to \$16.2 million at December 31, 2020. The increase in substandard loans was primarily due to the downgrade of one commercial real estate loan with a balance of \$19.9 million at September 30, 2021.

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

(In thousands)	July 1, 2021 Beginning ALLL	Charge-offs	Recoveries	Provision (Credit)	September 30, 2021 Ending ALLL
Primary residential mortgage	\$ 2,167	\$ —	\$ —	\$ (92)	\$ 2,075
Home equity lines of credit	123	—	—	(4)	119
Junior lien loan on residence	8	—	—	(1)	7
Multifamily property	10,615	—	—	(47)	10,568
Owner-occupied commercial real estate	2,447	—	—	(154)	2,293
Investment commercial real estate	27,886	—	—	2,098	29,984
Commercial and industrial	16,565	(19)	50	(330)	16,266
Lease financing	3,275	—	—	94	3,369
Farmland/agricultural production	43	—	—	15	58
Commercial construction loans	159	—	—	6	165
Consumer and other loans	217	(4)	1	15	229
Total ALLL	<u>\$ 63,505</u>	<u>\$ (23)</u>	<u>\$ 51</u>	<u>\$ 1,600</u>	<u>\$ 65,133</u>

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

(In thousands)	July 1, 2020 Beginning ALLL	Charge-offs	Recoveries	Provision (Credit)	September 30, 2020 Ending ALLL
Primary residential mortgage	\$ 3,074	\$ —	\$ 217	\$ (324)	\$ 2,967
Home equity lines of credit	244	—	3	(27)	220
Junior lien loan on residence	20	—	—	(2)	18
Multifamily property	9,662	—	—	1,002	10,664
Owner-occupied commercial real estate	3,177	—	—	(166)	3,011
Investment commercial real estate	29,866	(5,132)	—	4,432	29,166
Commercial and industrial	16,218	(164)	6	112	16,172
Lease financing	3,349	—	—	124	3,473
Farmland/agricultural production	38	—	—	(23)	15
Commercial construction loans	49	—	—	28	77
Consumer and other loans	368	(2)	2	(6)	362
Total ALLL	<u>\$ 66,065</u>	<u>\$ (5,298)</u>	<u>\$ 228</u>	<u>\$ 5,150</u>	<u>\$ 66,145</u>

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

(In thousands)	January 1, 2021 Beginning ALLL	Charge-offs	Recoveries	Provision (Credit)	September 30, 2021 Ending ALLL
Primary residential mortgage	\$ 2,905	\$ (12)	\$ —	\$ (818)	\$ 2,075
Home equity lines of credit	218	—	85	(184)	119
Junior lien loan on residence	15	—	—	(8)	7
Multifamily property	9,945	—	—	623	10,568
Owner-occupied commercial real estate	3,050	—	—	(757)	2,293
Investment commercial real estate	27,713	—	—	2,271	29,984
Commercial and industrial	19,047	(5,019)	60	2,178	16,266
Lease financing	3,936	—	—	(567)	3,369
Farmland/agricultural production	43	—	—	15	58
Commercial construction loans	158	—	—	7	165
Consumer and other loans	279	(24)	9	(35)	229
Total ALLL	<u>\$ 67,309</u>	<u>\$ (5,055)</u>	<u>\$ 154</u>	<u>\$ 2,725</u>	<u>\$ 65,133</u>

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

(In thousands)	January 1, 2020 Beginning ALLL	Charge-offs	Recoveries	Provision (Credit)	September 30, 2020 Ending ALLL
Primary residential mortgage	\$ 2,090	\$ —	\$ 330	\$ 547	\$ 2,967
Home equity lines of credit	128	—	8	84	220
Junior lien loan on residence	13	—	—	5	18
Multifamily property	6,037	—	—	4,627	10,664
Owner-occupied commercial real estate	2,064	—	—	947	3,011
Investment commercial real estate	15,988	(5,532)	31	18,679	29,166
Commercial and industrial	14,353	(2,418)	11	4,226	16,172
Lease financing	2,642	—	—	831	3,473
Farmland/agricultural production	38	—	—	(23)	15
Commercial construction loans	27	—	—	50	77
Consumer and other loans	296	(15)	4	77	362
Total ALLL	<u>\$ 43,676</u>	<u>\$ (7,965)</u>	<u>\$ 384</u>	<u>\$ 30,050</u>	<u>\$ 66,145</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 TDR relief to 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 September 30, 2021, the Bank had modified 542 loans with a balance of \$947.0 million resulting in the deferral of principal and/or interest. The table below summarizes the deferrals as of September 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 investment commercial real estate 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	3	\$ 530
Investment commercial real estate	1	19,887
Commercial and industrial	4	12,657
Total	<u>8</u>	<u>\$ 33,074</u>

The future performance of these loans, specifically beyond the term of the deferral, is uncertain, with the exception of one investment commercial real estate loan of \$19.9 million for which the Company individually evaluated for impairment and recorded a specific reserve at September 30, 2021.

Troubled Debt Restructurings:

The Company has allocated \$57,000 and \$3,000 of specific reserves on TDRs as of September 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 September 30, 2021:

(Dollars in thousands)	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Primary residential mortgage	2	\$ 455	\$ 455
Total	2	\$ 455	\$ 455

There were no loans modified as TDRs during the three-month period ended September 30, 2020.

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

(Dollars in thousands)	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Primary residential mortgage	3	\$ 1,277	\$ 1,277
Commercial and industrial	1	2,194	2,194
Total	4	\$ 3,471	\$ 3,471

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

(Dollars in thousands)	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Primary residential mortgage	2	\$ 388	\$ 388
Commercial and industrial	1	39	39
Total	3	\$ 427	\$ 427

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

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 September 30, 2021:

(Dollars in thousands)	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Primary residential mortgage	1	\$ 221	\$ 221
Total	1	\$ 221	\$ 221

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 September 30, 2020:

(Dollars in thousands)	Number of Loans	Recorded Investment
Primary residential mortgage	1	\$ 193
Commercial and industrial	1	39
Total	2	\$ 232

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 \$149.2 million and \$186.3 million at September 30, 2021 and December 31, 2020, respectively. These totals excluded brokered certificates of deposit.

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

	September 30, 2021		December 31, 2020	
(Dollars in thousands)				
Noninterest-bearing demand deposits	\$ 986,765	18.36%	\$ 833,500	17.30%
Interest-bearing checking ⁽¹⁾	2,355,892	43.82	1,849,254	38.38
Savings	168,831	3.14	130,731	2.71
Money market	1,287,686	23.95	1,298,885	26.96
Certificates of deposit - retail	426,981	7.94	530,222	11.00
Certificates of deposit - listing service	31,382	0.58	32,128	0.67
Subtotal deposits	5,257,537	97.79	4,674,720	97.02
Interest-bearing demand - Brokered	85,000	1.58	110,000	2.28
Certificates of deposit - Brokered	33,804	0.63	33,764	0.70
Total deposits	<u>\$ 5,376,341</u>	<u>100.00%</u>	<u>\$ 4,818,484</u>	<u>100.00%</u>

- (1) Interest-bearing checking includes \$748.7 million at September 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 September 30, 2021 are as follows:

(In thousands)	
2021	\$ 135,488
2022	273,758
2023	16,775
2024	30,259
2025	28,686
Over 5 Years	7,201
Total	<u>\$ 492,167</u>

5. FEDERAL HOME LOAN BANK ADVANCES AND OTHER BORROWINGS

There were no overnight borrowings with the FHLB as of September 30, 2021 or December 31, 2020. At September 30, 2021, unused short-term overnight borrowing commitments totaled \$1.9 billion from the FHLB, \$22.0 million from correspondent banks and \$1.1 billion at the Federal Reserve Bank of New York.

The Company had \$48.5 million in borrowings from the Federal Reserve's Paycheck Protection Plan Lending Facility (the "PPPLF"), as of September 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 September 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 was 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 nine months ended September 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 nine months ended September 30, 2021 and 2020.

