

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 March 31, 2023

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 May 1, 2023: 18,016,963

PEAPACK-GLADSTONE FINANCIAL CORPORATION

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Item 1. Financial Statements

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

	(unaudited) March 31, 2023	(audited) December 31, 2022
ASSETS		
Cash and due from banks	\$ 6,514	\$ 5,937
Federal funds sold	—	—
Interest-earning deposits	244,779	184,138
Total cash and cash equivalents	251,293	190,075
Securities available for sale	556,266	554,648
Securities held to maturity (fair value \$97,967 at March 31, 2023 and \$87,187 at December 31, 2022)	111,609	102,291
CRA equity security, at fair value	13,194	12,985
FHLB and FRB stock, at cost (A)	30,338	30,672
Loans held for sale, at fair value	—	—
Loans held for sale, at lower of cost or fair value	13,800	15,626
Loans	5,365,729	5,285,246
Less: allowance for credit losses	62,250	60,829
Net loans	5,303,479	5,224,417
Premises and equipment	23,782	23,831
Other real estate owned	116	116
Accrued interest receivable	19,143	25,157
Bank owned life insurance	47,261	47,147
Goodwill	36,212	36,212
Other intangible assets	10,767	11,121
Finance lease right-of-use assets	2,648	2,835
Operating lease right-of-use assets	12,262	12,873
Other assets	47,848	63,587
TOTAL ASSETS	\$ 6,480,018	\$ 6,353,593
LIABILITIES		
Deposits:		
Noninterest-bearing demand deposits	\$ 1,096,549	\$ 1,246,066
Interest-bearing deposits:		
Checking	2,797,493	2,143,611
Savings	132,523	157,338
Money market accounts	873,329	1,228,234
Certificates of deposit - retail	357,131	318,573
Certificates of deposit - listing service	15,922	25,358
Subtotal deposits	5,272,947	5,119,180
Interest-bearing demand - brokered	10,000	60,000
Certificates of deposit - brokered	25,895	25,984
Total deposits	5,308,842	5,205,164
Short-term borrowings	378,800	379,530
Finance lease liabilities	4,385	4,696
Operating lease liabilities	13,082	13,704
Subordinated debt, net	133,059	132,987
Deferred tax liabilities, net	12,112	15,432
Due to brokers	8,308	—
Accrued expenses and other liabilities	66,472	69,100
TOTAL LIABILITIES	5,925,060	5,820,613
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, 21,291,670 at March 31, 2023 and 21,007,350 at December 31, 2022; outstanding shares, 18,014,757 at March 31, 2023 and 17,813,451 at December 31, 2022)	17,750	17,513
Surplus	339,060	338,706
Treasury stock at cost (3,276,913 shares at March 31, 2023 and 3,193,899 shares at December 31, 2022)	(100,677)	(97,826)
Retained earnings	366,270	348,798
Accumulated other comprehensive loss, net of income tax	(67,445)	(74,211)
TOTAL SHAREHOLDERS' EQUITY	554,958	532,980
TOTAL LIABILITIES & SHAREHOLDERS' EQUITY	\$ 6,480,018	\$ 6,353,593

(A) FHLB means "Federal Home Loan Bank" and FRB means "Federal Reserve Bank."

See accompanying notes to consolidated financial statements

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

	Three Months Ended March 31,	
	2023	2022
INTEREST INCOME		
Interest and fees on loans	\$ 64,472	\$ 40,472
Interest on investments:		
Taxable	4,471	3,607
Tax-exempt	8	21
Interest on loans held for sale	2	11
Interest on interest-earning deposits	1,538	29
Total interest income	70,491	44,140
INTEREST EXPENSE		
Interest on savings and interest-bearing deposit accounts	21,383	1,782
Interest on certificates of deposit	1,729	606
Interest on borrowed funds	1,296	64
Interest on finance lease liability	53	68
Interest on subordinated debt	1,639	1,364
Subtotal - interest expense	26,100	3,884
Interest on interest-bearing demand - brokered	208	373
Interest on certificates of deposits - brokered	205	261
Total interest expense	26,513	4,518
NET INTEREST INCOME BEFORE PROVISION FOR CREDIT LOSSES	43,978	39,622
Provision for credit losses	1,513	2,375
NET INTEREST INCOME AFTER PROVISION FOR CREDIT LOSSES	42,465	37,247
OTHER INCOME		
Wealth management fee income	13,762	14,834
Service charges and fees	1,258	952
Bank owned life insurance	297	313
Gain on loans held for sale at fair value (mortgage banking)	21	247
Gain on loans held for sale at lower of cost or fair value	—	—
Fee income related to loan level, back-to-back swaps	—	—
Gain on sale of SBA loans	865	2,844
Corporate advisory fee income	80	1,561
Other income	1,567	1,254
Loss on securities sale, net	—	(6,609)
Fair value adjustment for CRA equity security	209	(682)
Total other income	18,059	14,714
OPERATING EXPENSES		
Compensation and employee benefits	24,586	22,449
Premises and equipment	4,374	4,647
FDIC insurance expense	711	471
Swap valuation allowance	—	673
Other operating expense	5,903	5,929
Total operating expenses	35,574	34,169
INCOME BEFORE INCOME TAX EXPENSE	24,950	17,792
Income tax expense	6,595	4,351
NET INCOME	\$ 18,355	\$ 13,441
EARNINGS PER SHARE		
Basic	\$ 1.03	\$ 0.73
Diluted	\$ 1.01	\$ 0.71
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING		
Basic	17,841,203	18,339,013
Diluted	18,263,310	18,946,683

See accompanying notes to consolidated financial statements

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

	Three Months Ended March 31,	
	2023	2022
Net income	\$ 18,355	\$ 13,441
Comprehensive income/(loss):		
Unrealized gains/(losses) on available for sale securities:		
Unrealized holding gains/(losses) arising during the period	8,769	(46,799)
Reclassification adjustment for amounts included in net income	—	6,609
	<u>8,769</u>	<u>(40,190)</u>
Tax effect	(48)	9,616
Net of tax	<u>8,721</u>	<u>(30,574)</u>
Unrealized gains/(losses) on cash flow hedges:		
Unrealized holding gains/(losses) arising during the period	(2,732)	2,796
Reclassification adjustment for amounts included in net income	(42)	—
	<u>(2,774)</u>	<u>2,796</u>
Tax effect	819	(786)
Net of tax	<u>(1,955)</u>	<u>2,010</u>
Total other comprehensive income/(loss)	<u>6,766</u>	<u>(28,564)</u>
Total comprehensive income/(loss)	<u>\$ 25,121</u>	<u>\$ (15,123)</u>

See accompanying notes to consolidated financial statements

PEAPACK-GLADSTONE FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(Dollars in thousands, except per share amounts)
(Unaudited)

Three Months Ended March 31, 2023 and March 31, 2022

(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, 2023 17,813,451 common shares outstanding	\$ —	\$ 17,513	\$ 338,706	\$ (97,826)	\$ 348,798	\$ (74,211)	\$ 532,980
Net income	—	—	—	—	18,355	—	18,355
Comprehensive income	—	—	—	—	—	6,766	6,766
Restricted stock units issued, 352,634 shares	—	294	(294)	—	—	—	—
Restricted stock units repurchased on vesting to pay taxes, (76,147) shares	—	(63)	(2,314)	—	—	—	(2,377)
Amortization of restricted stock units	—	—	2,666	—	—	—	2,666
Cash dividends declared on common stock (\$0.05 per share)	—	—	—	—	(883)	—	(883)
Share repurchase, (83,014) shares	—	—	—	(2,851)	—	—	(2,851)
Common stock options exercised, 300 shares	—	—	4	—	—	—	4
Issuance of shares for Employee Stock Purchase Plan, 7,533 shares	—	6	292	—	—	—	298
Balance at March 31, 2023 18,014,757 common shares outstanding	<u>\$ —</u>	<u>\$ 17,750</u>	<u>\$ 339,060</u>	<u>\$ (100,677)</u>	<u>\$ 366,270</u>	<u>\$ (67,445)</u>	<u>\$ 554,958</u>

(In thousands, except share and per share data)	Preferred Stock	Common Stock	Surplus	Treasury Stock	Retained Earnings	Accumulate d Other Comprehens ive Loss	Total
Balance at January 1, 2022 18,393,888 common shares outstanding	\$ —	\$ 17,220	\$ 332,358	\$ (65,104)	\$ 274,288	\$ (12,374)	\$ 546,388
Cumulative effect adjustment for adoption of ASU 2016-13	—	—	—	—	3,909	—	3,909
Balance at January 1, 2022, adjusted	\$ —	\$ 17,220	\$ 332,358	\$ (65,104)	\$ 278,197	\$ (12,374)	\$ 550,297
Net income	—	—	—	—	13,441	—	13,441
Comprehensive loss	—	—	—	—	—	(28,564)	(28,564)
Restricted stock units issued, 306,684 shares	—	256	(256)	—	—	—	—
Restricted stock units repurchased on vesting to pay taxes, (67,999) shares	—	(57)	(2,447)	—	—	—	(2,504)
Amortization of restricted stock units	—	—	2,475	—	—	—	2,475
Cash dividends declared on common stock (\$0.05 per share)	—	—	—	—	(920)	—	(920)
Share repurchase, (299,878) shares	—	—	—	(11,174)	—	—	(11,174)
Common stock options exercised, 9,260 shares	—	7	113	—	—	—	120
Exercise of warrants 49,860 net of 28,311 shares used to exercise, 21,549 shares	—	18	(18)	—	—	—	—
Issuance of shares for Employee Stock Purchase Plan, 6,808 shares	—	6	249	—	—	—	255
Balance at March 31, 2022 18,370,312 common shares outstanding	\$ —	\$ 17,450	\$ 332,474	\$ (76,278)	\$ 290,718	\$ (40,938)	\$ 523,426

See accompanying notes to consolidated financial statements

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

	Three Months Ended March 31,	
	2023	2022
OPERATING ACTIVITIES:		
Net income	\$ 18,355	\$ 13,441
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	879	839
Amortization of premium and accretion of discount on securities, net	169	947
Amortization of restricted stock	2,666	2,475
Amortization of intangible assets	354	431
Amortization of subordinated debt costs	72	71
Provision for credit losses	1,513	2,375
Swap valuation allowance	—	673
Deferred tax benefit	(2,493)	(3,575)
Stock-based compensation and employee stock purchase plan expense	48	35
Fair value adjustment for equity security	(209)	682
Loss on securities available for sale	—	6,609
Loans originated for sale (A)	(9,856)	(34,779)
Proceeds from sales of loans held for sale (A)	12,568	43,006
Gain on loans held for sale (A)	(886)	(3,091)
Loss on disposal of fixed assets	6	—
Increase in cash surrender value of life insurance, net	(114)	(142)
Decrease/(increase) in accrued interest receivable	6,014	(1,301)
Decrease in other assets	5,735	2,810
Increase/(decrease) in accrued expenses and other liabilities	4,176	(587)
NET CASH PROVIDED BY OPERATING ACTIVITIES	38,997	30,919
INVESTING ACTIVITIES:		
Principal repayments, maturities and calls of securities available for sale	157,660	102,224
Principal repayments, maturities and calls of securities held to maturity	1,021	1,829
Redemptions of FHLB and FRB stock	27,887	16,771
Purchase of securities held to maturity	(2,051)	—
Purchase of securities available for sale	(150,658)	(74,590)
Purchase of FHLB and FRB stock	(27,553)	(22,391)
Net increase in loans, net of participations sold	(80,575)	(316,167)
Purchase of premises and equipment	(643)	(568)
Disposal of premises and equipment	(6)	—
NET CASH USED IN INVESTING ACTIVITIES	(74,918)	(292,892)
FINANCING ACTIVITIES:		
Net increase in deposits	103,678	121,267
Net (decrease)/increase in short-term borrowings	(250,730)	122,085
Proceeds from FHLB short term advances	250,000	—
Dividends paid on common stock	(883)	(920)
Exercise of stock options, net of stock swaps	4	120
Restricted stock repurchased on vesting to pay taxes	(2,377)	(2,504)
Issuance of shares for employee stock purchase plan	298	255
Shares repurchased	(2,851)	(11,174)
NET CASH PROVIDED BY FINANCING ACTIVITIES	97,139	229,129
Net increase/(decrease) in cash and cash equivalents	61,218	(32,844)
Cash and cash equivalents at beginning of period	190,075	146,804
Cash and cash equivalents at end of period	\$ 251,293	\$ 113,960
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the period for:		
Interest	\$ 21,375	\$ 3,099
Income tax, net	199	199
Security purchases due from broker	8,308	—
Security sales due from broker	—	120,245

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

See accompanying notes to consolidated financial statements

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Certain information and footnote disclosures normally included in the audited consolidated financial statements prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) 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, 2022 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 March 31, 2023, and the results of operations, comprehensive income/(loss), changes in shareholders’ equity and cash flow statements for the three months ended March 31, 2023 and 2022. The results of operations for the three months ended March 31, 2023 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”)
- Peapack-Gladstone Mortgage Group, Inc., which 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, which owns one percent of Peapack Ventures, LLC
- Peapack Ventures, LLC, which owns the remaining 21 percent of Peapack-Gladstone Realty, Inc.
- PGB Securities, Inc.

While the following notes to the consolidated financial statements include the consolidated results of the Company, the Bank and their subsidiaries, these notes 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 GAAP. 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.

Adoption of New Accounting Standards: On January 1, 2022, the Company adopted Accounting Standards Update (“ASU”) 2016-13, *Financial Instruments – Credit Losses (Topic 326)* (“ASU 2016-13”), which replaced the incurred loss methodology with an expected loss methodology that is referred to as the current expected credit loss (“CECL”) methodology. The measurement of expected credit losses under the CECL methodology is applicable to financial assets measured at amortized cost, including loan and lease receivables and held-to-maturity debt securities. It also applies to off-balance sheet credit exposures not accounted for as insurance (loan commitments, standby letters of credit, financial guarantees, and other similar instruments). In addition, Accounting Standards Codification (“ASC”) 326 made changes to the accounting for available-for-sale debt securities. One such change is to require credit losses to be presented as an allowance rather than as a write-down on available-for-sale debt securities. Management does not intend to sell or believes that it is more likely than not they will be required to sell.