(In thousands)	Three Months Ended September 30, 2021		
	Banking	Peapack Private	Total
Net interest income	\$ 33,780	\$ 1,431	\$ 35,211
Noninterest income	3,476	14,305	17,781
Total income	37,256	15,736	52,992
Provision for loan and lease losses	1,600	—	1,600
Compensation and benefits	13,079	6,780	19,859
Premises and equipment expense	3,861	598	4,459
FDIC expense	555	—	555
Other operating expense	4,657	2,655	7,312
Total operating expense	23,752	10,033	33,785
Income before income tax expense	13,504	5,703	19,207
Income tax expense	3,556	1,480	5,036
Net income	\$ 9,948	\$ 4,223	\$ 14,171

(In thousands)	Three Months Ended September 30, 2020		
	Banking	Peapack Private	Total
Net interest income	\$ 30,557	\$ 1,592	\$ 32,149
Noninterest income	9,451	10,760	20,211
Total income	40,008	12,352	52,360
Provision for loan and lease losses	5,150	—	5,150
Compensation and employee benefits	13,258	5,944	19,202
Premises and equipment expense	3,527	582	4,109
FDIC insurance expense	605	—	605
Other operating expense	2,231	2,314	4,545
Total operating expense	24,771	8,840	33,611
Income before income tax expense	15,237	3,512	18,749
Income tax expense	4,254	948	5,202
Net income	\$ 10,983	\$ 2,564	\$ 13,547

(In thousands)	Nine Months Ended September 30, 2021		
	Banking	Peapack Private	Total
Net interest income	\$ 96,405	\$ 4,444	\$ 100,849
Noninterest income	12,810	40,469	53,279
Total income	109,215	44,913	154,128
Provision for loan and lease losses	2,725	—	2,725
Compensation and employee benefits	43,876	17,883	61,759
Premises and equipment expense	10,950	1,696	12,646
FDIC insurance expense	1,669	—	1,669
Other operating expense	10,865	7,524	18,389
Total operating expense	70,085	27,103	97,188
Income before income tax expense	39,130	17,810	56,940
Income tax expense	10,436	4,737	15,173
Net income	\$ 28,694	\$ 13,073	\$ 41,767
Total assets at period end	\$ 6,144,190	\$ 96,095	\$ 6,240,285

(In thousands)	Nine Months Ended September 30, 2020		
	Banking	Peapack Private	Total
Net interest income	\$ 91,419	\$ 4,448	\$ 95,867
Noninterest income	16,036	31,318	47,354
Total income	107,455	35,766	143,221
Provision for loan and lease losses	30,050	—	30,050
Compensation and employee benefits	40,239	17,375	57,614
Premises and equipment expense	10,435	1,753	12,188
FDIC insurance expense	1,310	—	1,310
Other operating expense	7,889	6,709	14,598
Total operating expense	89,923	25,837	115,760
Income before income tax (benefit)/expense	17,532	9,929	27,461
Income tax (benefit)/expense	1,618	2,681	4,299
Net income	\$ 15,914	\$ 7,248	\$ 23,162
Total assets at period end	\$ 5,878,481	\$ 79,626	\$ 5,958,107

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. Impaired loans may, in some cases, also be measured by the discounted cash flow methodology where payments are anticipated. 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 September 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

(In thousands)	September 30, 2021	Fair Value Measurements Using		
		Quoted Prices in Active Markets For Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Available for sale:				
U.S. government-sponsored agencies	\$ 274,433	\$ —	\$ 274,433	\$ —
Mortgage-backed securities-residential	515,131	—	515,131	—
SBA pool securities	42,930	—	42,930	—
State and political subdivisions	5,750	—	5,750	—
Corporate bond	5,535	—	5,535	—
CRA investment fund	14,824	14,824	—	—
Loans held for sale, at fair value	3,013	—	3,013	—
Derivatives:				
Loan level swaps	43,133	—	43,133	—
Total	<u>\$ 904,749</u>	<u>\$ 14,824</u>	<u>\$ 889,925</u>	<u>\$ —</u>
Liabilities:				
Derivatives:				
Cash flow hedges	\$ 5,267	\$ —	\$ 5,267	\$ —
Loan level swaps	44,483	—	44,483	—
Total	<u>\$ 49,750</u>	<u>\$ —</u>	<u>\$ 49,750</u>	<u>\$ —</u>

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 September 30, 2021 and December 31, 2020.

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

(In thousands)	September 30, 2021	December 31, 2020
Residential loans contractual balance	\$ 2,960	\$ 13,295
Fair value adjustment	53	293
Total fair value of residential loans held for sale	\$ 3,013	\$ 13,588

There were no transfers between Level 1 and Level 2 during the three and nine months ended September 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)	September 30, 2021			
Assets:				
Impaired loans:				
Primary residential mortgage	\$ 1,057	\$ —	\$ —	\$ 1,057
Investment commercial real estate	12,750	—	—	12,750

		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 September 30, 2021 are as follows:

		Fair Value Measurements at September 30, 2021 using			
(In thousands)	Carrying Amount	Level 1	Level 2	Level 3	Total
Financial assets					
Cash and cash equivalents	\$ 616,212	\$ 616,212	\$ —	\$ —	\$ 616,212
Securities available for sale	843,779	—	843,779	—	843,779
CRA investment fund	14,824	14,824	—	—	14,824
FHLB and FRB stock	12,950	—	—	—	N/A
Loans held for sale, at fair value	3,013	—	3,013	—	3,013
Loans held for sale, at lower of cost or fair value	17,235	—	18,627	—	18,627
Loans, net of allowance for loan and lease losses	4,510,265	—	—	4,619,193	4,619,193
Accrued interest receivable	22,790	—	2,028	20,762	22,790
Accrued interest receivable loan level swaps (A)	4,688	—	4,688	—	4,688
Loan level swaps	43,133	—	43,133	—	43,133
Financial liabilities					
Deposits	\$ 5,376,341	\$ 4,884,174	\$ 495,816	\$ —	\$ 5,379,990
Paycheck Protection Program Liquidity Facility	48,496	—	48,496	—	48,496
Subordinated debt	132,629	—	—	130,917	130,917
Accrued interest payable	2,157	132	659	1,366	2,157
Accrued interest payable loan level swaps (B)	4,688	—	4,688	—	4,688
Cash flow hedges	5,267	—	5,267	—	5,267
Loan level swap	44,483	—	44,483	—	44,483

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

(B) Included in accrued expenses and other liabilities 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 September 30,	
	2021	2020
Service charges on deposits		
Overdraft fees	\$ 117	\$ 88
Interchange income	374	319
Other	468	378
Wealth management fees (a)	13,860	10,119
Other (b)	2,962	9,307
Total noninterest other income	\$ 17,781	\$ 20,211

(In thousands)	For the Nine Months Ended September 30,	
	2021	2020
Service charges on deposits		
Overdraft fees	\$ 297	\$ 307
Interchange income	1,061	869
Other	1,343	1,120
Wealth management fees (a)	39,025	30,070
Gains on sales of OREO	51	—
Other (b)	11,502	14,988
Total noninterest other income	\$ 53,279	\$ 47,354

(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 September 30, 2021			For the Three Months Ended September 30, 2020		
	Banking	Wealth Management	Total	Banking	Wealth Management	Total
Service charges on deposits						
Overdraft fees	\$ 117	\$ —	\$ 117	\$ 88	\$ —	\$ 88
Interchange income	374	—	374	319	—	319
Other	468	—	468	378	—	378
Wealth management fees (a)	—	13,860	13,860	—	10,119	10,119
Other (b)	2,517	445	2,962	8,666	641	9,307
Total noninterest income	<u>\$ 3,476</u>	<u>\$ 14,305</u>	<u>\$ 17,781</u>	<u>\$ 9,451</u>	<u>\$ 10,760</u>	<u>\$ 20,211</u>

(In thousands) Revenue by Operating Segment	For the Nine Months Ended September 30, 2021			For the Nine Months Ended September 30, 2020		
	Banking	Wealth Management	Total	Banking	Wealth Management	Total
Service charges on deposits						
Overdraft fees	\$ 297	\$ —	\$ 297	\$ 307	\$ —	\$ 307
Interchange income	1,061	—	1,061	869	—	869
Other	1,343	—	1,343	1,120	—	1,120
Wealth management fees (a)	—	39,025	39,025	—	30,070	30,070
Gains on sales of OREO	51	—	51	—	—	—
Other (b)	10,058	1,444	11,502	13,740	1,248	14,988
Total noninterest income	<u>\$ 12,810</u>	<u>\$ 40,469</u>	<u>\$ 53,279</u>	<u>\$ 16,036</u>	<u>\$ 31,318</u>	<u>\$ 47,354</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 third quarter of 2021 by \$34,000 compared to \$31,000 for the same quarter in 2020. Cardholder rewards reduced interchange income by \$95,000 and \$86,000 for the nine months ended September 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 nine months ended September 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 September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Professional and legal fees	\$ 1,565	\$ 1,079	\$ 4,007	\$ 3,095
Telephone	342	370	988	1,089
Advertising	386	226	1,004	1,294
Amortization of intangible assets	431	321	1,167	966
Branch restructure	—	—	228	278
Write-off of subordinated debt costs	—	—	648	—
Other operating expenses	3,238	2,549	8,997	7,876
Total other operating expenses	<u>\$ 5,962</u>	<u>\$ 4,545</u>	<u>\$ 17,039</u>	<u>\$ 14,598</u>

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 September 30, 2021 and 2020:

(In thousands)	Balance at July 1, 2021	Other Comprehensive Income/(Loss) Before Reclassifications	Amount Reclassified From Accumulated Other Comprehensive Income/(Loss)	Other Comprehensive Income/(Loss) Three Months Ended September 30, 2021	Balance at September 30, 2021
Net unrealized holding gain/(loss) on securities available for sale, net of tax	\$ (956)	\$ (4,293)	\$ —	\$ (4,293)	\$ (5,249)
Gain/(loss) on cash flow hedges	(4,459)	673	—	673	(3,786)
Accumulated other comprehensive gain/(loss), net of tax	<u>\$ (5,415)</u>	<u>\$ (3,620)</u>	<u>\$ —</u>	<u>\$ (3,620)</u>	<u>\$ (9,035)</u>