The Company adopted ASC 326 using the modified retrospective method for all financial assets measured at amortized cost and off-balance sheet commitments. Results for reporting periods beginning after January 1, 2022, are presented under ASC 326 while prior period amounts continue to be reported in accordance with the incurred loss model previously applicable under GAAP. The Company recorded a net increase to retained earnings of \$3.9 million as of January 1, 2022, for the cumulative effect of adopting ASC 326. The transition adjustment includes a \$5.5 million reduction to our allowance for credit losses. The lower allowance was in part attributed to historically low charge-offs combined with the shorter duration of the loan portfolio employed in our CECL analysis. Further, the incurred loss method required significant qualitative factors, including factors related to COVID-19, and the

use of a multiplier for potential losses on criticized and classified loans, neither of which are included within the CECL methodology. The CECL methodology utilizes significantly less qualitative factors as it uses economic factors and historical losses over a full economic cycle and calculates losses based on discounted cash flows on an individual loan basis. Accordingly, the CECL model quantitatively accounts for some of the qualitative factors utilized in the incurred loss methodology.

The following table illustrates the impact to our financial statements as of January 1, 2022 upon adoption of ASC 326:

(In thousands)	January 1, 2022		
	Impact to Consolidated Statement of Condition from ASC-326 Adoption	Tax Effect	Impact to Retained Earnings from ASC-326 Adoption
Allowance for credit losses on loans	\$ 5,536	\$ (1,490)	\$ 4,046
Allowance for credit losses on off-balance sheet commitments	(188)	51	(137)
Total impact from ASC 326 adoption	<u>\$ 5,348</u>	<u>\$ (1,439)</u>	<u>\$ 3,909</u>

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) Peapack Private Wealth Management Division ("Peapack Private"), which includes investment management services to individuals and institutions. Management uses certain methodologies to allocate income and expense to the business segments.

The Banking segment includes: commercial (including 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. 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 and/or administration ("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: Prior to January 1, 2022, Management evaluated securities for other-than-temporary impairment on at least a quarterly basis, and more frequently when economic or market conditions warranted. For securities in an unrealized loss position, Management considered the extent and duration of the unrealized loss and the financial condition and near-term prospects of the issuer. Management also assessed whether it intended to sell, or it was more likely than not that it was 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 was met, the entire difference between amortized cost and fair value was recognized as impairment through earnings. For debt securities that did not meet the aforementioned criteria, the amount of impairment was split into two components as follows: (1) other-than-temporary impairment related to credit loss, which was recognized through the income statement and (2) other-than-temporary impairment related to other factors, which was recognized in other comprehensive income.

Effective January 1, 2022, upon the adoption of ASU 2016-13, debt securities available-for-sale are measured at fair value and subject to impairment testing. When an available-for-sale debt security is considered impaired, the Company must determine if the decline in fair value has resulted from a credit-related loss or other factors and then, (1) recognize an allowance for credit losses ("ACL") by a charge to earnings for the credit-related component (if any) of the decline in fair value, and (2) recognize in other comprehensive income (loss) any non-credit related components of the fair value change. If the amount of the amortized cost basis expected to be recovered increases in a future period, the valuation reserve would be reduced, but not more than the amount of the current existing reserve for that security.

Debt securities are classified as held to maturity and carried at amortized cost when Management has the positive intent and ability to hold them to maturity. Under ASU 2016-13, held-to-maturity securities in a loss position are evaluated to determine if the decline in fair value has resulted from a credit-related loss or other factors and then, recognize an ACL through a charge to earnings for the decline in fair value. 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.

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 \$158.6 million and \$152.2 million as of March 31, 2023 and December 31, 2022, respectively. SBA loans held for sale totaled \$15.1 million and \$17.2 million at March 31, 2023 and December 31, 2022, 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/costs, however, for the Company's loan disclosures, accrued interest and deferred fees/costs 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 individually evaluated 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 Credit Losses: On January 1, 2022, the Company adopted ASU 2016-13, *Topic 326* which replaced the incurred loss methodology with CECL for financial instruments measured at amortized cost and other commitments to extend credit. CECL requires the immediate recognition of estimated credit losses expected to occur over the estimated remaining life of the asset. The forward-looking concept of CECL requires loss estimates to consider historical experience, current conditions and reasonable and supportable economic forecasts of future events and circumstances.

The allowance for credit losses ("ACL") on loans held for investment is the combination of the allowance for loan losses and the reserve for unfunded loan commitments. The allowance for loan losses is reported as a reduction of the amortized cost basis of loans, while the reserve for unfunded loan commitments is included within "other liabilities" on the Consolidated Statements of Condition. The estimate of credit loss incorporates assumptions for both the likelihood and amount of funding over the estimated life of the commitments, including adjustments for current conditions and reasonable and supportable forecasts. Management periodically reviews and updates its assumptions for estimated funding rates. The amortized cost basis of loans does not include accrued interest receivable, which is included in "accrued interest receivable" on the Consolidated Statements of Condition. The "Provision for credit losses" on the Consolidated Statements of Income is a combination of the provision for credit losses and the provision for unfunded loan commitments.

ACL in accordance with CECL methodology

With respect to pools of similar loans that are collectively evaluated, an appropriate level of general allowance is determined by portfolio segment using a non-linear discounted cash flow ("DCF") model. The DCF model captures losses over the historical charge-off and prepayment cycle and applies those losses at a loan level over the remaining maturity of the loan. The model then calculates a historical loss rate using the average losses over the reporting period, which is then applied to each segment utilizing a standard reversion rate. This loss rate is then supplemented with adjustments for reasonable and supportable forecasts of relevant economic indicators, including but not limited to unemployment rates, national consumer price and confidence indices. Expected credit losses are estimated over the contractual term of the loans, adjusted for expected prepayments when appropriate. Also included in the ACL are qualitative factors based on the risks present for each portfolio segment. These qualitative factors include 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; industry conditions; and effects of changes in credit concentrations. It is also possible that these factors could include social, political, economic, and terrorist events or activities. All of these factors are susceptible to change, which may be significant. The ACL results in two forms of allocations, specific and general. These two components represent the total ACL deemed adequate to cover current expected credit losses in the loan portfolio.

When management identifies loans that do not share common risk characteristics (i.e., are not similar to other loans within a pool) they are evaluated on an individual basis. These loans are not included in the collective evaluation. For loans identified as having a likelihood of foreclosure or that the borrower is experiencing financial difficulty, a collateral dependent approach is used. These are loans for which the repayment is expected to be provided substantially through the operation or sale of the collateral. Under CECL, for collateral dependent loans, the Company has adopted the practical expedient method to measure the allowance for credit losses based on the fair value of collateral. The allowance for credit losses is calculated on an individual loan basis based on the shortfall between the fair value of the loan's collateral, which is adjusted for liquidation costs/discounts, and amortized cost. If the fair value of the collateral exceeds the amortized cost, no allowance is required.

The CECL methodology requires a significant amount of management judgment in determining the appropriate allowance for credit losses. Several of the steps in the methodology involve judgment and are subjective in nature including, among other things: segmenting the loan portfolio; determining the amount of loss history to consider; selecting predictive econometric regression models that use appropriate macroeconomic variables; determining the methodology to forecast prepayments; selecting the most

appropriate economic forecast scenario; determining the length of the reasonable and supportable forecast and reversion periods; estimating expected utilization rates on unfunded loan commitments; and assessing relevant and appropriate qualitative factors. In addition, the CECL methodology is dependent on economic forecasts, which are inherently imprecise and will change from period to period. Although the allowance for credit losses is considered appropriate, there can be no assurance that it will be sufficient to absorb future losses.

In determining an appropriate amount for the allowance, the Bank segments and aggregates the loan portfolio based on common characteristics. The following segments 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.

Junior Lien Loan on Residence (which include home equity lines of credit). The Bank provides junior lien loans (“JLL”) and revolving home equity lines of credit against one to four family properties in the Tri-State area. These loans are subordinate to a first mortgage, which may be from another lending institution. Primary risk characteristics associated with JLLs and 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. 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. 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.

Multifamily. The Bank provides mortgage loans for multifamily properties (i.e., buildings which have five or more residential units). Multifamily loans are expected to be repaid from the cash flows of the underlying property so the collective amount of rents must be sufficient to cover all operating 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.

Owner-Occupied Commercial Real Estate Loans. The Bank provides mortgage loans for owner-occupied commercial real estate properties 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 mixed use. Commercial real estate loans are generally considered to have a higher degree of credit risk 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.

Investment Commercial Real Estate Loans. The Bank provides mortgage loans for properties managed as an investment property (non-owner-occupied) in the Tri-State area and Pennsylvania. Non-owner-occupied 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. Commercial real estate loans are generally considered to have a higher degree of credit risk 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. To mitigate the risk characteristics of commercial and industrial loans, these loans often include

commercial real estate as collateral 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 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.

Construction. The Bank provides commercial construction loans for properties located in the Tri-state area. Risks common to commercial construction loans are cost overruns, changes in market demand for property, inadequate long-term financing arrangements and declines in real estate values. Changes in market demand for property could lead to longer marketing times resulting in higher carrying costs, declining values, and higher interest rates.

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.

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 credit losses.

On January 1, 2023, the Company adopted Accounting Standards Update ("ASU") 2022-02, which replaced the accounting and recognition of TDRs. ASU 2022-02 eliminates the accounting guidance on troubled debt restructurings for creditors in ASC 310-40 and amends the guidance on "vintage disclosures" to require disclosure of current-period gross write-offs by year of origination. ASU 2022-02 also updates the requirements related to accounting for credit losses under ASC 326 and adds enhanced disclosures for creditors with respect to loan refinancings and restructurings for borrowers experiencing financial difficulty.

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 as separate line items on the statement of condition. An 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 statement of condition 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 2021 Long-Term Stock Incentive Plan allows 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 plans approved in 2002, 2006 and 2012; however, options granted under these plans 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. The Company has a policy of using authorized but unissued shares to satisfy option exercises.

Upon adoption of 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.

Changes in options outstanding during the three months ended March 31, 2023 were as follows:

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value (In thousands)
Balance, January 1, 2023	6,800	\$ 16.53		
Exercised during 2023	(300)	14.60		
Expired during 2023	(2,300)	14.86		
Forfeited during 2023	—	—		
Balance, March 31, 2023	4,200	\$ 17.58	0.57 years	\$ 51
Vested and expected to vest	4,200	\$ 17.58	0.57 years	\$ 51
Exercisable at March 31, 2023	4,200	\$ 17.58	0.57 years	\$ 51

The aggregate intrinsic value represents the difference between the Company's closing stock price on the last trading day of the first quarter of 2023 and the exercise price, multiplied by the number of in-the-money options. The Company's closing stock price on March 31, 2023 was \$29.62.

There were no stock options granted during the three months ended March 31, 2023.

As of March 31, 2023, there was no unrecognized compensation cost related to non-vested share-based compensation arrangements granted under the Company's stock incentive plans.

The Company issued performance-based and service-based restricted stock units in 2023 and 2022. Service-based units vest ratably over a three- or five-year period. There were 269,570 service-based restricted stock units granted during the first quarter of 2023.

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 123,137 performance-based restricted stock units granted in the first quarter of 2023.

Changes in non-vested shares dependent on performance criteria for the three months ended March 31, 2023 were as follows:

	Number of Shares	Weighted Average Grant Date Fair Value
Balance, January 1, 2023	233,556	\$ 23.77
Granted during 2023	123,137	26.60
Vested during 2023	(145,176)	13.44
Forfeited during 2023	—	—
Balance, March 31, 2023	211,517	\$ 32.51

Changes in service-based restricted stock awards/units for the three months ended March 31, 2023 were as follows:

	Number of Shares	Weighted Average Grant Date Fair Value
Balance, January 1, 2023	621,170	\$ 27.50
Granted during 2023	269,570	30.96
Vested during 2023	(207,705)	26.49
Forfeited during 2023	(2,187)	24.98
Balance, March 31, 2023	680,848	\$ 29.19

As of March 31, 2023, there was \$23.0 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 1.44 years. Stock compensation expense recorded for the first quarters of 2023 and 2022 totaled \$2.7 million and \$1.9 million, respectively.

Employee Stock Purchase Plan (“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.

The ESPP allows for the purchase of shares during four three-month Offering Periods of each calendar year. The Offering Periods end on 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, 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 \$48,000 and \$35,000 of expense in salaries and employee benefits expense for the three months ended March 31, 2023 and 2022, respectively related to the ESPP. Total shares issued under the ESPP during the first quarter of 2023 and 2022 were 7,533 and 6,808, 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 shares of restricted stock, stock warrants or restricted stock units were to vest during the reporting period.

	Three Months Ended March 31,	
	2023	2022
(Dollars in thousands, except per share data)		
Net income available to common shareholders	\$ 18,355	\$ 13,441
Basic weighted average shares outstanding	17,841,203	18,339,013
Plus: common stock equivalents	422,107	607,670
Diluted weighted average shares outstanding	18,263,310	18,946,683
Net income per share		
Basic	\$ 1.03	\$ 0.73
Diluted	1.01	0.71

For the three months ended March 31, 2023 and 2022, restricted stock units totaling 362,052 and 299,433, respectively, 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 2019 or by New Jersey tax authorities for years prior to 2017.

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: Cash on hand or on deposit with the Federal Reserve Bank of New York was required to meet regulatory reserve and clearing requirements.

Comprehensive Income/(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.

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. Goodwill was primarily attributable to the Bank's wealth acquisitions. Management monitors the impact of changes in the financial markets and includes these assessments in our impairment process. Management has concluded that there was no goodwill impairment as of March 31, 2023.