(In thousands)	Balance at July 1, 2020	Other Comprehensive Income/(Loss) Before Reclassifications	Amount Reclassified From Accumulated Other Comprehensive Income/(Loss)	Other Comprehensive Income/(Loss) Three Months Ended September 30, 2020	Balance at September 30, 2020
Net unrealized holding gain/(loss) on securities available for sale, net of tax	\$ 6,935	\$ (777)	\$ —	\$ (777)	\$ 6,158
Gain/(loss) on cash flow hedges	(8,931)	1,030	(4)	1,026	(7,905)
Accumulated other comprehensive gain/(loss), net of tax	<u>\$ (1,996)</u>	<u>\$ 253</u>	<u>\$ (4)</u>	<u>\$ 249</u>	<u>\$ (1,747)</u>

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

(In thousands)	Three Months Ended September 30,		Affected Line Item in Income Statement
	2021	2020	
Unrealized gains/(losses) on cash flow hedge derivatives:			
Reclassification adjustment for amounts included in net income	\$ —	\$ (5)	Interest expense
Reclassification adjustment for losses on termination of swaps included in net income	—	—	Other income
Tax effect	—	1	Income tax expense
Total reclassifications, net of tax	<u>\$ —</u>	<u>\$ (4)</u>	

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

(In thousands)	Balance at January 1, 2021	Other Comprehensive Income/(Loss) Before Reclassifications	Amount Reclassified From Accumulated Other Comprehensive Income/(Loss)	Other Comprehensive Income/(Loss) Nine Months Ended September 30, 2021	Balance at September 30, 2021
Net unrealized holding gain/(loss) on securities available for sale, net of tax	\$ 5,521	\$ (10,770)	\$ —	\$ (10,770)	\$ (5,249)
Gain/(loss) on cash flow hedges	(6,913)	2,521	606	3,127	(3,786)
Accumulated other comprehensive gain/(loss), net of tax	<u>\$ (1,392)</u>	<u>\$ (8,249)</u>	<u>\$ 606</u>	<u>\$ (7,643)</u>	<u>\$ (9,035)</u>

	Balance at January 1, 2020	Other Comprehensive Income/(Loss) Before Reclassifications	Amount Reclassified From Accumulated Other Comprehensive Income/(Loss)	Other Comprehensive Income/(Loss) Nine Months Ended September 30, 2020	Balance at September 30, 2020
(In thousands)					
Net unrealized holding gain/(loss) on securities available for sale, net of tax	\$ 1,006	\$ 5,152	\$ —	\$ 5,152	\$ 6,158
Gain/(loss) on cash flow hedges	(2,501)	(5,341)	(63)	(5,404)	(7,905)
Accumulated other comprehensive gain/(loss), net of tax	\$ (1,495)	\$ (189)	\$ (63)	\$ (252)	\$ (1,747)

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

	Nine Months Ended September 30,		Affected Line Item in Income
(In thousands)	2021	2020	
Unrealized gains/(losses) on cash flow hedge derivatives:			
Reclassification adjustment for amounts included in net income	\$ —	\$ (85)	Interest expense
Reclassification adjustment for losses on termination of swaps included in net income	842	—	Other income
Tax effect	(236)	22	Income tax expense
Total reclassifications, net of tax	\$ 606	\$ (63)	

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 September 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 September 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 September 30, 2021 and December 31, 2020:

(Dollars in thousands)	September 30, 2021	December 31, 2020
Notional amount	\$ 230,000	\$ 270,000
Weighted average pay rate	1.99%	1.93%
Weighted average receive rate	0.21%	0.22%
Weighted average maturity	1.29 years	2.02 years
Unrealized loss, net	\$ (5,267)	\$ (9,616)
Number of contracts	11	13

Net interest expense recorded on these swap transactions totaled \$1.0 million and \$3.3 million for the three and nine months ended September 30, 2021, respectively. Net interest expense recorded on these swap transactions totaled \$1.1 million and \$2.4 million for the three months and nine months ended September 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 nine months ended September 30, 2021 and 2020:

(In thousands)	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2021	2020	2021	2020
Interest rate contracts				
Gain/(loss) recognized in other comprehensive income (effective portion)	\$ 673	\$ 1,026	\$ 3,127	\$ (5,404)
Gain/(loss) reclassified from other comprehensive income to interest expense	—	(4)	—	(63)
Gain/(loss) recognized in other noninterest income	—	—	(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 nine months ended September 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 \$5,000 and \$85,000 for the three and nine months ended September 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 nine months ended September 30, 2021.

(In thousands)	September 30, 2021	
	Notional Amount	Fair Value
Interest rate swaps related to interest-bearing deposits	\$ 230,000	\$ (5,267)
Total included in other assets	—	—
Total included in other liabilities	230,000	(5,267)

(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 Company recorded a swap valuation provision of \$1.4 million related to a commercial real estate loan placed on non-accrual status during the third quarter of 2021. The accrued interest receivable and payable of \$4.7 million related to our swaps is recorded in other assets and other liabilities as of September 30, 2021.

Information about these swaps is as follows:

(Dollars in thousands)	September 30, 2021	December 31, 2020
Notional amount	\$ 730,966	\$ 823,134
Fair value (A)	\$ 47,821	\$ 79,529
Weighted average pay rates	3.98%	4.02%
Weighted average receive rates	1.81%	1.91%
Weighted average maturity	5.8 years	6.5 years
Number of contracts	87	95

- (A) The September 30, 2021 amount includes the fair value of the loan level swap asset of \$43.1 million plus accrued interest receivable of \$4.7 million on back-to-back swap loans.

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 were non-callable for five years, had a stated maturity of June 30, 2026, and bore 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 reset quarterly to a level equal to the then current three-month London Interbank Offered Rate (“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.

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.

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, 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 September 30, 2021, the Company’s operating lease ROU asset and operating lease liability totaled \$10.3 million and \$10.6 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 2.82 percent and 3.11 percent was used in the measurement of the ROU asset and lease liability as of September 30, 2021 and December 31, 2020, respectively.

The Company’s leases have remaining lease terms between two months to 15 years, with a weighted average lease term of 6.31 years at September 30, 2021. The Company’s leases had remaining lease terms between one month 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 \$697,000 and \$789,000 for the three months ended September 30, 2021 and 2020, respectively. The variable lease costs were \$75,000 and \$82,000 for the three months ended September 30, 2021 and 2020, respectively.

Total operating lease costs were \$2.1 million and \$2.4 million for the nine months ended September 30, 2021 and 2020, respectively. The variable lease costs were \$242,000 and \$259,000 for the nine months ended September 30, 2021 and 2020, respectively.

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

(In thousands)		
2021	\$	691
2022		2,560
2023		2,163
2024		1,719
2025		1,463
Thereafter		3,151
Total lease payments		11,747
Less: imputed interest		1,103
Total present value of lease payments	\$	10,644

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

(In thousands)	For the Nine Months Ended	
	2021	2020
Right-of-use asset obtained in exchange for lease obligation	\$ 2,772	\$ 455
Operating cash flows from operating leases	1,844	2,139
Operating cash flows from direct finance leases	229	261
Financing cash flows from direct finance leases	561	561

14. ACCOUNTING PRONOUNCEMENTS

On June 16, 2016, the Financial Accounting Standards Board (“FASB”) issued ASU 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 the value in our investment portfolio;
- the impact of 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 delinquent, nonperforming, classified and criticized 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 pandemic 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 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 GAAP. 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 September 30, 2021 and 2020.

(Dollars in thousands, except per share data)	For the Three Months Ended September 30,		Change
	2021	2020	2021 vs 2020
Results of Operations:			
Net interest income	\$ 35,211	\$ 32,149	\$ 3,062
Provision for loan and lease losses	1,600	5,150	(3,550)
Net interest income after provision for loan and lease losses	33,611	26,999	6,612
Wealth management fee income (1)	13,860	10,119	3,741
Other income (2)	3,921	10,092	(6,171)
Operating expense (3)	32,185	28,461	3,724
Income before income tax expense	19,207	18,749	458
Income tax expense	5,036	5,202	(166)
Net income	\$ 14,171	\$ 13,547	\$ 624
Total revenue (4)	\$ 52,992	\$ 52,360	\$ 632
Diluted average shares outstanding	19,273,831	19,132,650	141,181
Diluted earnings per share	\$ 0.74	\$ 0.71	\$ 0.03
Return on average assets annualized (ROAA)	0.95%	0.89%	0.06%
Return on average equity annualized (ROAE)	10.40	10.53	(0.13)

- (1) The September 2021 quarter included a full quarter of wealth management fee income and expense related to the December hires of the teams from Lucas and Noyes and the July acquisition of Princeton Portfolio Strategies Group (“PPSG”).
- (2) The quarter ended September 30, 2020 included a gain on sale of \$7.4 million on the sale of \$355 million of PPP loans.
- (3) The September 2021 quarter included \$1.4 million related to a swap valuation allowance.
- (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 nine months ended September 30, 2021 and 2020.