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

A summary of amortized cost and approximate fair value of investment securities available for sale and held to maturity included in the Consolidated Statements of Condition as of March 31, 2023 and December 31, 2022 follows:

(In thousands)	March 31, 2023				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Allowance for Credit Losses	Fair Value
Securities Available for Sale:					
U.S government-sponsored agencies	\$ 244,779	\$ —	\$ (49,992)	\$ —	\$ 194,787
Mortgage-backed securities—residential	366,852	61	(42,726)	—	324,187
SBA pool securities	30,403	—	(3,951)	—	26,452
State and political subdivisions	1,860	—	(8)	—	1,852
Corporate bond	10,000	—	(1,012)	—	8,988
Total securities available for sale	<u>\$ 653,894</u>	<u>\$ 61</u>	<u>\$ (97,689)</u>	<u>\$ —</u>	<u>\$ 556,266</u>
Securities Held to Maturity:					
U.S. government-sponsored agencies	\$ 40,000	\$ —	\$ (4,001)	\$ —	\$ 35,999
Mortgage-backed securities—residential	71,609	—	(9,641)	—	61,968
Total securities held to maturity	<u>\$ 111,609</u>	<u>\$ —</u>	<u>\$ (13,642)</u>	<u>\$ —</u>	<u>\$ 97,967</u>

(In thousands)	December 31, 2022				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Allowance for Credit Losses	Fair Value
Securities Available for Sale:					
U.S government-sponsored agencies	\$ 244,774	\$ —	\$ (54,232)	\$ —	\$ 190,542
Mortgage-backed securities–residential	372,471	27	(46,760)	—	325,738
SBA pool securities	31,934	1	(4,508)	—	27,427
State and political subdivisions	1,866	—	(17)	—	1,849
Corporate bond	10,000	—	(908)	—	9,092
Total securities available for sale	<u>\$ 661,045</u>	<u>\$ 28</u>	<u>\$ (106,425)</u>	<u>\$ —</u>	<u>\$ 554,648</u>
Securities Held to Maturity:					
U.S. government-sponsored agencies	\$ 40,000	\$ —	\$ (4,563)	\$ —	\$ 35,437
Mortgage-backed securities–residential	62,291	—	(10,541)	—	51,750
Total securities held to maturity	<u>\$ 102,291</u>	<u>\$ —</u>	<u>\$ (15,104)</u>	<u>\$ —</u>	<u>\$ 87,187</u>

The following table presents a summary of the gross gains, gross losses and net tax benefit related to proceeds on sales of securities available for sale for the three months ended March 31, 2023 and 2022:

(In thousands)	March 31, 2023	March 31, 2022
Proceeds from sales	\$ —	\$ 118,972
Gross gains	—	3
Gross losses	—	(6,612)
Net tax benefit	—	1,581

The following tables present the Company's available for sale and held to maturity securities with continuous unrealized losses and the approximate fair value of these investments as of March 31, 2023 and December 31, 2022.

March 31, 2023						
(In thousands)	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
Securities Available for Sale:						
U.S. government-sponsored agencies	\$ —	\$ —	\$ 194,788	\$ (49,992)	\$ 194,788	\$ (49,992)
Mortgage-backed securities residential	42,964	(593)	214,736	(42,133)	257,700	(42,726)
SBA pool securities	136	—	25,614	(3,951)	25,750	(3,951)
State and political subdivisions	—	—	1,582	(8)	1,582	(8)
Corporate bond	6,840	(660)	2,148	(352)	8,988	(1,012)
Total securities available for sale	\$ 49,940	\$ (1,253)	\$ 438,868	\$ (96,436)	\$ 488,808	\$ (97,689)
Securities Held to Maturity:						
U.S. government-sponsored agencies	\$ —	\$ —	\$ 35,999	\$ (4,001)	\$ 35,999	\$ (4,001)
Mortgage-backed securities residential	2,019	(31)	51,640	(9,610)	53,659	(9,641)
Total securities held to maturity	\$ 2,019	\$ (31)	\$ 87,639	\$ (13,611)	\$ 89,658	\$ (13,642)
Total securities	\$ 51,959	\$ (1,284)	\$ 526,507	\$ (110,047)	\$ 578,466	\$ (111,331)

December 31, 2022						
(In thousands)	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
Securities Available for Sale:						
U.S. government-sponsored agencies	\$ —	\$ —	\$ 190,542	\$ (54,232)	\$ 190,542	\$ (54,232)
Mortgage-backed securities residential	82,907	(4,082)	174,557	(42,678)	257,464	(46,760)
SBA pool securities	3,377	(332)	23,256	(4,176)	26,633	(4,508)
State and political subdivisions	1,579	(17)	—	—	1,579	(17)
Corporate bond	9,092	(908)	—	—	9,092	(908)
Total securities available for sale	\$ 96,955	\$ (5,339)	\$ 388,355	\$ (101,086)	\$ 485,310	\$ (106,425)
Securities Held to Maturity:						
U.S. government-sponsored agencies	\$ 13,174	\$ (1,826)	\$ 22,263	\$ (2,737)	\$ 35,437	\$ (4,563)
Mortgage-backed securities residential	15,635	(3,585)	36,115	(6,956)	51,750	(10,541)
Total securities held to maturity	\$ 28,809	\$ (5,411)	\$ 58,378	\$ (9,693)	\$ 87,187	\$ (15,104)
Total securities	\$ 125,764	\$ (10,750)	\$ 446,733	\$ (110,779)	\$ 572,497	\$ (121,529)

Available for sale and held to maturity securities are evaluated to determine if a decline in fair value below the amortized cost basis has resulted from a credit loss or other factors. An impairment related to credit factors would be recorded through an allowance for credit losses. The allowance is limited to the amount by which the security's amortized cost basis exceeds the fair value. An impairment that has not been recorded through an allowance for credit losses shall be recorded through other comprehensive income, net of applicable taxes. Investment securities will be written down to fair value through the Consolidated Statements of Income when management intends to sell, or may be required to sell, the securities before they recover in value. The issuers of securities currently in a continuous loss position continue to make timely principal and interest payments and none of these securities were past due or were placed in nonaccrual status at March 31, 2023. Substantially all of the investment securities are backed by loans guaranteed by either U.S. government agencies or U.S. government-sponsored entities, and management believes that default is highly unlikely given the lack of historical credit losses and governmental backing. Management believes that the unrealized losses on these securities are a function of changes in market interest rates and credit spreads, not changes in credit quality. Therefore, no allowance for credit losses was recorded at March 31, 2023.

The Company has an investment in a CRA investment fund with a fair value of \$13.2 million at March 31, 2023. This investment is classified as an equity security in our Consolidated Statements of Condition. This security had a gain of \$209,000 for the three months ended March 31, 2023, respectively. This amount is included in the fair value adjustment for CRA equity security on the Consolidated Statements of Income.

3. LOANS AND LEASES

Loans outstanding, excluding those held for sale, by general ledger classification, as of March 31, 2023 and December 31, 2022, consisted of the following:

(Dollars in thousands)	March 31, 2023	% of Totals Loans	December 31, 2022	% of Total Loans
Residential mortgage	\$ 544,655	10.15 %	\$ 525,756	9.95 %
Multifamily mortgage	1,871,387	34.88	1,863,915	35.27
Commercial mortgage	613,911	11.44	624,625	11.82
Commercial loans (including equipment financing)	2,246,899	41.87	2,194,094	41.51
Commercial construction	6,138	0.12	4,042	0.07
Home equity lines of credit	33,294	0.62	34,496	0.65
Consumer loans, including fixed rate home equity loans	49,002	0.91	38,014	0.72
Other loans	443	0.01	304	0.01
Total loans	<u>\$ 5,365,729</u>	<u>100.00 %</u>	<u>\$ 5,285,246</u>	<u>100.00 %</u>

In determining an appropriate amount for the allowance, the Bank segments and aggregated the loan portfolio based on common characteristics. The following pool segments identified as of March 31, 2023 and December 31, 2022 are based on the CECL methodology:

(Dollars in thousands)	March 31, 2023	% of Totals Loans	December 31, 2022	% of Total Loans
Primary residential mortgage	\$ 546,133	10.18 %	\$ 527,784	9.99 %
Junior lien loan on residence	36,986	0.69	38,265	0.73
Multifamily property	1,871,387	34.90	1,863,915	35.29
Owner-occupied commercial real estate	274,923	5.13	272,009	5.15
Investment commercial real estate	1,016,725	18.96	1,044,125	19.77
Commercial and industrial	1,268,350	23.65	1,194,662	22.62
Lease financing	282,906	5.28	288,566	5.46
Construction	12,593	0.23	9,936	0.19
Consumer and other	52,249	0.98	42,319	0.80
Total loans	5,362,252	100.00 %	5,281,581	100.00 %
Net deferred costs	3,477		3,665	
Total loans including net deferred costs	<u>\$ 5,365,729</u>		<u>\$ 5,285,246</u>	

The following tables present the recorded investment in nonaccrual and loans past due 90 days or over still on accrual by class of loans as of March 31, 2023 and December 31, 2022:

(In thousands)	March 31, 2023	
	Nonaccrual	Loans Past Due 90 Days or Over And Still Accruing Interest
Primary residential mortgage	\$ 1,227	\$ —
Multifamily property	11,235	—
Investment commercial real estate	11,166	—
Commercial and industrial	3,539	—
Lease financing	1,492	—
Total	<u>\$ 28,659</u>	<u>\$ —</u>

(In thousands)	December 31, 2022	
	Nonaccrual	Loans Past Due 90 Days or Over And Still Accruing Interest
Primary residential mortgage	\$ 2,339	\$ —
Investment commercial real estate	11,208	—
Commercial and industrial	3,662	—
Lease financing	1,765	—
Total	<u>\$ 18,974</u>	<u>\$ —</u>

The following tables present the aging of the recorded investment in past due loans as of March 31, 2023 and December 31, 2022 by class of loans, excluding nonaccrual loans:

(In thousands)	March 31, 2023			
	30-59 Days Past Due	60-89 Days Past Due	90 Days or Greater Past Due	Total Past Due
Primary residential mortgage	\$ 411	\$ —	\$ —	\$ 411
Multifamily property	876	—	—	876
Commercial and industrial	1,475	—	—	1,475
Total	<u>\$ 2,762</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 2,762</u>

(In thousands)	December 31, 2022			
	30-59 Days Past Due	60-89 Days Past Due	90 Days or Greater Past Due	Total Past Due
Primary residential mortgage	\$ 1,145	\$ —	\$ —	\$ 1,145
Multifamily property	882	—	—	882
Commercial and industrial	4,884	681	—	5,565
Total	<u>\$ 6,911</u>	<u>\$ 681</u>	<u>\$ —</u>	<u>\$ 7,592</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.

With the adoption of CECL, loans that are in the process of or expected to be in foreclosure are deemed to be collateral dependent with respect to measuring potential loss and allowance adequacy and are individually evaluated by Management. Loans that do not share common risk characteristics are also evaluated on an individual basis. All other loans are evaluated using a non-linear discounted cashflow methodology for measuring potential loss and allowance adequacy.

The following is a summary of the credit risk profile of loans by internally assigned grade as of March 31, 2023 and December 31, 2022 based on originations for the periods indicated; the years represent the year of origination for non-revolving loans:

	Grade as of March 31, 2023 for Loans Originated During								
(In thousands)	2023	2022	2021	2020	2019	2018 and Prior	Revolving	Revolving- Term	Total
Primary residential mortgage:									
Pass	\$ 30,590	\$ 117,702	\$ 84,130	\$ 61,330	\$ 36,638	\$ 212,680	\$ —	\$ 688	\$ 543,758
Special mention	—	—	—	—	—	—	—	—	—
Substandard	—	—	—	546	1,008	821	—	—	2,375
Doubtful	—	—	—	—	—	—	—	—	—
Total primary residential mortgages	30,590	117,702	84,130	61,876	37,646	213,501	—	688	546,133
Current period gross charge-offs	—	—	—	—	—	—	—	—	—
Junior lien loan on residence:									
Pass	128	1,632	167	38	614	1,113	33,231	—	36,923
Special mention	—	—	—	—	—	—	—	—	—
Substandard	—	—	—	—	—	—	63	—	63
Doubtful	—	—	—	—	—	—	—	—	—
Total junior lien loan on residence	128	1,632	167	38	614	1,113	33,294	—	36,986
Current period gross charge-offs	—	—	—	—	—	—	—	—	—
Multifamily property:									
Pass	20,408	483,221	665,340	117,591	222,731	335,842	748	2,126	1,848,007
Special mention	—	—	—	—	—	1,685	—	—	1,685
Substandard	—	1,565	9,671	—	2,832	7,627	—	—	21,695
Doubtful	—	—	—	—	—	—	—	—	—
Total multifamily property	20,408	484,786	675,011	117,591	225,563	345,154	748	2,126	1,871,387
Current period gross charge-offs	—	—	—	—	—	—	—	—	—