(Dollars in thousands, except per share data)	For the Nine Months Ended September 30,		Change
	2021	2020	2021 vs 2020
Results of Operations:			
Net interest income	\$ 100,849	\$ 95,867	\$ 4,982
Provision for loan and lease losses (1)	2,725	30,050	(27,325)
Net interest income after provision for loan and lease losses	98,124	65,817	32,307
Wealth management fee income (2)	39,025	30,070	8,955
Other income (3)	14,254	17,284	(3,030)
Operating expense (4)	94,463	85,710	8,753
Income before income tax expense	56,940	27,461	29,479
Income tax expense (5)	15,173	4,299	10,874
Net income	\$ 41,767	\$ 23,162	\$ 18,605
Total revenue (6)	\$ 154,128	\$ 143,221	\$ 10,907
Diluted average shares outstanding	19,390,522	19,052,605	337,917
Diluted earnings per share	\$ 2.15	\$ 1.22	\$ 0.93
Return on average assets annualized (ROAA)	0.94%	0.54%	0.40%
Return on average equity annualized (ROAE)	10.43	6.07	4.36

- (1) The 2020 nine months included a provision for loan and lease losses of \$30.1 million, primarily due to the environment at that time created by the COVID-19 pandemic.
- (2) The 2021 nine months included nine months of wealth management fee income and expense related to the December hires of the teams from Lucas and Noyes and three months of wealth management fee income and expense related to the July acquisition of PPSG.
- (3) The 2021 nine months included: a cost of \$842,000 related to the termination of 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 the referral of PPP loans to a third party; and \$455,000 of additional BOLI income related to receipt of life insurance proceeds. The 2020 nine months included a \$7.4 million gain on the sale of \$355 million of PPP loans.
- (4) The 2021 nine months included: \$1.5 million of severance expense related to certain corporate restructuring within several areas of the Bank; \$648,000 of expense related to the redemption of subordinated debt; and \$1.4 million related to a swap valuation allowance.
- (5) The 2020 nine months included a \$3.2 million tax benefit related to the carryback of tax NOLs 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

	September 30, 2021	December 31, 2020	Change 2021 vs 2020
Selected Balance Sheet Ratios:			
Total capital (Tier I + II) to risk-weighted assets	15.12%	17.67%	(2.55)%
Tier I leverage ratio	8.56	8.53	0.03
Loans to deposits	85.10	90.74	(5.64)
Allowance for loan and lease losses to total loans	1.42	1.54	(0.12)
Allowance for loan and lease losses to nonperforming loans	251.24	589.91	(338.67)
Nonperforming loans to total loans	0.57	0.26	0.31

For the quarter ended September 30, 2021, the Company recorded revenue of \$52.99 million, pretax income of \$19.21 million, net income of \$14.17 million and diluted earnings per share of \$0.74, compared to revenue of \$52.36 million, pretax income of \$18.75 million, net income of \$13.55 million and diluted earnings per share of \$0.71 for the same three-month period last year. The 2021 quarter included increased net interest income and wealth management 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), while the 2020 period included a \$7.4 million gain on sale of \$355 million of PPP loans. The 2021 quarter also included a significantly reduced provision for loan losses when compared to the same quarter last year partially offset by increased operating expenses (due in part to the wealth management acquisitions in December 2020 and July 2021) and a \$1.40 million

swap valuation allowance). The 2021 quarter included a \$1.60 million provision while the 2020 quarter included a \$5.15 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 activities totaled \$2.06 million for the third quarter of 2021, an increase of \$950,000 from \$1.11 million for the same period in 2020. Income from these programs are not linear each quarter, as some quarters will be higher than others.

The Company recorded revenue of \$154.13 million, pretax income of \$56.94 million, net income of \$41.77 million and diluted earnings per share of \$2.15 for the nine months ended September 30, 2021 compared to revenue of \$143.22 million, pretax income of \$27.46 million, net income of \$23.16 million and diluted earnings per share of \$1.22 for the same 2020 period. The nine months ended September 30, 2021 included increased net interest income and wealth management income and a significantly reduced provision for loan and lease losses partially offset by increased operating expenses (due in part to the wealth management acquisitions in December 2020 and July 2021) and a \$1.4 million swap valuation allowance. The decrease in noninterest income was driven by a gain on sale of PPP loans during the nine months ended September 30, 2020 of \$7.4 million. The nine months ended September 30, 2021 including a loss on a hedging swap termination partially offset by 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). Fee income generated by capital markets activities totaled \$7.10 million for the first nine months of 2021, an increase of \$2.07 million from \$5.02 million for the same period in 2020, despite a decline in loan level back-to-back swap income of \$1.60 million. Income from these programs are not linear each quarter, as some quarters will be higher than others. The nine months ended September 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 represents 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 2021), ATM access, and on-line banking;
- Management has leveraged technology to support employees that are working remotely; and
- Retail client initiatives have been introduced including:
 - 1) The Company has approved deferral requests under the CARES Act of approximately \$947.0 million of which there are only \$13 million deferrals as of September 30, 2021;
 - 2) Waiver of 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 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 September 30, 2021		Three Months Ended September 30, 2020	
	NII	NIM	NII	NIM
NII/NIM excluding the below	\$ 34,635	2.56%	\$ 30,327	2.45%
Prepayment premiums received on loan paydowns	325	0.02%	104	0.01%
Effect of maintaining excess interest earning cash	(46)	-0.14%	(266)	-0.24%
Effect of PPP loans	297	-0.02%	1,984	-0.02%
NII/NIM as reported	<u>\$ 35,211</u>	<u>2.42%</u>	<u>\$ 32,149</u>	<u>2.20%</u>

	Nine Months Ended September 30, 2021		Nine Months Ended September 30, 2020	
	NII	NIM	NII	NIM
NII/NIM excluding the below	\$ 97,655	2.53%	\$ 91,901	2.51%
Prepayment premiums received on loan paydowns	1,530	0.03%	1,005	0.02%
Effect of maintaining excess interest earning cash	(365)	-0.17%	(1,000)	-0.19%
Effect of PPP loans	2,029	-0.04%	3,961	-0.01%
NII/NIM as reported	<u>\$ 100,849</u>	<u>2.35%</u>	<u>\$ 95,867</u>	<u>2.33%</u>

Net interest income, on a fully tax-equivalent basis, increased \$2.9 million for the third quarter of 2021 to \$35.4 million as compared to \$32.5 million for the same quarter in 2020. The net interest margin increased 22 basis points to 2.42 percent from 2.20 percent when comparing the three months ended September 30, 2021 and 2020, respectively. The Company recorded net interest income, on a fully tax-equivalent basis, of \$101.5 million for the nine months ended September 30, 2021 as compared to \$97.2 million for the same 2020 period. The net interest margin was 2.35 percent and 2.33 percent for the nine months ended September 30, 2021 and 2020, respectively, an increase of 2 basis points. As a commercial bank, the Company is asset sensitive with a large portion of its commercial loan portfolio tied to one-month LIBOR. The increase in NIM for the three and nine months ended September 30, 2021 when compared to the same periods in 2020 was due to the Bank strategically lowering its cost of interest-bearing liabilities and a decline in the average balance of lower yielding PPP loans. For the quarter ended September 30, 2021, NIM also benefitted from the use of some of its excess liquidity to purchase investment securities when compared to the same 2020 period.

Net interest income benefitted from interest and fees from PPP loans of \$354,000 and \$2.4 million for the three and nine months ended September 30, 2021, respectively, as compared to \$2.2 million and \$3.2 million for the three and nine months ended September 30, 2020, respectively. As of September 30, 2021, the Company had \$48.9 million of PPP loans, with net deferred fees of \$140,000 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 September 30, 2022, nearly \$400 million of CDs with an average rate of approximately 0.52 percent will mature.