	Grade as of March 31, 2023 for Loans Originated During								
(In thousands)	2023	2022	2021	2020	2019	2018 and Prior	Revolving	Revolving- Term	Total
Owner-occupied commercial real estate:									
Pass	859	24,037	43,474	20,518	12,110	146,130	324	26,275	273,727
Special mention	—	1,065	—	—	—	—	131	—	1,196
Substandard	—	—	—	—	—	—	—	—	—
Doubtful	—	—	—	—	—	—	—	—	—
Total owner-occupied commercial real estate	859	25,102	43,474	20,518	12,110	146,130	455	26,275	274,923
Current period gross charge-offs	—	—	—	—	—	—	—	—	—
Investment commercial real estate:									
Pass	30,893	176,245	153,109	58,969	155,031	348,474	11,874	26,984	961,579
Special mention	—	—	—	—	12,902	13,203	—	14,426	40,531
Substandard	—	11,166	—	—	3,449	—	—	—	14,615
Doubtful	—	—	—	—	—	—	—	—	—
Total investment commercial real estate	30,893	187,411	153,109	58,969	171,382	361,677	11,874	41,410	1,016,725
Current period gross charge-offs	—	—	—	—	—	—	—	—	—
Commercial and industrial:									
Pass	93,226	396,905	215,264	67,721	65,802	27,924	366,019	16,445	1,249,306
Special mention	—	—	—	825	—	192	257	—	1,274
Substandard	—	1,441	1,858	1,972	3,516	285	8,698	—	17,770
Doubtful	—	—	—	—	—	—	—	—	—
Total commercial and industrial	93,226	398,346	217,122	70,518	69,318	28,401	374,974	16,445	1,268,350
Current period gross charge-offs	—	—	—	—	—	—	—	—	—
Lease financing:									
Pass	10,218	70,676	69,305	54,747	44,848	29,740	—	—	279,534
Special mention	—	1,880	—	—	—	—	—	—	1,880
Substandard	—	—	—	—	1,492	—	—	—	1,492
Doubtful	—	—	—	—	—	—	—	—	—
Total lease financing	10,218	72,556	69,305	54,747	46,340	29,740	—	—	282,906
Current period gross charge-offs	—	—	—	—	—	—	—	—	—
Construction:									
Pass	—	—	—	—	1,420	—	2,107	9,066	12,593
Special mention	—	—	—	—	—	—	—	—	—
Substandard	—	—	—	—	—	—	—	—	—
Doubtful	—	—	—	—	—	—	—	—	—
Total commercial construction loans	—	—	—	—	1,420	—	2,107	9,066	12,593
Current period gross charge-offs	—	—	—	—	—	—	—	—	—
Consumer and other loans:									
Pass	—	—	356	182	—	5,186	31,121	15,404	52,249
Special mention	—	—	—	—	—	—	—	—	—
Substandard	—	—	—	—	—	—	—	—	—
Doubtful	—	—	—	—	—	—	—	—	—
Total consumer and other loans	—	—	356	182	—	5,186	31,121	15,404	52,249
Current period gross charge-offs	—	—	—	—	—	—	46	—	46

(In thousands)	Grade as of March 31, 2023 for Loans Originated During								
	2023	2022	2021	2020	2019	2018 and Prior	Revolving	Revolving- Term	Total
Total:									
Pass	186,322	1,270,418	1,231,145	381,096	539,194	1,107,089	445,424	96,988	5,257,676
Special mention	—	2,945	—	825	12,902	15,080	388	14,426	46,566
Substandard	—	14,172	11,529	2,518	12,297	8,733	8,761	—	58,010
Doubtful	—	—	—	—	—	—	—	—	—
Total Loans	<u>\$ 186,322</u>	<u>\$ 1,287,535</u>	<u>\$ 1,242,674</u>	<u>\$ 384,439</u>	<u>\$ 564,393</u>	<u>\$ 1,130,902</u>	<u>\$ 454,573</u>	<u>\$ 111,414</u>	<u>\$ 5,362,252</u>
Total Current Period Gross Charge-offs	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 46</u>	<u>\$ —</u>	<u>\$ 46</u>

(In thousands)	Grade as of December 31, 2022 for Loans Originated During								
	2022	2021	2020	2019	2018	2017 and Prior	Revolving	Revolving- Term	Total
Primary residential mortgage:									
Pass	\$ 118,864	\$ 87,312	\$ 62,540	\$ 37,902	\$ 27,209	\$ 190,834	\$ —	\$ 691	\$ 525,352
Special mention	—	—	—	—	—	—	—	—	—
Substandard	—	—	547	1,044	141	700	—	—	2,432
Doubtful	—	—	—	—	—	—	—	—	—
Total primary residential mortgages	118,864	87,312	63,087	38,946	27,350	191,534	—	691	527,784
Junior lien loan on residence:									
Pass	1,631	177	42	639	326	953	33,996	—	37,764
Special mention	—	—	—	—	—	—	—	—	—
Substandard	—	—	—	—	—	—	501	—	501
Doubtful	—	—	—	—	—	—	—	—	—
Total junior lien loan on residence	1,631	177	42	639	326	953	34,497	—	38,265
Multifamily property:									
Pass	488,657	678,507	118,220	224,129	33,884	305,628	1,246	1,425	1,851,696
Special mention	—	—	—	—	—	1,696	—	—	1,696
Substandard	—	—	—	2,846	—	7,677	—	—	10,523
Doubtful	—	—	—	—	—	—	—	—	—
Total multifamily property	488,657	678,507	118,220	226,975	33,884	315,001	1,246	1,425	1,863,915
Owner-occupied commercial real estate:									
Pass	25,315	43,916	20,679	12,244	22,422	126,237	608	20,588	272,009
Special mention	—	—	—	—	—	—	—	—	—
Substandard	—	—	—	—	—	—	—	—	—
Doubtful	—	—	—	—	—	—	—	—	—
Total owner-occupied commercial real estate	25,315	43,916	20,679	12,244	22,422	126,237	608	20,588	272,009
Investment commercial real estate:									
Pass	189,829	154,715	59,444	155,995	93,330	305,219	6,590	23,487	988,609
Special mention	—	—	—	13,015	—	13,309	—	14,507	40,831
Substandard	11,208	—	—	3,477	—	—	—	—	14,685
Doubtful	—	—	—	—	—	—	—	—	—
Total investment commercial real estate	201,037	154,715	59,444	172,487	93,330	318,528	6,590	37,994	1,044,125
Commercial and industrial:									
Pass	421,072	217,887	76,307	80,359	26,792	5,559	303,526	29,750	1,161,252
Special mention	14,405	—	826	—	193	—	258	—	15,682
Substandard	1,553	1,892	2,148	3,894	277	71	7,893	—	17,728
Doubtful	—	—	—	—	—	—	—	—	—
Total commercial and industrial	437,030	219,779	79,281	84,253	27,262	5,630	311,677	29,750	1,194,662
Lease financing:									
Pass	73,155	71,925	58,262	48,942	24,408	8,125	—	—	284,817
Special mention	1,984	—	—	—	—	—	—	—	1,984
Substandard	—	—	—	1,765	—	—	—	—	1,765
Doubtful	—	—	—	—	—	—	—	—	—
Total lease financing	75,139	71,925	58,262	50,707	24,408	8,125	—	—	288,566

	Grade as of December 31, 2022 for Loans Originated During								
(In thousands)	2022	2021	2020	2019	2018	2017 and Prior	Revolving	Revolving- Term	Total
Construction:									
Pass	—	—	—	1,439	—	—	4,064	4,433	9,936
Special mention	—	—	—	—	—	—	—	—	—
Substandard	—	—	—	—	—	—	—	—	—
Doubtful	—	—	—	—	—	—	—	—	—
Total commercial construction loans	—	—	—	1,439	—	—	4,064	4,433	9,936
Consumer and other loans:									
Pass	—	381	194	—	—	5,753	31,287	4,704	42,319
Special mention	—	—	—	—	—	—	—	—	—
Substandard	—	—	—	—	—	—	—	—	—
Doubtful	—	—	—	—	—	—	—	—	—
Total consumer and other loans	—	381	194	—	—	5,753	31,287	4,704	42,319
Total:									
Pass	1,318,523	1,254,820	395,688	561,649	228,371	948,308	381,317	85,078	5,173,754
Special mention	16,389	—	826	13,015	193	15,005	258	14,507	60,193
Substandard	12,761	1,892	2,695	13,026	418	8,448	8,394	—	47,634
Doubtful	—	—	—	—	—	—	—	—	—
Total Loans	\$ 1,347,673	\$ 1,256,712	\$ 399,209	\$ 587,690	\$ 228,982	\$ 971,761	\$ 389,969	\$ 99,585	\$ 5,281,581

At March 31, 2023, \$27.6 million of substandard loans were also considered individually evaluated, compared to \$14.7 million at December 31, 2022.

Loan Modifications:

On January 1, 2023, the Company adopted Accounting Standards Update 2022-02, which replaced the accounting and recognition of TDRs. The Company will provide modifications, which may include other than insignificant delays in payment of amounts due, extension of the terms of the notes or reduction in the interest rates on the notes. In certain instances, the Company may grant more than one type of modification. The granting of the modification for the three months ended March 31, 2023 did not have a material impact on the ACL. The following table provides information related to the modification during the three months ended March 31, 2023 by pool segment and type of concession granted:

(Dollars in thousands)	Interest Only Period Extension Three Months Ended March 31, 2023	
	Amortized Cost Basis at Period End	% of Total Class of Financing Receivable
Commercial and industrial	\$ 248	0.02 %
Total	\$ 248	0.02 %

The following table depicts the payment status of the loan that was modified to a borrower experiencing financial difficulties on or after January 1, 2023, the date we adopted ASU 2022-02, through March 31, 2023:

(Dollars in thousands)	Payment Status at March 31, 2023		
	Current	30-89 Days Past Due	90+ Days Past Due
Commercial and industrial	\$ 248	\$ —	\$ —
Total	\$ 248	\$ —	\$ —

There were no loans that failed to comply with their modified terms in the twelve months following modification and resulted in a payment default at March 31, 2023.

Troubled Debt Restructurings:

Prior to the adoption of ASU 2022-02 on January 1, 2023, the Company classified certain loans as troubled debt restructuring (“TDR”) loans when credit terms to a borrower in financial difficulty were modified, in accordance with ASC 310-40. With the adoption of ASU 2022-02 as of January 1, 2023, the Company has ceased to recognize or measure new TDRs but those existing at December 31, 2022 will remain until settled.

The Company has allocated \$1.2 million of specific reserves on TDRs as of December 31, 2022. 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 March 31, 2022:

(Dollars in thousands)	Number of Loans	Pre-Modification	Post-Modification
		Outstanding Recorded Investment	Outstanding Recorded Investment
Investment commercial real estate	1	\$ 12,500	\$ 12,500
Total	1	\$ 12,500	\$ 12,500

The identification of the TDRs did not have a material impact on the allowance for credit 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 March 31, 2022:

(Dollars in thousands)	Number of Loans	Recorded Investment
Primary residential mortgage	1	\$ 215
Total	1	\$ 215

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 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. ALLOWANCE FOR CREDIT LOSSES

On January 1, 2022, the Company adopted ASU 2016-13, which replaced the incurred loss methodology with an expected loss methodology that is referred to as the CECL methodology. See Note 1, Summary of Significant Accounting Policies for additional information on Topic 326.

The Company does not estimate expected credit losses on accrued interest receivable ("AIR") on loans, as AIR is reversed or written off when the full collection of the AIR related to a loan becomes doubtful. AIR on loans totaled \$16.9 million at March 31, 2023 and \$22.8 million at December 31, 2022.

The following tables present the loan balances by segment, and the corresponding balances in the allowance as of March 31, 2023 and December 31, 2022. The allowance was based on the CECL methodology.

	March 31, 2023					
(In thousands)	Total Individually Evaluated Loans	Ending ACL Attributable To Individually Evaluated Loans	Total Loans Collectively Evaluated	Ending ACL Attributable To Loans Collectively Evaluated	Total Loans	Total Ending ACL
Primary residential mortgage	\$ 574	\$ —	\$ 545,559	\$ 2,959	\$ 546,133	\$ 2,959
Junior lien loan on residence	—	—	36,986	146	36,986	146
Multifamily property	11,236	1,104	1,860,151	8,719	1,871,387	9,823
Owner-occupied commercial real estate	—	—	274,923	4,952	274,923	4,952
Investment commercial real estate	11,166	1,221	1,005,559	13,317	1,016,725	14,538
Commercial and industrial	3,268	296	1,265,082	26,573	1,268,350	26,869
Lease financing	1,492	—	281,414	1,989	282,906	1,989
Construction	—	—	12,593	313	12,593	313
Consumer and other loans	—	—	52,249	661	52,249	661
Total ACL	<u>\$ 27,736</u>	<u>\$ 2,621</u>	<u>\$ 5,334,516</u>	<u>\$ 59,629</u>	<u>\$ 5,362,252</u>	<u>\$ 62,250</u>

	December 31, 2022					
(In thousands)	Total Individually Evaluated Loans	Ending ACL Attributable To Individually Evaluated Loans	Total Loans Collectively Evaluated	Ending ACL Attributable To Loans Collectively Evaluated	Total Loans	Total Ending ACL
Primary residential mortgage	\$ 374	\$ —	\$ 527,410	\$ 2,894	\$ 527,784	\$ 2,894
Junior lien loan on residence	—	—	38,265	154	38,265	154
Multifamily property	—	—	1,863,915	8,849	1,863,915	8,849
Owner-occupied commercial real estate	—	—	272,009	4,835	272,009	4,835
Investment commercial real estate	11,208	1,208	1,032,917	14,272	1,044,125	15,480
Commercial and industrial	3,385	299	1,191,277	25,231	1,194,662	25,530
Lease financing	1,765	—	286,801	2,314	288,566	2,314
Construction	—	—	9,936	236	9,936	236
Consumer and other loans	—	—	42,319	537	42,319	537
Total ACL	<u>\$ 16,732</u>	<u>\$ 1,507</u>	<u>\$ 5,264,849</u>	<u>\$ 59,322</u>	<u>\$ 5,281,581</u>	<u>\$ 60,829</u>

Individually evaluated loans include nonaccrual loans of \$26.6 million at March 31, 2023 and \$15.8 million at December 31, 2022. Individually evaluated loans did not include any performing modified loans at March 31, 2023. No allowance was allocated to modified loans at March 31, 2023. All accruing modified loans were paying in accordance with their modified terms as of March 31, 2023. The Company has not committed to lend additional amounts as of March 31, 2023 to customers with outstanding loans that are classified as modified loans.

The allowance for credit losses was \$62.3 million as of March 31, 2023, compared to \$60.8 million at December 31, 2022. The increase in the allowance for credit losses (“ACL”) was primarily due to specific reserves of \$1.1 million related to one multifamily relationship of \$9.7 million. The allowance for credit losses as a percentage of loans was 1.16 percent and 1.15 percent at March 31, 2023 and December 31, 2022, respectively.

Under Topic 326, the Company's methodology for determining the ACL on loans is based upon key assumptions, including historic net charge-offs, economic forecasts, reversion periods, prepayments and qualitative adjustments. The allowance is measured on a collective, or pool, basis when similar risk characteristics exist. Loans that do not share common risk characteristics are evaluated on an individual basis and are excluded from the collective evaluation.

The following tables present collateral dependent loans individually evaluated by segment as of March 31, 2023 and December 31, 2022:

	March 31, 2023			
(In thousands)	Unpaid Principal Balance	Recorded Investment	Related Allowance	Average Individually Evaluated Loans
With no related allowance recorded:				
Primary residential mortgage	\$ 724	\$ 574	\$ —	\$ 507
Commercial and industrial	3,775	1,743	—	1,810
Lease financing	1,537	1,492	—	1,674
Total loans with no related allowance	<u>\$ 6,036</u>	<u>\$ 3,809</u>	<u>\$ —</u>	<u>\$ 3,991</u>
With related allowance recorded:				
Multifamily property	\$ 11,267	\$ 11,236	\$ 1,104	\$ 3,745
Investment commercial real estate	12,500	11,166	1,221	11,183
Commercial and industrial	1,546	1,525	296	1,217
Total loans with related allowance	<u>\$ 25,313</u>	<u>\$ 23,927</u>	<u>\$ 2,621</u>	<u>\$ 16,145</u>
Total loans individually evaluated	<u>\$ 31,349</u>	<u>\$ 27,736</u>	<u>\$ 2,621</u>	<u>\$ 20,136</u>

(In thousands)	December 31, 2022			
	Unpaid Principal Balance	Recorded Investment	Related Allowance	Average Individually Evaluated Loans
With no related allowance recorded:				
Primary residential mortgage	\$ 415	\$ 374	\$ —	\$ 249
Commercial and industrial	3,868	1,836	—	539
Lease financing	1,792	1,765	—	444
Total loans with no related allowance	\$ 6,075	\$ 3,975	\$ —	\$ 1,232
With related allowance recorded:				
Investment commercial real estate	\$ 12,500	\$ 11,208	\$ 1,208	\$ 12,402
Commercial and industrial	1,555	1,549	299	174
Total loans with related allowance	\$ 14,055	\$ 12,757	\$ 1,507	\$ 12,576
Total loans individually evaluated for impairment	\$ 20,130	\$ 16,732	\$ 1,507	\$ 13,808

Interest income recognized on individually evaluated loans for the three months ended March 31, 2023 and 2022 was not material. The Company did not recognize any income on non-accurring impaired loans for the three months ended March 31, 2023 and 2022.

The activity in the allowance for credit losses for the three months ended March 31, 2023 and March 31, 2022 is summarized below:

(In thousands)	January 1, 2023 Beginning ACL	Charge-offs	Recoveries	Provision (Credit) (A)	March 31, 2023 Ending ACL
Primary residential mortgage	\$ 2,894	\$ —	\$ —	\$ 65	\$ 2,959
Junior lien loan on residence	154	—	—	(8)	146
Multifamily property	8,849	—	—	974	9,823
Owner-occupied commercial real estate	4,835	—	—	117	4,952
Investment commercial real estate	15,480	—	—	(942)	14,538
Commercial and industrial	25,530	—	—	1,339	26,869
Lease financing	2,314	—	—	(325)	1,989
Construction	236	—	—	77	313
Consumer and other loans	537	(46)	3	167	661
Total ACL	\$ 60,829	\$ (46)	\$ 3	\$ 1,464	\$ 62,250

(A) Provision to roll forward the ACL excludes a provision of \$49,000 for off-balance sheet commitments.

(In thousands)	December 31, 2021 Prior to Adoption of Topic 326	Impact of Adopting Topic 326	Charge-offs	Recoveries	Provision (Credit) (A)	March 31, 2022 Ending ACL
Primary residential mortgage	\$ 1,510	\$ 717	\$ —	\$ —	\$ 1,318	\$ 3,545
Junior lien loan on residence	88	83	—	—	71	242
Multifamily property	9,806	4,072	—	—	1,602	15,480
Owner-occupied commercial real estate	1,998	2,902	—	—	3	4,903
Investment commercial real estate	27,083	(13,589)	(250)	—	(2,275)	10,969
Commercial and industrial	17,509	(657)	—	4	1,797	18,653
Lease financing	3,440	156	—	—	(242)	3,354
Construction	48	361	—	—	123	532
Consumer and other loans	215	419	(20)	2	92	708
Total ACL	\$ 61,697	\$ (5,536)	\$ (270)	\$ 6	\$ 2,489	\$ 58,386

(A) Provision to roll forward the ACL excludes a credit of \$114,000 for off-balance sheet commitments.

Allowance for Credit Losses on Off Balance Sheet Commitments

The following table presets the activity in the ACL for off-balance sheet commitments for the three months ended March 31, 2023 and 2022:

(In thousands)	January 1, 2023 Beginning ACL	Provision (Credit)	March 31, 2023 Ending ACL
Off balance sheet commitments	\$ 752	\$ 49	\$ 801
Total ACL	<u>\$ 752</u>	<u>\$ 49</u>	<u>\$ 801</u>

(In thousands)	December 31, 2021 Prior to adoption of Topic 326	Impact of adopting Topic 326	Provision (Credit)	March 31, 2022 Ending ACL
Off balance sheet commitments	\$ —	\$ 302	\$ (114)	\$ 188
Total ACL	<u>\$ —</u>	<u>\$ 302</u>	<u>\$ (114)</u>	<u>\$ 188</u>

5. DEPOSITS

Certificates of deposit that met or exceeded \$250,000 totaled \$81.0 million and \$91.1 million at March 31, 2023 and December 31, 2022, respectively. These totals excluded brokered certificates of deposit.

The following table sets forth the details of total deposits as of March 31, 2023 and December 31, 2022:

(Dollars in thousands)	March 31, 2023		December 31, 2022	
Noninterest-bearing demand deposits	\$ 1,096,549	20.65 %	\$ 1,246,066	23.94 %
Interest-bearing checking (A)	2,797,493	52.69	2,143,611	41.18
Savings	132,523	2.50	157,338	3.02
Money market	873,329	16.45	1,228,234	23.60
Certificates of deposit - retail	357,131	6.73	318,573	6.12
Certificates of deposit - listing service	15,922	0.30	25,358	0.49
Subtotal deposits	<u>5,272,947</u>	<u>99.32</u>	<u>5,119,180</u>	<u>98.35</u>
Interest-bearing demand - Brokered	10,000	0.19	60,000	1.15
Certificates of deposit - Brokered	25,895	0.49	25,984	0.50
Total deposits	<u>\$ 5,308,842</u>	<u>100.00 %</u>	<u>\$ 5,205,164</u>	<u>100.00 %</u>

(A) Interest-bearing checking includes \$680.3 million at March 31, 2023 and \$620.1 million at December 31, 2022 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 March 31, 2023, are as follows:

(In thousands)	
2023	\$ 171,431
2024	185,171
2025	33,907
2026	5,393
2027	2,957
2028 and later	89
Total	<u>\$ 398,948</u>

6. FEDERAL HOME LOAN BANK ADVANCES AND OTHER BORROWINGS

At March 31, 2023, the Company had total borrowings with the FHLB of \$378.8 million, which consisted of \$128.8 million of overnight borrowings at a rate of 4.99 percent and a \$250.0 million one-month advance at a rate of 5.20 percent with an April 13, 2023 maturity date. As of December 31, 2022, the Company had \$379.5 million of overnight borrowings at the FHLB at a rate of 4.61 percent. At March 31, 2023, unused short-term overnight borrowing commitments totaled \$1.5 billion from the FHLB, \$22.0 million from correspondent banks and \$1.8 billion at the Federal Reserve Bank of New York.

7. 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.

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 the operations of PGB Trust & Investments of Delaware, 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 months ended March 31, 2023 and 2022.

(In thousands)	Three Months Ended March 31, 2023		
	Banking	Peapack Private	Total
Net interest income	\$ 42,090	\$ 1,888	\$ 43,978
Noninterest income	3,835	14,224	18,059
Total income	45,925	16,112	62,037
Provision for credit losses	1,513	—	1,513
Compensation and employee benefits	18,169	6,417	24,586
Premises and equipment expense	3,613	761	4,374
FDIC insurance expense	711	—	711
Other operating expense	3,274	2,629	5,903
Total operating expense	27,280	9,807	37,087
Income before income tax expense	18,645	6,305	24,950
Income tax expense	4,930	1,665	6,595
Net income	\$ 13,715	\$ 4,640	\$ 18,355
Total assets at period end	\$ 6,366,729	\$ 113,289	\$ 6,480,018
(In thousands)	Three Months Ended March 31, 2022		
	Banking	Peapack Private	Total
Net interest income	\$ 37,999	\$ 1,623	\$ 39,622
Noninterest income	(429)	15,143	14,714
Total income	37,570	16,766	54,336
Provision for loan and lease losses	2,375	—	2,375
Compensation and employee benefits	16,403	6,046	22,449
Premises and equipment expense	3,931	716	4,647
FDIC insurance expense	471	—	471
Other operating expense	4,166	2,436	6,602
Total operating expense	27,346	9,198	36,544
Income before income tax expense	10,224	7,568	17,792
Income tax expense	2,300	2,051	4,351
Net income	\$ 7,924	\$ 5,517	\$ 13,441
Total assets at period end	\$ 6,155,011	\$ 100,653	\$ 6,255,664

8. FAIR VALUE

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

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

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.

Individually Evaluated Loans: The fair value of collateral dependent loans with specific allocations of the allowance for credit 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. Individually evaluated 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 March 31, 2023.

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

Assets Measured on a Recurring Basis

		Fair Value Measurements Using		
		Quoted Prices in Active Markets For Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
(In thousands)	March 31, 2023			
Assets:				
Available for sale:				
U.S. government-sponsored agencies	\$ 194,787	\$ —	\$ 194,787	\$ —
Mortgage-backed securities-residential	324,187	—	324,187	—
SBA pool securities	26,452	—	26,452	—
State and political subdivisions	1,852	—	1,852	—
Corporate bond	8,988	—	8,988	—
CRA investment fund	13,194	13,194	—	—
Derivatives:				
Cash flow hedges	6,671	—	6,671	—
Loan level swaps	28,827	—	28,827	—
Total	<u>\$ 604,958</u>	<u>\$ 13,194</u>	<u>\$ 591,764</u>	<u>\$ —</u>
Liabilities:				
Derivatives:				
Cash flow hedges	\$ 156	\$ —	\$ 156	\$ —
Loan level swaps	28,827	—	28,827	—
Total	<u>\$ 28,983</u>	<u>\$ —</u>	<u>\$ 28,983</u>	<u>\$ —</u>

Assets Measured on a Recurring Basis

		Fair Value Measurements Using		
		Quoted Prices in Active Markets For Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
(In thousands)	December 31, 2022			
Assets:				
Securities available for sale:				
U.S. government-sponsored agencies	\$ 190,542	\$ —	\$ 190,542	\$ —
Mortgage-backed securities-residential	325,738	—	325,738	—
SBA pool securities	27,427	—	27,427	—
State and political subdivisions	1,849	—	1,849	—
Corporate bond	9,092	—	9,092	—
CRA investment fund	12,985	12,985	—	—
Derivatives:				
Cash flow hedges	9,289	—	9,289	—
Loan level swaps	38,265	—	38,265	—
Total	<u>\$ 615,187</u>	<u>\$ 12,985</u>	<u>\$ 602,202</u>	<u>\$ —</u>
Liabilities:				
Derivatives:				
Loan level swaps	\$ 38,265	\$ —	\$ 38,265	\$ —
Total	<u>\$ 38,265</u>	<u>\$ —</u>	<u>\$ 38,265</u>	<u>\$ —</u>

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 or on nonaccrual as of March 31, 2023 and December 31, 2022.

There were no transfers between Level 1 and Level 2 during the three months ended March 31, 2023.

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)	March 31, 2023			
Assets:				
Individually evaluated loans:				
Investment commercial real estate	\$ 10,132	\$ —	\$ —	\$ 10,132
Multifamily property	9,945	—	—	9,945
Commercial and industrial	1,044	—	—	1,044

		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, 2022			
Assets:				
Individually evaluated loans:				
Investment commercial real estate	\$ 10,000	\$ —	\$ —	\$ 10,000
Commercial and industrial	743	—	—	743

The carrying amounts and estimated fair values of financial instruments at March 31, 2023 are as follows:

		Fair Value Measurements at March 31, 2023 using			
(In thousands)	Carrying Amount	Level 1	Level 2	Level 3	Total
Financial assets					
Cash and cash equivalents	\$ 251,293	\$ 251,293	\$ —	\$ —	\$ 251,293
Securities available for sale	556,266	—	556,266	—	556,266
Securities held to maturity	111,609	—	97,967	—	97,967
CRA investment fund	13,194	13,194	—	—	13,194
FHLB and FRB stock	30,338	—	—	—	N/A
Loans held for sale, at lower of cost or fair value	13,800	—	15,056	—	15,056
Loans, net of allowance for credit losses	5,303,479	—	—	5,295,280	5,295,280
Accrued interest receivable	19,143	—	2,257	16,886	19,143
Accrued interest receivable loan level swaps (A)	798	—	798	—	798
Cash flow hedges	6,671	—	6,671	—	6,671
Loan level swaps	28,827	—	28,827	—	28,827
Financial liabilities					
Deposits	\$ 5,308,842	\$ 4,909,894	\$ 390,365	\$ —	\$ 5,300,259
Short-term borrowings	378,800	—	378,846	—	378,846
Subordinated debt	133,059	—	—	117,404	117,404
Accrued interest payable	5,717	3,411	1,305	1,001	5,717
Accrued interest payable loan level swaps (B)	798	—	798	—	798
Cash flow hedges	156	—	156	—	156
Loan level swap	28,827	—	28,827	—	28,827
(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, 2022 are as follows:

		Fair Value Measurements at December 31, 2022 using			
(In thousands)	Carrying Amount	Level 1	Level 2	Level 3	Total
Financial assets					
Cash and cash equivalents	\$ 190,075	\$ 190,075	\$ —	\$ —	\$ 190,075
Securities available for sale	554,648	—	554,648	—	554,648
Securities held to maturity	102,291	—	87,187	—	87,187
CRA investment fund	12,985	12,985	—	—	12,985
FHLB and FRB stock	30,672	—	—	—	N/A
Loans held for sale, at lower of cost or fair value	15,626	—	17,176	—	17,176
Loans, net of allowance for loan and lease losses	5,224,417	—	—	5,141,201	5,141,201
Accrued interest receivable	25,157	—	2,393	22,764	25,157
Accrued interest receivable loan level swaps (A)	1,092	—	1,092	—	1,092
Cash flow hedges	9,289	—	9,289	—	9,289
Loan level swaps	38,265	—	38,265	—	38,265
Financial liabilities					
Deposits	\$ 5,205,164	\$ 4,835,249	\$ 356,975	\$ —	\$ 5,192,224
Short-term borrowings	379,530	—	379,530	—	379,530
Subordinated debt	132,987	—	—	119,865	119,865
Accrued interest payable	2,997	2,509	413	75	2,997
Accrued interest payable loan level swaps (B)	1,092	—	1,092	—	1,092
Loan level swaps	38,265	—	38,265	—	38,265
(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.					