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

(In thousands)	For the Three Months Ended	
	September 30, 2021	September 30, 2020
Residential mortgage loans originated for portfolio	\$ 36,845	\$ 32,599
Residential mortgage loans originated for sale	24,041	54,521
Total residential mortgage loans	60,886	87,120
Commercial real estate loans	14,944	1,613
Multifamily properties	120,716	1,500
C&I loans (A) (B)	143,121	118,048
Small business administration	11,570	4,962
Wealth Lines of Credit (A)	10,020	2,000
Total commercial loans	300,371	128,123
Installment loans	178	253
Home equity lines of credit (A)	2,535	4,759
Total loans closed	\$ 363,970	\$ 220,255

(In thousands)	For the Nine Months Ended	
	September 30, 2021	September 30, 2020
Residential mortgage loans originated for portfolio	\$ 89,742	\$ 66,057
Residential mortgage loans originated for sale	95,346	110,973
Total residential mortgage loans	185,088	177,030
Commercial real estate loans	65,550	11,219
Multifamily properties	461,545	75,458
C&I loans (A) (B)	413,547	260,250
Small business administration (C)	86,276	614,443
Wealth Lines of Credit (A)	15,695	5,750
Total commercial loans	1,042,613	967,120
Installment loans	266	1,459
Home equity lines of credit (A)	8,574	12,671
Total loans closed	\$ 1,236,541	\$ 1,158,280

(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 \$57 million and \$596 million for the nine months ended September 30, 2021 and 2020, respectively.

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

	September 30, 2021	December 31, 2020	September 30, 2020
Multifamily mortgage loans as a percent of total regulatory capital of the Bank	230%	188%	195%
Non-owner occupied commercial real estate loans as a percent of total regulatory capital of the Bank	154	168	176
Total CRE concentration	384%	356%	371%

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

	September 30, 2021			September 30, 2020		
(Dollars in thousands)	Average Balance	Income/Expense	Annualized Yield	Average Balance	Income/Expense	Annualized Yield
ASSETS:						
Interest-earning assets:						
Investments:						
Taxable (1)	\$ 820,574	\$ 2,824	1.38%	\$ 553,607	\$ 2,182	1.58%
Tax-exempt (1) (2)	6,035	64	4.24	9,127	116	5.08
Loans (2) (3):						
Residential mortgages	503,621	3,779	3.00	529,500	4,437	3.35
Commercial mortgages	2,133,259	16,114	3.02	1,929,319	15,115	3.13
Commercial	1,826,368	16,553	3.63	2,134,399	17,653	3.31
Commercial construction	24,596	198	3.22	4,395	55	5.01
Installment	32,219	245	3.04	52,659	377	2.86
Home equity	43,182	357	3.31	53,373	444	3.33
Other	252	5	7.94	283	7	9.89
Total loans	4,563,497	37,251	3.27	4,703,928	38,088	3.24
Federal funds sold	—	—	—	102	—	0.25
Interest-earning deposits	413,623	142	0.14	652,832	159	0.10
Total interest-earning assets	5,803,729	40,281	2.78%	5,919,596	40,545	2.74%
Noninterest-earning assets:						
Cash and due from banks	8,592			7,479		
Allowance for loan and lease losses	(64,100)			(68,110)		
Premises and equipment	23,311			21,511		
Other assets	201,287			242,017		
Total noninterest-earning assets	169,090			202,897		
Total assets	\$ 5,972,819			\$ 6,122,493		
LIABILITIES:						
Interest-bearing deposits:						
Checking	\$ 2,098,827	\$ 1,177	0.22%	\$ 1,828,780	\$ 1,130	0.25%
Money markets	1,257,760	683	0.22	1,235,040	920	0.30
Savings	152,759	20	0.05	125,016	16	0.05
Certificates of deposit - retail	461,917	836	0.72	642,732	2,529	1.57
Subtotal interest-bearing deposits	3,971,263	2,716	0.27	3,831,568	4,595	0.48
Interest-bearing demand - brokered	85,000	385	1.81	130,000	636	1.96
Certificates of deposit - brokered	33,796	266	3.15	33,742	267	3.17
Total interest-bearing deposits	4,090,059	3,367	0.33	3,995,310	5,498	0.55
FHLB advances and borrowings	64,332	57	0.35	475,465	1,221	1.03
Finance lease liabilities	6,147	74	4.82	7,054	84	4.76
Subordinated debt	132,588	1,358	4.10	83,552	1,222	5.85
Total interest-bearing liabilities	4,293,126	4,856	0.45%	4,561,381	8,025	0.70%
Noninterest-bearing liabilities:						
Demand deposits	997,450			872,560		
Accrued expenses and other liabilities	137,387			173,816		
Total noninterest-bearing liabilities	1,134,837			1,046,376		
Shareholders' equity	544,856			514,736		
Total liabilities and shareholders' equity	\$ 5,972,819			\$ 6,122,493		
Net interest income (tax-equivalent basis)		\$ 35,425			\$ 32,520	
Net interest spread			2.33%			2.04%
Net interest margin (4)			2.42%			2.20%
Tax equivalent adjustment		\$ (214)			\$ (371)	
Net interest income		\$ 35,211			\$ 32,149	

- (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
Nine Months Ended

	September 30, 2021			September 30, 2020		
(Dollars in thousands)	Average Balance	Income/ Expense	Annualized Yield	Average Balance	Income/ Expense	Annualized Yield
ASSETS:						
Interest-earning assets:						
Investments:						
Taxable (1)	\$ 822,262	\$ 8,473	1.37%	\$ 467,881	\$ 6,749	1.92%
Tax-exempt (1) (2)	6,961	243	4.65	9,930	376	5.05
Loans (2) (3):						
Residential mortgages	501,276	11,559	3.07	531,563	13,510	3.39
Commercial mortgages	1,972,723	45,590	3.08	1,989,256	49,745	3.33
Commercial	1,900,231	49,992	3.51	1,977,597	54,450	3.67
Commercial construction	20,418	516	3.37	4,440	187	5.62
Installment	34,724	777	2.98	53,165	1,212	3.04
Home equity	45,672	1,133	3.31	54,627	1,512	3.69
Other	239	15	8.37	321	23	9.55
Total loans	4,475,283	109,582	3.26	4,610,969	120,639	3.49
Federal funds sold	64	—	0.13	102	—	0.25
Interest-earning deposits	465,287	367	0.11	468,064	820	0.23
Total interest-earning assets	5,769,857	118,665	2.74%	5,556,946	128,584	3.09%
Noninterest-earning assets:						
Cash and due from banks	10,018			6,149		
Allowance for loan and lease losses	(67,592)			(58,896)		
Premises and equipment	23,087			21,373		
Other assets	203,344			212,716		
Total noninterest-earning assets	168,857			181,342		
Total assets	<u>\$ 5,938,714</u>			<u>\$ 5,738,288</u>		
LIABILITIES:						
Interest-bearing deposits:						
Checking	\$ 1,996,663	\$ 3,099	0.21%	\$ 1,706,558	\$ 6,219	0.49%
Money markets	1,250,933	2,204	0.23	1,211,720	5,374	0.59
Savings	140,066	55	0.05	118,291	47	0.05
Certificates of deposit - retail	494,255	3,333	0.90	672,308	9,370	1.86
Subtotal interest-bearing deposits	3,881,917	8,691	0.30	3,708,877	21,010	0.76
Interest-bearing demand - brokered	100,110	1,334	1.78	153,358	2,259	1.96
Certificates of deposit - brokered	33,783	791	3.12	33,729	794	3.14
Total interest-bearing deposits	4,015,810	10,816	0.36	3,895,964	24,063	0.82
FHLB advances and borrowings	138,448	448	0.43	330,324	3,360	1.36
Finance lease liabilities	6,376	229	4.79	7,266	261	4.79
Subordinated debt	165,053	5,650	4.56	83,496	3,667	5.86
Total interest-bearing liabilities	4,325,687	17,143	0.53%	4,317,050	31,351	0.97%
Noninterest-bearing liabilities:						
Demand deposits	932,088			763,414		
Accrued expenses and other liabilities	143,045			149,187		
Total noninterest-bearing liabilities	1,075,133			912,601		
Shareholders' equity	533,894			508,637		
Total liabilities and shareholders' equity	<u>\$ 5,934,714</u>			<u>\$ 5,738,288</u>		
Net interest income (tax-equivalent basis)		<u>\$ 101,522</u>			<u>\$ 97,233</u>	
Net interest spread			<u>2.21%</u>			<u>2.12%</u>
Net interest margin (4)			<u>2.35%</u>			<u>2.33%</u>
Tax equivalent adjustment		\$ (673)			\$ (1,366)	
Net interest income		<u>\$ 100,849</u>			<u>\$ 95,867</u>	

- (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 September 30, 2021		
	Difference due to		Change In Income/ Expense
(In Thousands):	Change In:		
ASSETS:	Volume	Rate	
Investments	\$ 822	\$ (232)	\$ 590
Loans	(1,237)	400	(837)
Interest-earning deposits	(71)	54	(17)
Total interest income	\$ (486)	\$ 222	\$ (264)
LIABILITIES:			
Interest-bearing checking	\$ 106	\$ (59)	\$ 47
Money market	(21)	(216)	(237)
Savings	4	—	4
Certificates of deposit - retail	(575)	(1,118)	(1,693)
Certificates of deposit - brokered	—	(1)	(1)
Interest bearing demand brokered	(202)	(49)	(251)
Borrowed funds	(319)	(845)	(1,164)
Capital lease obligation	(10)	—	(10)
Subordinated debt	502	(366)	136
Total interest expense	\$ (515)	\$ (2,654)	\$ (3,169)
Net interest income	\$ 29	\$ 2,876	\$ 2,905