9. 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 March 31,	
	2023	2022
Service charges on deposits		
Overdraft fees	\$ 133	\$ 113
Interchange income	311	342
Other	814	497
Wealth management fees (A)	13,762	14,834
Corporate advisory fee income	80	1,561
Other (B)	2,959	(2,633)
Total noninterest other income	<u>\$ 18,059</u>	<u>\$ 14,714</u>

(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)	For the Three Months Ended March 31,			For the Three Months Ended March 31,		
	2023			2022		
Revenue by Operating Segment	Banking	Wealth Management	Total	Banking	Wealth Management	Total
Service charges on deposits						
Overdraft fees	\$ 133	\$ —	\$ 133	\$ 113	\$ —	\$ 113
Interchange income	311	—	311	342	—	342
Other	814	—	814	497	—	497
Wealth management fees (A)	—	13,762	13,762	—	14,834	14,834
Corporate advisory fee income	80	—	80	1,561	—	1,561
Other (B)	2,497	462	2,959	(2,942)	309	(2,633)
Total noninterest income	<u>\$ 3,835</u>	<u>\$ 14,224</u>	<u>\$ 18,059</u>	<u>\$ (429)</u>	<u>\$ 15,143</u>	<u>\$ 14,714</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 certain transaction 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 first quarter of 2023 by \$2,000 compared to \$30,000 for the same quarter in 2022.

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.

Corporate advisory fee income: The Company provides our clients with financial advisory and underwriting services. Investment banking revenues, which includes mergers and acquisition advisory fees and private placement fees, are recorded when the performance obligation for the transaction is satisfied under the terms of each engagement. Reimbursed expenses are reported in other revenue on the statement of operations. Expenses related to investment banking are recognized as non-compensation expenses on the statement of operations. Amounts received and unearned are included on the statement of financial condition. Expenses related to investment banking deals not completed are recognized in non-compensation expenses on the statement of operations.

The Company's mergers and acquisition advisory fees generally consist of a nonrefundable up-front fee and success fee. The nonrefundable fee is recorded as deferred revenue upon receipt and recognized at a point in time when the performance obligation is satisfied, or when the transaction is deemed by management to be terminated. Management's judgement is required in determining when a transaction is considered to be terminated.

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

10. OTHER OPERATING EXPENSES

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

(In thousands)	Three Months Ended March 31,	
	2023	2022
Professional and legal fees	\$ 1,345	\$ 1,138
Telephone	369	334
Advertising	396	290
Amortization of intangible assets	354	431
Branch/office restructure	175	372
Other operating expenses	3,264	3,364
Total other operating expenses	<u>\$ 5,903</u>	<u>\$ 5,929</u>

11. 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 March 31, 2023 and 2022:

(In thousands)	Balance at January 1, 2023	Other Comprehensive Income/(Loss) Before Reclassifications	Amount Reclassified From Accumulated Other Comprehensive Income/(Loss)	Other Comprehensive Income/(Loss) Three Months Ended March 31, 2023	Balance at March 31, 2023
Net unrealized holding gain/(loss) on securities available for sale, net of tax	<u>\$ (80,972)</u>	<u>\$ 8,721</u>	<u>\$ —</u>	<u>\$ 8,721</u>	<u>\$ (72,251)</u>
Gain/(loss) on cash flow hedges	<u>6,761</u>	<u>(1,925)</u>	<u>(30)</u>	<u>(1,955)</u>	<u>4,806</u>
Accumulated other comprehensive gain/(loss), net of tax	<u>\$ (74,211)</u>	<u>\$ 6,796</u>	<u>\$ (30)</u>	<u>\$ 6,766</u>	<u>\$ (67,445)</u>

(In thousands)	Balance at January 1, 2022	Other Comprehensive Income/(Loss) Before Reclassifications	Amount Reclassified From Accumulated Other Comprehensive Income/(Loss)	Other Comprehensive Income/(Loss) Three Months Ended March 31, 2022	Balance at March 31, 2022
Net unrealized holding gain/(loss) on securities available for sale, net of tax	\$ (9,873)	\$ (35,602)	\$ 5,028	\$ (30,574)	\$ (40,447)
Gain/(loss) on cash flow hedges	(2,501)	2,010	—	2,010	(491)
Accumulated other comprehensive gain/(loss), net of tax	\$ (12,374)	\$ (33,592)	\$ 5,028	\$ (28,564)	\$ (40,938)

The following represents the reclassifications out of accumulated other comprehensive income/(loss) for the three months ended March 31, 2023 and 2022:

(In thousands)	Three Months Ended March 31,		Affected Line Item in Income Statement
	2023	2022	
Unrealized gains/(losses) on securities available for sale:			
Reclassification adjustment for amounts included in net income	\$ —	\$ 6,609	Securities losses, net
Tax effect	—	(1,581)	Income tax expense
Total reclassifications, net of tax	\$ —	\$ 5,028	
Unrealized gains/(losses) on cash flow hedge derivatives:			
Reclassification adjustment for amounts included in net income	\$ (42)	\$ —	Interest Expense
Tax effect	12	—	Income tax expense
Total reclassifications, net of tax	\$ (30)	\$ —	

12. 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 \$210.0 million as of March 30, 2023 and \$290.0 million as of December 31, 2022 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 March 31, 2023, 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.

In March 2022, the Company entered into four forward starting interest rate swaps with a total notional amount of \$100.0 million. These swaps will effectively extend the interest rate protection of existing swaps for an additional two to five years. As such, they are designated as cash flow hedges of certain interest-bearing deposits. The Company will receive variable amounts and pay fixed amounts. The weighted-average fixed pay rate on these forward swaps was 3.12 percent as of March 31, 2023. As of March 31, 2023, an unrealized gain of \$2.0 million was recorded in accumulated other comprehensive income related to these forward starting swaps. The tables below do not include the impact of these forward swaps.

The following table presents information about the interest rate swaps designated as cash flow hedges as of March 31, 2023 and December 31, 2022:

(Dollars in thousands)	March 31, 2023	December 31, 2022
Notional amount	\$ 210,000	\$ 290,000
Weighted average pay rate	1.64 %	1.71 %
Weighted average receive rate	2.84 %	2.78 %
Weighted average maturity	3.69 years	2.01 years
Unrealized gain/(loss), net	\$ 4,500	\$ 3,290
Number of contracts	8	12

	March 31, 2023	
(In thousands)	Notional Amount	Fair Value
Interest rate swaps related to interest-bearing deposits	\$ 210,000	\$ 4,500
Total included in other assets	210,000	4,500
Total included in other liabilities	—	—

	December 31, 2022	
(In thousands)	Notional Amount	Fair Value
Interest rate swaps related to interest-bearing deposits	\$ 290,000	\$ 3,290
Total included in other assets	290,000	3,290
Total included in other liabilities	—	—

Cash Flow Hedges

The following table presents the net gains/(losses) recorded in accumulated other comprehensive income/(loss) and the consolidated financial statements relating to the cash flow derivative instruments for the three months ended March 31, 2023 and 2022:

	For the Three Months Ended March 31,	
(In thousands)	2023	2022
Interest rate contracts		
Gain/(loss) recognized in other comprehensive income (effective portion)	\$ (2,732)	\$ 2,796
Gain/(loss) reclassified from other comprehensive income to interest expense	—	—
Gain/(loss) recognized in other noninterest income	\$ 42	—

During the third quarter of 2022, the Company recognized an unrealized after-tax gain of \$167,000 in accumulated other comprehensive income/(loss) related to the termination of two interest rate swaps designated as cash flow hedges that were deemed ineffective. The gain is being amortized into earnings over the remaining life of the terminated swaps.

Net interest income/expense recorded on these swap transactions totaled \$947,000 of income and \$999,000 of expense for the three months ended March 31, 2023 and March 31, 2022, respectively, and is reported as a component of interest expense.

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 mirror image swaps with a financial institution/swap counterparty (loan level / back-to-back swap program). The customer accommodations and any offsetting swaps are treated as non-hedging derivative instruments which do not qualify for hedge accounting (“standalone derivatives”). The notional amount of the swaps does not represent amounts exchanged by the parties. The amount exchanged is determined by reference to the notional amount and the other terms of the individual contracts. The fair value of the swaps is recorded as both an asset and a liability, in other assets and other liabilities, respectively, in equal amounts for these transactions.

The accrued interest receivable and payable related to these swaps of \$798,000 and \$1.1 million at March 31, 2023 and December 31, 2022, respectively, is recorded in other assets and other liabilities.

Information about these swaps is as follows:

(Dollars in thousands)	March 31, 2023	December 31, 2022
Notional amount	\$ 607,365	\$ 612,211
Fair value	\$ (28,402)	\$ (37,173)
Weighted average pay rates	3.99%	3.99%
Weighted average receive rates	6.60%	6.14%
Weighted average maturity	4.44 years	4.68 years
Number of contracts	78	78

13. SUBORDINATED DEBT

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 had a fixed interest rate of 4.75 percent 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 London Interbank Offered Rate (“LIBOR”) rate plus 254 basis points, payable quarterly in arrears. Debt issuance costs incurred totaled \$875,000 and are being amortized to maturity.

In December 2020, the Company issued \$100.0 million in aggregate principal amount of fixed-to-floating subordinated 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 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 Secured Overnight Financing Rate (“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 used the proceeds from the issuance of the 2020 Notes to refinance then-outstanding debt, 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.

14. LEASES

The Company maintains certain property and equipment under direct financing and operating leases. As of March 31, 2023, the Company’s operating lease ROU asset and operating lease liability totaled \$12.3 million and \$13.1 million, respectively. As of December 31, 2022, the Company’s operating lease ROU asset and operating lease liability totaled \$12.9 million and \$13.7 million, respectively. A weighted average discount rate of 2.63 percent was used in the measurement of the ROU asset and lease liability for both March 31, 2023 and December 31, 2022.

The Company’s leases have remaining lease terms between one month to 14 years, with a weighted average lease term of 7.38 years at March 31, 2023. The Company’s leases had remaining lease terms between three months to 14 years, with a weighted average lease term of 7.48 years at December 31, 2022. 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 \$805,000 and \$868,000 for the three months ended March 31, 2023 and 2022, respectively. The variable lease costs were \$72,000 and \$77,000 for the three months ended March 31, 2023 and 2022, respectively.

The following is a schedule of the Company's operating lease liabilities by contractual maturity as of March 31, 2023:

(In thousands)		
2023	\$	2,851
2024		2,377
2025		1,922
2026		1,471
2027		1,068
Thereafter		4,828
Total lease payments		14,517
Less: imputed interest		1,435
Total present value of lease payments	\$	13,082

The following table shows the supplemental cash flow information related to the Company's direct finance and operating leases for the periods indicated:

(In thousands)	For the Three Months Ended March 31,			
	2023		2022	
Right-of-use asset obtained in exchange for lease obligation	\$	110	\$	5,446
Operating cash flows from operating leases		732		665
Operating cash flows from direct finance leases		53		68
Financing cash flows from direct finance leases		187		187

15. ACCOUNTING PRONOUNCEMENTS

In March 2022, FASB issued ASU 2022-01, *Derivatives and Hedging (Topic 815)* ("ASU 2022-01"), which clarifies the guidance in ASC 815 on fair value hedge accounting of interest rate risk for portfolios and financial assets. Among other things, the amended guidance established the "last-of-layer" method for making the fair value hedge accounting for these portfolios more accessible and renamed that method the "portfolio layer" method. ASU 2022-01 became effective January 1, 2023 and did not have a material impact on the Company's consolidated financial statements.

In March 2022, FASB issued ASU 2022-02, *Financial Instruments—Credit Losses (Topic 326); Troubled Debt Restructurings and Vintage Disclosures* ("ASU 2022-02"). ASU 2022-02 eliminates the accounting guidance on troubled debt restructurings for creditors in ASC 310-40 and amends the guidance on "vintage disclosures" to require disclosure of current-period gross write-offs by year of origination. ASU 2022-02 also updates the requirements related to accounting for credit losses under ASC 326 and adds enhanced disclosures for creditors with respect to loan refinancings and restructurings for borrowers experiencing financial difficulty. The amendments in this update became effective for the Company on January 1, 2023 for all interim and annual periods. The adoption of the provisions in this update are applied prospectively and resulted in additional disclosures concerning modifications of loans to borrowers experiencing financial difficulty, as well as disaggregated disclosure of charge-offs on loans. Please also see *Note 4 – Loans and Leases* for disclosure concerning modifications of loans to borrowers experiencing financial difficulty.

In March 2023, the FASB issued ASU 2023-01, *Leases (Topic 842), Common Control Arrangements*. The amendments in this update clarify the accounting for leasehold improvements associated with common control leases. This update has been issued in order to address current diversity in practice associated with the accounting for leasehold improvements associated with a lease between entities under common control. The amendments in this update apply to all lessees that are a party to a lease between entities under common control in which there are leasehold improvements. The amendments in this update are effective for interim and annual periods beginning after December 15, 2023. The Company is currently evaluating the provisions of this update but does not anticipate the adoption will have a material impact on the Company's consolidated financial statements.

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, 2022, in addition to/which include the following:

- our ability to successfully grow our business and implement our strategic plan, including our ability to generate revenues to offset the increased personnel and other costs related to the strategic plan;
- the impact of anticipated higher operating expenses in 2023 and beyond;
- our ability to successfully integrate wealth management firm acquisitions;
- our ability to manage our growth;
- our ability to successfully integrate our expanded employee base;
- an unexpected decline in the economy, in particular in our New Jersey and New York market areas, including potential recessionary conditions;
- 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;
- impact from a pandemic event on our business, operations, customers, allowance for credit losses and capital levels;
- the continuing impact of the COVID-19 pandemic on our business and results of operation;
- higher than expected increases in our allowance for credit losses;
- higher than expected increases in credit losses or in the level of delinquent, nonperforming, classified and criticized loans;
- inflation and changes in interest rates, which may adversely impact our margins and yields, reduce the fair value of our financial instruments, reduce our loan originations and lead to higher operating costs;
- decline in real estate values within our market areas;
- legislative and regulatory actions (including the impact of the Dodd-Frank Wall Street Reform and Consumer Protection Act, Basel III and related regulations) that may result in increased compliance costs;
- successful cyberattacks against our IT infrastructure and that of our IT and third-party providers;
- higher than expected FDIC insurance premiums;
- adverse weather conditions;
- the current or anticipated impact of military conflict, terrorism or other geopolitical events;
- our inability to successfully generate new business in new geographic markets;
- a reduction in our lower-cost funding sources;
- changes in liquidity, including the size and composition of our deposit portfolio, including the percentage of uninsured deposits in the portfolio;
- 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 governmental regulation, including, but not limited to, any increase in FDIC insurance premiums and changes in the monetary policies of the U.S. Treasury and the Board of Governors of the Federal Reserve System;
- a default by the U.S. government, which could have a material adverse impact on our business and financial performance, including a decrease in the value of Treasury bonds and other government securities held by us;
- changes in accounting policies and practices; and
- other unexpected material adverse changes in our operations or earnings.

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, 2022 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 credit 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.

On January 1, 2022, the Company adopted ASU 2016-13 (*Topic 326*), which replaced the incurred loss methodology with CECL for financial instruments measured at amortized cost and other commitments to extend credit. The allowance for credit losses is a valuation allowance for Management's estimate of expected credit losses in the loan portfolio. The process to determine expected credit losses utilizes analytic tools and Management judgement and is reviewed on a quarterly basis. When Management is reasonably certain that a loan balance is not fully collectable, an 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 via a quantitative analysis which considers available information from internal and external sources related to past loan loss and prepayment experience and current conditions, as well as the incorporation of reasonable and supportable forecasts. Management evaluates a variety of factors including available published economic information in arriving at its forecast. Expected credit losses are estimated over the contractual term of the loans, adjusted for expected prepayments when appropriate. Also included in the allowance for credit losses are qualitative reserves that are expected, but, in the Management's assessment, may not be adequately represented in the quantitative analysis or the forecasts described above. Factors may include changes in lending policies and procedures, size and composition of the portfolio, experience and depth of Management and the effect of external factors such as competition, legal and regulatory requirements, among others. The allowance is available for any loan that, in Management's judgment, should be charged off.

Although Management uses the best information available, the level of the allowance for credit 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 credit losses. Such agencies may require the Company to make additional provisions for credit 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 credit losses and allowance for credit 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 March 31, 2023 and 2022.

(Dollars in thousands, except per share data)	For the Three Months Ended March 31,		Change
	2023	2022	2023 vs 2022
Results of Operations:			
Interest income	\$ 70,491	\$ 44,140	\$ 26,351
Interest expense	26,513	4,518	\$ 21,995
Net interest income	43,978	39,622	4,356
Provision for credit losses	1,513	2,375	(862)
Net interest income after provision for credit losses	42,465	37,247	5,218
Wealth management fee income	13,762	14,834	(1,072)
Other income (A)	4,297	(120)	4,417
Operating expense (B)	35,574	34,169	1,405
Income before income tax expense	24,950	17,792	7,158
Income tax expense	6,595	4,351	2,244
Net income	\$ 18,355	\$ 13,441	\$ 4,914
Total revenue (C)	\$ 62,037	\$ 54,336	\$ 7,701
Diluted average shares outstanding	18,263,310	18,946,683	(683,373)
Diluted earnings per share	\$ 1.01	\$ 0.71	\$ 0.30
Return on average assets annualized ("ROAA")	1.16%	0.87%	0.29%
Return on average equity annualized ("ROAE")	13.50	9.88	3.62

- (A) The quarter ended March 31, 2023 and 2022 included a fair value adjustment on a CRA equity security of positive \$209,000 and negative \$682,000, respectively. The quarter ended March 31, 2022 included a \$6.6 million loss on sale of securities.
- (B) The quarter ended March 31, 2023 included \$300,000 of expense related to accelerated vesting of restricted stock related to one retiring executive and \$175,000 of expense associated with three retail branch closures. The quarter ended March 31, 2022 included \$1.5 million of severance expense related to certain staff reorganizations.
- (C) Total revenue equals net interest income plus wealth management fee income and other income.

	March 31, 2023	December 31, 2022	Change 2023 vs 2022
Selected Balance Sheet Ratios:			
Total capital (Tier I + II) to risk-weighted assets	15.15%	14.73%	0.42%
Tier I leverage ratio	9.02	8.90	0.12
Loans to deposits	101.07	101.54	(0.47)
Allowance for credit losses to total loans	1.16	1.15	0.01
Allowance for credit losses to nonperforming loans	217.21	320.59	(103.38)
Nonperforming loans to total loans	0.53	0.36	0.17

For the three months ended March 31, 2023, the Company recorded total revenue of \$62.04 million, pretax income of \$24.95 million, net income of \$18.36 million and diluted earnings per share of \$1.01, compared to revenue of \$54.34 million, pretax income of \$17.79 million, net income of \$13.44 million and diluted earnings per share of \$0.71 for the same period last year. The first quarter of 2023 included increased net interest income driven by net interest margin expansion, which benefitted by an increase in the target Federal Funds rate of 475 basis points, and loan growth, partially offset by a decline in 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), and increased operating expenses. Other income included fair value adjustments on an equity security held for CRA investment purposes, reflecting a gain of \$209,000 for the quarter ended March 31, 2023 and a loss of \$682,000 for the quarter ended March 31, 2022. The three months ended March 31, 2022 included a \$6.6 million loss on sale of securities as a result of the Company's balance sheet repositioning completed in March 2022.

Operating expenses increased primarily due to increased corporate and health insurance costs; hiring in line with the Company's strategic plan, which included an increase in full time equivalent employees from 478 at March 31, 2022 to 512 at March 31, 2023; normal salary increases, and increased FDIC insurance expense. Additionally, the three months ended March 31, 2023 included

operating expenses of \$300,000 associated with the acceleration of restricted stock related to one executive retiring, \$175,000 of expense associated with three retail branch closures and additional restricted stock expense associated with additional shares being granted to executives due to performance measures exceeding peers. Operating expense for the first quarter of 2022 included \$1.5 million of severance expense related to certain staff reorganizations within several areas of the Bank.

RECENT DEVELOPMENTS: During the first quarter of 2023, the banking industry experienced volatility with several high-profile bank failures and industry-wide concerns related to liquidity, deposit outflows, unrealized securities losses and eroding consumer confidence in the banking system. Despite these negative industry developments, the Company's liquidity position and balance sheet remain strong as on-balance sheet liquidity (investments available for sale, interest-earning deposits and cash) grew to \$851 million as of March 31, 2023 driven by an increase in cash balances of \$61 million during the first quarter.

The Company maintains additional liquidity resources of approximately \$3.3 billion through secured available funding with the Federal Home Loan Bank (\$1.5 billion) and secured funding from the Federal Reserve Discount Window (\$1.8 billion). The available funding from the Federal Home Loan Bank and the Federal Reserve are secured by the Company's loan and investment portfolios. In addition, the Company also has access to the Bank Term Funding Program offered by the Federal Reserve Bank for the next twelve months if needed.

The Company experienced an increase in deposits of \$104 million, or 2.0 percent for the quarter ended March 31, 2023. Furthermore, the Company's capital at March 31, 2023 remains above well capitalized levels with common equity tier 1 capital ("CET1") and total risk-based capital ratios of 11.39 percent and 15.15 percent, respectively, for the Company and 13.93 percent and 15.18 percent for the Bank, respectively.

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, 2022 under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations – Off-Balance Sheet Arrangements and Aggregate Contractual Obligations."

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 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 summarizes the loans that the Company closed during the periods indicated:

(In thousands)	For the Three Months Ended	
	March 31, 2023	March 31, 2022
Residential mortgage loans originated for portfolio	\$ 30,303	\$ 41,547
Residential mortgage loans originated for sale	1,477	15,669
Total residential mortgage loans	31,780	57,216
Commercial real estate loans	18,990	25,575
Multifamily	30,150	265,650
C&I loans (A) (B)	207,814	143,029
Small business administration	9,950	26,093
Wealth lines of credit (A)	23,225	9,400
Total commercial loans	290,129	469,747
Installment loans	12,086	131
Home equity lines of credit (A)	2,921	1,341
Total loans closed	\$ 336,916	\$ 528,435

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

At March 31, 2023, December 31, 2022 and March 31, 2022, the Bank had a concentration in commercial real estate (“CRE”) loans as defined by applicable regulatory guidance as follows:

	March 31, 2023	December 31, 2022	March 31, 2022
Multifamily real estate loans as a percent of total regulatory capital of the Bank	245 %	251 %	268 %
Non-owner occupied commercial real estate loans as a percent of total regulatory capital of the Bank	133	141	156
Total CRE concentration	378 %	392 %	424 %

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 March 31, 2023						
	Average Balance	Income/ Expense	Annualized Yield	March 31, 2022 Average Balance	Income/ Expense	Annualized Yield
(Dollars in thousands)						
ASSETS:						
Interest-earning assets:						
Investments:						
Taxable (A)	\$ 791,125	\$ 4,471	2.26 %	\$ 928,828	\$ 3,606	1.55 %
Tax-exempt (A) (B)	1,864	19	4.08	4,701	48	4.08
Loans (B) (C):						
Residential mortgages	529,570	4,283	3.24	508,408	3,656	2.88
Commercial mortgages	2,478,645	25,917	4.18	2,353,032	18,175	3.09
Commercial	2,201,801	33,369	6.06	2,008,464	18,203	3.63
Commercial construction	4,296	88	8.19	18,087	160	3.54
Installment	39,945	609	6.10	34,475	254	2.95
Home equity	33,839	591	6.99	40,245	324	3.22
Other	276	7	10.14	283	6	8.48
Total loans	5,288,372	64,864	4.91	4,962,994	40,778	3.29
Federal funds sold	—	—	—	—	—	—
Interest-earning deposits	163,225	1,538	3.77	127,121	29	0.09
Total interest-earning assets	6,244,586	70,892	4.54 %	6,023,644	44,461	2.95 %
Noninterest-earning assets:						
Cash and due from banks	10,449			7,455		
Allowance for credit losses	(61,567)			(61,001)		
Premises and equipment	23,927			23,022		
Other assets	84,800			168,239		
Total noninterest-earning assets	57,609			137,715		
Total assets	\$ 6,302,195			\$ 6,161,359		
LIABILITIES:						
Interest-bearing deposits:						
Checking	\$ 2,567,426	\$ 16,481	2.57 %	\$ 2,330,340	\$ 1,238	0.21 %
Money markets	1,124,047	4,874	1.73	1,294,100	539	0.17
Savings	141,285	28	0.08	156,554	5	0.01
Certificates of deposit - retail	357,953	1,729	1.93	426,166	606	0.57
Subtotal interest-bearing deposits	4,190,711	23,112	2.21	4,207,160	2,388	0.23
Interest-bearing demand - brokered	26,111	208	3.19	85,000	373	1.76
Certificates of deposit - brokered	25,961	205	3.16	33,823	261	3.09
Total interest-bearing deposits	4,242,783	23,525	2.22	4,325,983	3,022	0.28
FHLB advances and borrowings	104,915	1,296	4.94	55,513	64	0.46
Finance lease liabilities	4,493	53	4.72	5,662	68	4.80
Subordinated debt	133,017	1,639	4.93	132,731	1,364	4.11
Total interest-bearing liabilities	4,485,208	26,513	2.36 %	4,519,889	4,518	0.40 %
Noninterest-bearing liabilities:						
Demand deposits	1,176,495			978,288		
Accrued expenses and other liabilities	96,631			119,003		
Total noninterest-bearing liabilities	1,273,126			1,097,291		
Shareholders' equity	543,861			544,179		
Total liabilities and shareholders' equity	\$ 6,302,195			\$ 6,161,359		
Net interest income (tax-equivalent basis)		\$ 44,379			\$ 39,943	
Net interest spread			2.18 %			2.55 %
Net interest margin (D)			2.88 %			2.69 %
Tax equivalent adjustment		\$ (401)			\$ (321)	
Net interest income		\$ 43,978			\$ 39,622	

- (A) Average balances for available for sale securities are based on amortized cost.
(B) Interest income is presented on a tax-equivalent basis using a 21 percent federal tax rate.
(C) Loans are stated net of unearned income and include nonaccrual loans.
(D) 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 March 31, 2023		
	Difference due to		Change In Income/ Expense
	Volume	Rate	
(In Thousands):			
ASSETS:			
Investments	\$ (550)	\$ 1,386	\$ 836
Loans	3,031	21,055	24,086
Interest-earning deposits	10	1,499	1,509
Total interest income	\$ 2,491	\$ 23,940	\$ 26,431
LIABILITIES:			
Interest-bearing checking	\$ (136)	\$ 15,379	\$ 15,243
Money market	(14)	4,349	4,335
Savings	(3)	26	23
Certificates of deposit - retail	(111)	1,234	1,123
Certificates of deposit - brokered	(62)	6	(56)
Interest bearing demand brokered	(469)	304	(165)
Borrowed funds	651	581	1,232
Capital lease obligation	(15)	—	(15)
Subordinated debt	3	272	275
Total interest expense	\$ (156)	\$ 22,151	\$ 21,995
Net interest income	\$ 2,647	\$ 1,789	\$ 4,436

Net interest income, on a fully tax-equivalent basis, grew \$4.4 million, or 11 percent, for the first quarter of 2023 to \$44.4 million from \$39.9 million in the same 2022 period. The net interest margin ("NIM") was 2.88 percent and 2.69 percent for the three months ended March 31, 2023 and 2022, respectively, an increase of 19 basis points quarter over quarter. The growth in net interest income and NIM for the quarter ended March 31, 2023, when compared to 2022 was due to an increase in the yield on the average balance of interest-earning assets due to the current interest rate environment and an increase in the average balance of interest-earning assets, offset by an increase in the cost of interest-bearing liabilities of 196 basis points.