	For the Nine Months Ended September 30, 2021		
	Difference due to		Change In Income/ Expense
	Change In:		
(In Thousands):	Volume	Rate	
ASSETS:			
Investments	\$ 3,524	\$ (1,933)	\$ 1,591
Loans	(3,280)	(7,777)	(11,057)
Interest-earning deposits	(5)	(448)	(453)
Total interest income	\$ 239	\$ (10,158)	\$ (9,919)
LIABILITIES:			
Interest-bearing checking	\$ 427	\$ (3,547)	\$ (3,120)
Money market	188	(3,358)	(3,170)
Savings	8	—	8
Certificates of deposit - retail	(2,047)	(3,990)	(6,037)
Certificates of deposit - brokered	1	(4)	(3)
Interest bearing demand brokered	(732)	(193)	(925)
Borrowed funds	(2,107)	(805)	(2,912)
Capital lease obligation	(31)	(1)	(32)
Subordinated debt	2,797	(814)	1,983
Total interest expense	\$ (1,496)	\$ (12,712)	\$ (14,208)
Net interest income	\$ 1,735	\$ 2,554	\$ 4,289

Interest income on interest-earning assets, on a fully tax-equivalent basis, totaled \$40.3 million for the third quarter of 2021 compared to \$40.5 million for the same period of 2020, reflecting a decrease of \$264,000, or less than 1 percent. The decrease for the three months ended September 30, 2021, as compared to the same period in 2020, reflected a decrease in the average balance of interest-earning assets, partially offset by an increase in the average yield on interest-earnings assets. Interest income on interest-earning assets, on a fully tax-equivalent basis, decreased \$9.9 million to \$118.7 million for the nine months ended September 30, 2021 compared to \$128.6 million for the same period of 2020. The decrease in the nine months ended September 30, 2021, as compared to the same period 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 third quarter of 2021, a decrease of \$115.9 million, or 2 percent, from the same period of 2020. The decrease in the average balance of interest-earning assets for the three months ended September 30, 2021 reflected a decline in the average balance of loans and interest-earning deposits, partially offset by an increase in the average balance of investment securities for the three months ended September 30, 2021, when compared to the same period in 2020. Average interest-earning assets increased by \$212.9 million, or 4 percent, to \$5.77 billion for the nine months ended September 30, 2021, when compared to the same period in 2020. The increase in the average balance of interest-earning assets for the nine months ended September 30, 2021 reflected an increase in the average balance of investment securities, partially offset by a decline in the average balances of loans and interest-earning deposits for the nine months ended September 30, 2021, when compared to the same period in 2020. The average balance of the commercial mortgage portfolio increased \$203.9 million to \$2.13 billion for the three months ended September 30, 2021, when compared to \$1.93 billion for the same period in 2020. The increased multifamily production helped to offset loan portfolio run-off and utilize excess liquidity. The average balance of the commercial mortgage portfolio was \$1.97 billion for the nine months ended September 30, 2021 compared to \$1.99 billion for the same period in 2020 reflecting a decrease of \$16.5 million. The average balance of the commercial loan portfolio declined by \$308.0 million to \$1.83 billion for the three months ended September 30, 2021, when compared to \$2.13 billion for the three months ended September 30, 2020, primarily due to the forgiveness and sale of PPP loans in 2020 and commercial loan paydowns during the first nine months of 2021. Total PPP loans declined \$153.3 million to \$48.7 million at September 30, 2021 from \$202.0 million at September 30, 2020. The average balance of the commercial loan portfolio decreased \$77.4 million to \$1.90 billion for the first nine months of 2021, from \$1.98 billion for the nine months ended September 30, 2020. The average balance of the residential mortgage portfolio decreased by \$25.9 million, or 5 percent, to \$503.6 million during the three months ended September 30, 2021 from the same period in 2020. For the nine months ended September 30, 2021 the residential mortgage portfolio declined \$30.3 million to \$501.3 million from \$531.6 million for the same period in 2020. The decline in the residential portfolio for the three and nine months ended September 30, 2021 was due to the sale of fixed-rate residential mortgage loans as part of the Company's balance sheet management.

The average balance of investment securities totaled \$826.6 million for the third quarter of 2021 compared to \$562.7 million for the same quarter of 2020, reflecting an increase of \$263.9 million, or 47 percent. The average balance of investment securities totaled \$829.2 million for the nine months ended September 30, 2021 compared to \$477.8 million for the same period of 2020, reflecting an increase of \$351.4 million, or 74 percent. The increase in the average balance of investment securities for the three and nine months ended September 30, 2021 was due to the purchase of securities to maintain the size of the portfolio in anticipation of maturities and to utilize excess liquidity.

The average balance of interest-earning deposits totaled \$413.6 million for the quarter ended September 30, 2021 when compared to \$652.8 million for the same period in 2020, reflecting a decrease of \$239.2 million or 37 percent. The decrease in the average balance of interest-earning deposits for the three months ended September 30, 2021 was primarily due the Company using excess balance sheet liquidity to fund multifamily originations and investment security purchases. Interest-earning deposits declined slightly to \$465.3 million for the nine months ended September 30, 2021 compared to \$468.1 million for the same 2020 period.

For the third quarters of 2021 and 2020, the average yields earned on interest-earning assets were 2.78 percent and 2.74 percent, respectively, an increase of 4 basis points. The increase was primarily due to the decrease in lower-yielding interest-earning deposits and investments for the three-month period ended September 30, 2021 period. The increase in yield was also attributable to the lower average balance of PPP loans, which primarily yield one percent for the third quarter of 2021, as compared to the prior period. For the nine months ended September 30, 2021 and 2020, the average yields earned on interest-earning assets were 2.74 percent and 3.09 percent, respectively, a decrease of 35 basis points. The decrease in average yields on interest-earning assets for the nine-month period was due to a declining rate environment, which resulted in a decrease in the average yield on our loan portfolio of 23 basis points to 3.26 percent. The average yield on interest-earning assets for the nine months ended September 30, 2021 was also affected by elevated levels of interest-bearing cash and investment securities. 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 September 30, 2021, and that net interest income would improve in a rising rate environment but decline in a falling rate environment.

For the third quarter of 2021, the average balance of interest-bearing deposits was \$4.09 billion, an increase of \$94.7 million, or 2 percent, from \$4.00 billion for the same period of 2020. The average balance of interest-bearing deposits for the nine months ended September 30, 2021 increased \$119.8 million to \$4.02 billion when compared to \$3.90 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; an increase in term money market deposits to fund multifamily loan production; an increase in interest-bearing checking deposits as maturing CDs shifted into these accounts; 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 \$45.0 million

and \$53.2 million in the average balance of brokered deposits for the three and nine months ended September 30, 2021, respectively, when compared to the same 2020 periods.

Average rates paid on total interest-bearing deposits were 0.33 percent and 0.55 percent for the third quarters of 2021 and 2020, respectively, a decrease of 22 basis points. Average rates paid on total interest-bearing deposits were 0.36 percent and 0.82 percent for the nine months ended September 30, 2021 and 2020, respectively, a decrease of 46 basis points. The decrease in the average rate paid on deposits was principally due to repricing of our deposit base to align with the Federal Reserve rate decreases and due to a larger proportion of our deposit portfolio consisting of core deposits with a decreasing amount of certificates of deposit.

For the three months ended September 30, 2021, the average balance of borrowings was \$64.3 million, a decrease of \$411.1 million from \$475.5 million, as compared to the same period in 2020. The average rate paid on borrowings was 0.35 percent for the quarter ended September 30, 2021 as compared to 1.03 percent for the same period in 2020. For the nine months ended September 30, 2021, the average balance of borrowings was \$138.4 million, a decrease of \$191.9 million from \$330.3 million for the same period in 2020. The average rate paid on borrowings was 0.43 percent for the nine months ended September 30, 2021 as compared to 1.36 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 nine months ended September 30, 2021 due to the prepayment of the FHLB advances with a weighted-average rate of 3.20 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 \$711.6 million and \$725.4 million for the three and nine months ended September 30, 2021, respectively, compared to \$663.6 million and \$596.3 million for the same three- and nine-month periods ended September 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 September 30, 2021, the Company had investment securities available for sale with a fair value of \$843.8 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 exceeded loan growth. A net unrealized loss (net of income tax) of \$5.2 million and a net unrealized gain (net of income tax) of \$5.5 million were included in shareholders' equity at September 30, 2021 and December 31, 2020, respectively.

The Company has one equity security (a CRA investment security) with a fair value of \$14.8 million at September 30, 2021 compared with a fair value of \$15.1 million at December 31, 2020, with changes in fair value recognized in the Consolidated Statements of Income. The Company recorded a \$70,000 unrealized loss and \$293,000 unrealized loss on the Consolidated Statements of Income for the three and nine months ended September 30, 2021, respectively, as compared to an unrealized gain of \$323,000 for the nine months ended September 30, 2020. There was no change in the unrealized gain/(loss) on our equity security during the three months ended September 30, 2020.

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

(In thousands)	September 30, 2021	December 31, 2020
U.S. treasuries	\$ —	\$ 2,613
U.S. government-sponsored agencies	274,433	83,771
Mortgage-backed securities-residential (principally U.S. government-sponsored entities)	515,131	476,058
SBA pool securities	42,930	49,129
State and political subdivisions	5,750	8,089
Corporate bond	5,535	3,029
Total	\$ 843,779	\$ 622,689

The following table presents the contractual maturities and yields of debt securities available for sale, stated at fair value, as of September 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	\$ —	\$ 5,625	\$ 122,915	\$ 145,893	\$ 274,433
	—	1.00%	1.32%	1.69%	1.51%
Mortgage-backed securities-residential (1)	\$ 25,155	\$ 20,524	\$ 37,484	\$ 431,968	\$ 515,131
	1.25%	2.37%	1.72%	1.38%	1.44%
SBA pool securities	\$ —	\$ —	\$ 7,212	\$ 35,718	\$ 42,930
	—	—	1.92%	1.22%	1.33%
State and political subdivisions (2)	\$ 3,067	\$ 2,683	\$ —	\$ —	\$ 5,750
	2.54%	2.10%	—	—	2.34%
Corporate bond	\$ —	\$ —	\$ 5,535	\$ —	\$ 5,535
	—	—	4.23%	—	4.23%
Total	\$ 28,222	\$ 28,832	\$ 173,146	\$ 613,579	\$ 843,779
	1.39%	2.07%	1.52%	1.45%	1.48%

(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 September 30, 2021 was \$413.6 million compared to \$652.8 million for the quarter ended September 30, 2020. The higher level of federal funds sold and interest-earning deposits for both periods represented excess cash as deposit 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 September 30,		Change
	2021	2020	2021 vs 2020
Service charges and fees	\$ 959	\$ 785	\$ 174
Bank owned life insurance	311	314	(3)
Gain on sale of loans (mortgage banking)	408	954	(546)
Gain on loans held for sale at lower of cost or fair value	—	7,429	(7,429)
Fee income related to loan level, back-to-back swaps	—	—	—
Gain on sale of SBA loans	1,569	79	1,490
Corporate advisory fee income	84	75	9
Other income	660	456	204
Securities gains, net	(70)	—	(70)
Total other income (excluding wealth management income)	\$ 3,921	\$ 10,092	\$ (6,171)

(In thousands)	For the Nine Months Ended September 30,		Change
	2021	2020	2021 vs 2020
Service charges and fees	\$ 2,701	\$ 2,296	\$ 405
Bank owned life insurance	1,388	960	428
Gain on sale of loans (mortgage banking)	1,842	1,796	46
Gain/(loss) on loans held for sale at lower of cost or fair value	1,407	7,426	(6,019)
Fee income related to loan level, back-to-back swaps	—	1,620	(1,620)
Gain on sale of SBA loans	3,950	1,391	2,559
Corporate advisory fee income	1,303	215	1,088
Loss on swap termination	(842)	—	(842)
Other income	2,798	1,257	1,541
Securities gains, net	(293)	323	(616)
Total other income (excluding wealth management income)	\$ 14,254	\$ 17,284	\$ (3,030)

The Company recorded total other income, excluding wealth management fee income, of \$3.9 million for the third quarter of 2021, reflecting a decrease of \$6.2 million, or 61 percent, compared to the same period in 2020. For the nine months ended September 30, 2021, the Company recorded total other income, excluding wealth management fee income, of \$14.3 million compared to \$17.3 million from the same 2020 period reflecting a decrease of \$3.0 million or 18 percent. The three and nine months ended September 30, 2021 were principally lower due to the three- and nine-month periods in 2020 due to a \$7.4 million gain on the sale of \$355 million of PPP loans in 2020.

For the third quarter of 2021, income from the sale of newly originated residential mortgage loans was \$408,000 compared to \$954,000 for the same quarter in 2020. Income from the sale of newly originated residential mortgage loans was \$1.8 million for both the nine months ended September 30, 2021 and 2020, respectively. This decrease for the three months ended September 30, 2021 was the result of the decreased volume of residential mortgage loans originated for sale due to a slowdown in refinancing and home purchase activity during the third quarter of 2021.

For the three and nine months ended September 30, 2021 the Company did not record any loan level, back-to-back swap income compared to \$1.6 million for the nine months ended September 30, 2020. 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 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 third quarter of 2021 included \$1.6 million of gains on sales of SBA loans as compared to \$79,000 for the same quarter in 2020. The nine months ended September 30, 2021 included \$4.0 million of gains on sale of SBA loans as compared to \$1.4 million for the same period in 2020. The three- and nine-month September 2021 periods benefitted by certain changes to SBA lending requirements, which included raising the SBA loan guaranty from 75 percent to 90 percent and eliminated the guaranty fee to both borrowers and lenders through September 30, 2021.

The Company recorded corporate advisory fee income of \$84,000 and \$1.3 million for the three and nine months ended September 30, 2021, respectively, compared to \$75,000 and \$215,000 for the same periods in 2020. The nine-month 2021 period 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 nine months ended September 30, 2021 included \$455,000 of additional income related to a net life insurance death benefit under its BOLI policies.

During the nine months ended September 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 \$164,000 and \$886,000 of income for the three and nine months ended September 30, 2021, respectively, related to the referral of PPP loans to the same third party that the Company sold the PPP loans.

During the nine months ended September 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 nine months ended September 30, 2021 included a gain on sale of an OREO property of \$51,000.

The remainder of the increase for the three and nine months ended September 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 September 30,		Change
	2021	2020	2021 vs 2020
Compensation and employee benefits	\$ 19,859	\$ 19,202	\$ 657
Premises and equipment	4,459	4,109	350
FDIC assessment	555	605	(50)
Other Operating Expenses:			
Professional and legal fees	1,565	1,079	486
Telephone	342	370	(28)
Advertising	386	226	160
Amortization of intangible assets	431	321	110
Swap valuation allowance	1,350	—	1,350
Other	3,238	2,549	689
Total operating expenses	<u>\$ 32,185</u>	<u>\$ 28,461</u>	<u>\$ 3,724</u>

(In thousands)	For the Nine Months Ended September 30,		Change
	2021	2020	2021 vs 2020
Compensation and employee benefits	\$ 61,759	\$ 57,614	\$ 4,145
Premises and equipment	12,646	12,188	458
FDIC assessment	1,669	1,310	359
Other Operating Expenses:			
Professional and legal fees	4,007	3,095	912
Telephone	988	1,089	(101)
Advertising	1,004	1,294	(290)
Amortization of intangible assets	1,167	966	201
Branch restructure	228	278	(50)
Write-off of subordinated debt costs	648	—	648
Swap valuation allowance	1,350	—	1,350
Other	8,997	7,876	1,121
Total operating expenses	<u>\$ 94,463</u>	<u>\$ 85,710</u>	<u>\$ 8,753</u>

Increased operating expenses in the three- and nine-month periods ended September 30, 2021 was principally attributable to: swap valuation allowance of \$1.4 million, expenses related to the Lucas and Noyes team lift outs completed in December 2020, expenses related to the acquisition of PPSG completed in July 2021, hiring in line with the Company's strategic plan, and normal salary increases, which were partially offset by decreased advertising expense for the nine 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 \$10.3 billion at September 30, 2021, reflecting an 17 percent increase from \$8.8 billion at December 31, 2020 and an increase of 36 percent from \$7.6 billion at September 30, 2020. Effective December 18, 2020, the Bank completed the hires of the 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. Effective July 1, 2021, the Bank closed on the acquisition of Princeton Portfolio Strategies Group ("PPSG"), a registered investment advisor headquartered in Princeton, New Jersey, which contributed approximately \$520 million of AUM/AUA at the time of acquisition.

In the September 2021 quarter, Peapack Private generated \$13.9 million in fee income compared to \$10.1 million for the September 2020 quarter, reflecting a 37 percent increase. For the nine months ended September 30, 2021, Peapack Private generated \$39.0 million in fee income compared to \$30.1 million in fee income for the same period in 2020, reflecting a 30 percent increase. The growth in fee income was due to several factors, including the acquisitions noted above, new business, and positive market performance, partially offset by normal levels of disbursements and outflows.

Operating expenses relative to Peapack Private reflected increases due to overall growth in the business, new hires and acquisitions when comparing both the three and nine months ended September 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				
	September 30, 2021	June 30, 2021	March 31, 2021	December 31, 2020	September 30, 2020
Loans past due 90 days or more and still accruing	\$ —	\$ —	\$ —	\$ —	\$ —
Nonaccrual loans (1)	25,925	5,962	11,767	11,410	8,611
Other real estate owned	—	—	50	50	50
Total nonperforming assets	<u>\$ 25,925</u>	<u>\$ 5,962</u>	<u>\$ 11,817</u>	<u>\$ 11,460</u>	<u>\$ 8,661</u>
Performing TDRs	\$ 416	\$ 190	\$ 197	\$ 201	\$ 2,278
Loans past due 30 through 89 days and still accruing (2)(3)	\$ 1,193	\$ 1,678	\$ 1,622	\$ 5,053	\$ 6,609
Loans subject to special mention	\$ 115,935	\$ 148,601	\$ 166,013	\$ 162,103	\$ 129,700
Classified loans (1)	\$ 51,937	\$ 11,178	\$ 25,714	\$ 37,771	\$ 41,263
Impaired loans (1)	\$ 26,341	\$ 6,498	\$ 11,964	\$ 16,204	\$ 15,514
Nonperforming loans as a % of total loans (4)	0.57%	0.13%	0.27%	0.26%	0.19
Nonperforming assets as a % of total assets (4)	0.42%	0.10%	0.20%	0.19%	0.15
Nonperforming assets as a % of total loans plus other real estate owned (4)	0.57%	0.13%	0.27%	0.26%	0.19

(1) Excludes one commercial loan held for sale of \$5.6 million at September 30, 2021, 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. Includes one impaired commercial real estate loan with a balance of \$19.9 million at September 30, 2021.

(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.

PROVISION FOR LOAN AND LEASE LOSSES: The provision for loan and lease losses was \$1.6 million and \$5.2 million for the third quarters of 2021 and 2020, respectively. For the nine months ended September 30, 2021 and 2020, the provision for loan losses was \$2.7 million and \$30.1 million, respectively. The decreased provision for loan and lease losses for both the three and nine months ended September 30, 2021 when compared to the three and nine months ended September 30, 2020 reflect the reduced qualitative factors when calculating the allowance for loan losses due to the improvement in the unemployment rate and a decrease in loan deferrals entered into during the COVID-19 pandemic from the prior year (declined from \$828 million at September 30, 2020 to \$33 million at September 30, 2021). The provision for loan losses for the third quarter of 2021 also reflected loan growth of \$41.6 million, excluding PPP loans, and a specific reserve of \$7.1 million on a \$19.9 million commercial real estate loan, which were partially offset by the decline in qualitative factors related to loan deferrals. The Company's provision for loan and lease losses also reflects 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 \$65.1 million as of September 30, 2021, compared to \$67.3 million at December 31, 2020. As a percentage of loans, the allowance for loan and lease losses was 1.42 percent and 1.54 percent at September 30, 2021 and at December 31, 2020, respectively. The specific reserves recorded on impaired loans were \$7.2 million at September 30, 2021 compared to \$2.7 million as of December 31, 2020. Total impaired loans were \$26.3 million and \$16.2 million as of September 30, 2021 and December 31, 2020, respectively. The general component of the allowance decreased from \$64.6 million at December 31, 2020 to \$57.9 million at September 30, 2021.

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

(Dollars in thousands)	September 30, 2021	June 30, 2021	March 31, 2021	December 31, 2020	September 30, 2020
Allowance for loan and lease losses:					
Beginning of period	\$ 63,505	\$ 67,536	\$ 67,309	\$ 66,145	\$ 66,065
Provision for loan and lease losses	1,600	900	225	2,350	5,150
Recoveries/(charge-offs), net	28	(4,931)	2	(1,186)	(5,070)
End of period	<u>\$ 65,133</u>	<u>\$ 63,505</u>	<u>\$ 67,536</u>	<u>\$ 67,309</u>	<u>\$ 66,145</u>
Allowance for loan and lease losses as a % of total loans (A)	1.42%	1.39%	1.54%	1.54%	1.49%
General allowance for loan and lease losses as a % of total loans (A)	1.27%	1.39%	1.47%	1.48%	1.49%
Allowance for loan and lease losses as a % of non-performing loans	251.24%	1065.16%	573.94%	589.91%	768.15%

(A) The September 30, 2020, December 31, 2020, March 31, 2021, June 30, 2021 and September 30, 2021 ALLL coverage ratios include PPP loans of \$202.0 million, \$195.6 million, \$186.9 million, \$83.8 million and \$48.7 million, respectively, in total loans.

INCOME TAXES: Income tax expense for the quarter ended September 30, 2021 was \$5.0 million as compared to \$5.2 million for the same period in 2020. During the nine months ended September 30, 2021 and 2020, the Company recorded income tax expense of \$15.2 million and \$4.3 million, respectively.

The effective tax rate for the three months ended September 30, 2021 was 26.22 percent compared to 27.75 percent for the same quarter in 2020.

The effective tax rate for the nine months ended September 30, 2021 was 26.65 percent compared to 15.65 percent for the same 2020 period. 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 \$41.8 million for the nine months ended September 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 \$10.8 million. The Company repurchased 619,815 shares, at an average price of \$31.33, for a total cost of \$19.4 million during the nine months ended September 30, 2021.

The Company employs quarterly capital stress testing – adverse case and severely adverse case. In the most recent completed stress test on June 30, 2021, under severely adverse case, and no growth scenarios, 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 September 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 its 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 Economic Growth, Regulatory Relief, and Consumer Protection Act, the federal banking agencies were 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 10.15 percent at September 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 September 30, 2021:								
Total capital (to risk-weighted assets)	\$ 651,841	14.26%	\$ 457,054	10.00%	\$ 365,643	8.00%	\$ 479,907	10.50%
Tier I capital (to risk-weighted assets)	594,610	13.01	365,643	8.00	274,232	6.00	388,496	8.50
Common equity tier I (to risk-weighted assets)	594,581	13.01	297,085	6.50	205,674	4.50	319,938	7.00
Tier I capital (to average assets)	594,610	10.15	292,879	5.00	234,303	4.00	234,303	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 September 30, 2021:								
Total capital (to risk-weighted assets)	\$ 691,044	15.12%	N/A	N/A	\$ 365,617	8.00%	\$ 479,872	10.50%
Tier I capital (to risk-weighted assets)	501,188	10.97	N/A	N/A	274,213	6.00	388,468	8.50
Common equity tier I (to risk-weighted assets)	501,159	10.97	N/A	N/A	205,660	4.50	319,915	7.00
Tier I capital (to average assets)	501,188	8.56	N/A	N/A	234,284	4.00	234,284	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 September 30, 2021 were in the open market.

On October 27, 2021, the Board of Directors declared a regular cash dividend of \$0.05 per share payable on November 26, 2021 to shareholders of record on November 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 \$616.2 million at September 30, 2021. In addition, the Company had \$843.8 million in securities designated as available for sale at September 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 \$758.5 million as of September 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 \$48.7 million at September 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 September 30, 2021, the Company had approximately \$1.9 billion of secured funding available from the Federal Home Loan Bank. Additionally, the Company had \$1.1 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 September 30, 2021. The interest rate paid on these deposits allows the Bank to fund asset growth 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 September 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 September 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 September 30, 2021, \$731.0 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 September 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 September 30, 2021.

In an immediate and sustained 100 basis point increase in market rates at September 30, 2021, net interest income would increase approximately 5.9 percent for year 1 and 8.9 percent for year 2, compared to a flat interest rate scenario.

In an immediate and sustained 200 basis point increase in market rates at September 30, 2021, net interest income for year 1 would increase approximately 10.4 percent, when compared to a flat interest rate scenario. In year 2 net interest income would increase 16.3 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 September 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	\$ 697,330	\$ 16,756	2.46%	11.68%	75
+100	689,879	9,305	1.37	11.32	39
Flat interest rates	680,574	—	—	10.93	—
-100	635,345	(45,229)	(6.65)	10.11	(82)

- (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 September 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 September 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.

PART 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.

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	Maximum Number of Shares That May Yet Be Purchased Under the Plans Or Programs (2)
July 1, 2021 -				
July 31, 2021	—	—	\$ —	\$ 555,980
August 1, 2021 -				
August 31, 2021	109,996	—	32.89	\$ 445,984
September 1, 2021 -				
September 30, 2021	117,064	—	32.58	\$ 328,920
Total	<u>227,060</u>	<u>—</u>	<u>32.73</u>	

(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>
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: November 8, 2021

By: /s/ Douglas L. Kennedy
Douglas L. Kennedy
President and Chief Executive Officer
(Principal Executive Officer)

DATE: November 8, 2021

By: /s/ Jeffrey J. Carfora
Jeffrey J. Carfora
Senior Executive Vice President and Chief Financial Officer
(Principal Financial Officer)

DATE: November 8, 2021

By: /s/ Francesco S. Rossi
Francesco S. Rossi
Chief Accounting Officer
(Principal Accounting Officer)

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: November 8, 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: November 8, 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 September 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: November 8, 2021

/s/ Jeffrey J. Carfora

Name: Jeffrey J. Carfora
Title: Senior Executive Vice President
Chief Financial Officer
Date: November 8, 2021