During the first quarter of 2022, the Company executed a balance sheet reposition to benefit future NIM, in which \$250.0 million of multifamily loans were purchased, funded by the sale of \$125.0 million of lower-yielding, like-duration securities, and deposit growth. To manage a neutral overall duration effect on the balance sheet, thereby protecting the balance sheet against the impact of rising rates, we executed \$100.0 million of forward starting five-year pay fixed swaps. The repositioning resulted in an earn-back period of less than three years on the loss on sale of securities, with future net interest margin improving by four basis points, with no impact to tangible capital or tangible book value per share.

The increase in the average balance of interest-earning assets was driven by growth of \$325.4 million in loans to \$5.29 billion for the first quarter of 2023 from \$4.96 billion in the same 2022 period, partially offset by a decrease in investments of \$140.5 million as part of the balance sheet reposition strategy described above.

When comparing the first quarter of 2023 to the same period of 2022, the growth in loans was driven by growth in commercial loans of \$193.3 million or 10 percent, for the quarter ended March 31, 2023 to \$2.20 billion from \$2.01 billion for the quarter ended March 31, 2022. Additionally commercial mortgages grew \$125.6 million, or 5 percent, to \$2.48 billion for the quarter ended March 31, 2023 from \$2.35 billion for the same 2022 period as part of the Company's balance sheet reposition strategy described above.

The average balance of investments decreased \$140.5 million to \$793.0 million for the quarter ended March 31, 2023 compared to \$933.5 million from the same 2022 period. The decrease was primarily a result of the balance sheet reposition strategy executed in the first quarter of 2022 described above.

For the quarter ended March 31, 2023 and 2022 periods, the average yields earned on interest-earning assets were 4.54 percent and 2.95 percent, respectively, an increase of 159 basis points. The increase in yields on interest-earning assets was primarily due to the increase in the target Federal Funds rate of 475 basis points. This resulted in increases on the yield on loans of 162 basis points to 4.91 percent, the yield on interest-earning deposits of 368 basis points to 3.77 percent and the yield on investments of 69 basis points to 2.26 percent, when comparing the three months ended March 31, 2023 to the same 2022 period.

The average yield on total loans increased 162 basis points to 4.91 percent for quarter ended March 31, 2023 when compared to 3.29 percent for the same 2022 period. This increase was driven by an increase in the yield on commercial loans of 243 basis points to 6.06 percent for 2023, due to an increase in target Federal Funds rate of 475 basis points since rates started increasing given these loans are typically floating rates with short repricing periods. The yield on commercial mortgages was 4.18 percent, which reflected an increase of 109 basis points when comparing the first quarter of 2023 to the same 2022 period, which is primarily driven by the originations of loans with higher yields in the higher interest rate environment. In addition, 21 percent of our loans reprice within one month; 34 percent within three months and 45 percent within one year.

During the first quarter of 2023 and 2022, the Company recorded a yield on investments of 2.26 percent and 1.57 percent, respectively. The increase in yield was due to the Company purchasing higher-yielding investments during 2022 and during the first quarter of 2023.

For the quarter ended March 31, 2023, the average balance of interest-bearing liabilities totaled \$4.49 billion representing a decrease of \$34.7 million or 1 percent from \$4.52 billion for the same 2022 period. The decrease in interest-bearing liabilities reflected a decline of interest-bearing deposits of \$83.2 million to \$4.24 billion for the three months ended March 31, 2023 from \$4.33 billion during the same 2022 period; offset by increases in the average balance of borrowings of \$49.4 million from \$55.5 million in the first quarter of 2022 to \$104.9 million in the same 2023 period.

The decrease in the average balance of interest-bearing deposits was primarily due to a decline in the average balance of brokered deposits of \$66.8 million to \$52.1 million for the first quarter of 2023 when compared to the first quarter of 2022. The Company actively tries to reduce our reliance on brokered deposits. Additionally, interest-bearing deposits were affected by a decline in the average balance of money market deposits of \$170.1 million. The decline in money market and brokered deposits was partially offset by an increase in the average balance of interest-bearing checking accounts of \$237.1 million during the first quarter of 2023. The increase in interest-bearing checking was partially due to maturing CDS that shifted into these accounts combined with stronger consumer demand for higher-yielding accounts.

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 of more participating banks to ensure that each deposit customer is eligible for the full amount of FDIC insurance. As a participant, the Company receives reciprocal amounts of deposits from other participating banks. Such reciprocal deposit balances were \$628.3 million and \$713.8 million for three months ended March 31, 2023 and 2022, respectively.

At March 31, 2023, uninsured deposits were approximately \$1.6 billion, or 30 percent of total deposits. This amount was adjusted to exclude \$296 million of public fund deposit balances, which are fully-collateralized and protected.

There was an increase in the average balance of borrowings to \$104.9 million for the quarter ended March 31, 2023 from \$55.5 million for the quarter ended March 31, 2022. The increase in borrowings of \$49.4 million was principally due to the Company initiating a short-term borrowing position in response to the March 2023 financial service industry headwinds.

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 2030 or earlier redemption. The December 2020 issuance has re-priced to 7.31 percent commencing in December 2022 through March 2023. 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.

For the quarters ended March 31, 2023 and 2022, the cost of interest-bearing liabilities was 2.36 percent and 0.40 percent, respectively, reflecting an increase of 196 basis points. The increase was driven by an increase in the average cost of interest-bearing deposits of 194 basis points to 2.22 percent for the first quarter of 2023 when compared to the same 2022 period. The Federal Reserve raised target Federal Funds rate 475 basis points, which has caused competitive pressure on deposit rates. Additionally, the cost of borrowings increased 448 basis points to 4.94 percent for the three months ended March 31, 2023 when compared to the first quarter of 2022.

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

has both the ability and intent to hold to maturity. These securities are carried at amortized cost. Equity securities are carried at fair value with unrealized gains and losses recorded in noninterest income.

At March 31, 2023, the Company had investment securities available for sale with a fair value of \$556.3 million compared with \$554.6 million at December 31, 2022. A net unrealized loss (net of income tax) of \$72.3 million and of \$81.0 million were included in shareholders' equity at March 31, 2023 and December 31, 2022, respectively.

At March 31, 2023, the Company had investment securities held to maturity with a carrying cost of \$111.6 million and an estimated fair value of \$98.0 million compared with a carrying cost of \$102.3 million and an estimated fair value of \$87.2 million at December 31, 2022.

The Company has one equity security (a CRA investment security) with a fair value of \$13.2 million at March 31, 2023 compared with a fair value of \$13.0 million at December 31, 2022, with changes in fair value recognized in the Consolidated Statements of Income. The Company recorded an unrealized gain of \$209,000 for the three months ended March 31, 2023, as compared to an unrealized loss of \$682,000 for the same period in 2022.

The carrying value of investment securities available for sale as of March 31, 2023 and December 31, 2022 are shown below:

(In thousands)	March 31, 2023		December 31, 2022	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Investment securities - available for sale:				
U.S. government-sponsored agencies	\$ 244,779	\$ 194,787	\$ 244,774	\$ 190,542
Mortgage-backed securities-residential (principally U.S. government-sponsored entities)	366,852	324,187	372,471	325,738
SBA pool securities	30,403	26,452	31,934	27,427
State and political subdivisions	1,860	1,852	1,866	1,849
Corporate bond	10,000	8,988	10,000	9,092
Total investment securities - available for sale	<u>\$ 653,894</u>	<u>\$ 556,266</u>	<u>\$ 661,045</u>	<u>\$ 554,648</u>
Investment securities - held to maturity:				
U.S. government-sponsored agencies	40,000	35,999	40,000	35,437
Mortgage-backed securities-residential (principally U.S. government-sponsored entities)	71,609	61,968	62,291	51,750
Total investment securities - held to maturity	<u>\$ 111,609</u>	<u>\$ 97,967</u>	<u>\$ 102,291</u>	<u>\$ 87,187</u>
Total	<u><u>\$ 765,503</u></u>	<u><u>\$ 654,233</u></u>	<u><u>\$ 763,336</u></u>	<u><u>\$ 641,835</u></u>

The following table presents the contractual maturities and yields of debt securities available for sale and held to maturity as of March 31, 2023. The weighted average yield is a computation of income within each maturity range based on the amortized cost of securities:

(Dollars in thousands)	Within 1 Year	After 1 But Within 5 Years	After 5 But Within 10 Years	After 10 Years	Total
Investment securities - available for sale:					
U.S. government-sponsored agencies	\$ —	\$ —	\$ 115,459	\$ 79,328	\$ 194,787
	—	—	1.39 %	1.79 %	1.56 %
Mortgage-backed securities-residential (A)	50,183	8,775	19,214	246,015	324,187
	5.49 %	2.83 %	1.91 %	2.45 %	2.84 %
SBA pool securities	—	—	10,383	16,069	26,452
	—	—	1.90 %	1.40 %	1.59 %
State and political subdivisions (B)	1,852	—	—	—	1,852
	2.19 %	—	—	—	2.19 %
Corporate bond	—	—	8,988	—	8,988
	—	—	4.81 %	—	4.81 %
Total investments - available for sale	\$ 52,035	\$ 8,775	\$ 154,044	\$ 341,412	\$ 556,266
	5.37 %	2.83 %	1.67 %	2.23 %	2.33 %
Investment securities - held to maturity:					
U.S. government-sponsored agencies	—	30,000	10,000	—	40,000
	—	1.47 %	1.74 %	—	1.54 %
Mortgage-backed securities-residential (A)	—	—	—	71,609	71,609
	—	—	—	2.25 %	2.25 %
Total investments - held to maturity	\$ —	\$ 30,000	\$ 10,000	\$ 71,609	111,609
	—	1.47 %	1.74 %	2.25 %	2.00 %
Total	\$ 52,035	\$ 38,775	\$ 164,044	\$ 413,021	\$ 667,875
	5.37 %	1.78 %	1.68 %	2.23 %	2.28 %

(A) Shown using stated final maturity.

(B) Yields presented on a fully tax-equivalent basis using a 21 percent federal tax rate.

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 March 31, 2023 was \$163.2 million compared to \$127.1 million for the quarter ended March 31, 2022.

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 March 31,		Change
	2023	2022	2023 vs 2022
Service charges and fees	\$ 1,258	\$ 952	\$ 306
Bank owned life insurance	297	313	(16)
Gain on sale of loans (mortgage banking)	21	247	(226)
Gain on sale of SBA loans	865	2,844	(1,979)
Corporate advisory fee income	80	1,561	(1,481)
Other income	1,567	1,254	313
Loss on securities sale, net	—	(6,609)	6,609
Fair value adjustment for CRA equity security	209	(682)	891
Total other income (excluding wealth management income)	\$ 4,297	\$ (120)	\$ 4,417

The Company recorded total other income, excluding wealth management fee income, of \$4.3 million for the first quarter of 2023 compared to \$6.5 million for the same quarter of 2022 (when excluding the \$6.6 million loss on sale of securities executed in the three months ended March 31, 2022), reflecting a decrease of \$2.2 million.

The Company provides loans that are partially guaranteed by the SBA, to provide working capital and/or finance the purchase of equipment, inventory or commercial real estate that could be used for start-up businesses. 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 first quarter of 2023 included \$865,000 of gains on sales of SBA loans, which represents a decrease of \$2.0 million, or 70 percent, compared to \$2.8 million for the same quarter in 2022. The first quarter of 2023 has been impacted by both market volatility and the higher interest rate environment resulting in lower sale premiums and origination volumes.

The Company recorded corporate advisory fee income for the first quarter of 2023 of \$80,000 compared to \$1.6 million for the same three-month period ended March 31, 2022. The first quarter of 2022 included \$1.5 million related to one major corporate advisory/investment banking acquisition transaction.

Income from the back-to-back swap, SBA programs, and corporate advisory fee income are dependent on volume, and thus are not consistent from quarter to quarter.

For the three months ended March 31, 2023, income from the sale of newly originated residential mortgage loans was \$21,000 compared to \$247,000 for the same quarter in 2022. The decrease for the three months ended March 31, 2023, was the result of the lower volume of residential mortgage loans originated for sale due to a slowdown in refinancing and home purchase activity in the higher interest rate environment.

Other income for the quarter ended March 31, 2023 and 2022 included unused commercial line fees of \$852,000 and \$122,000, respectively. Additionally, the Company recorded income by the Equipment Finance Division related to equipment transfers to lessees of \$145,000 and \$426,000, respectively, for the three months ended March 31, 2023 and 2022.

During the first quarter of 2023, the Company recorded a \$209,000 gain on the fair value adjustment for CRA equity securities compared to a loss of \$682,000 for the same 2022 period.

Other income for the three months ended March 31, 2022, included a \$6.6 million loss on securities due to the Company's balance sheet repositioning, by selling lower-yielding securities and replacing them with higher-yielding like duration multifamily loans. The Company's repositioning has improved the NIM with no impact to tangible capital or tangible book value per share.

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

(In thousands)	For the Three Months Ended March 31,		Change 2023 vs 2022
	2023	2022	
Compensation and employee benefits	\$ 24,586	\$ 22,449	\$ 2,137
Premises and equipment	4,374	4,647	(273)
FDIC assessment	711	471	240
Other Operating Expenses:			
Professional and legal fees	1,345	1,138	207
Telephone	369	334	35
Advertising	396	290	106
Amortization of intangible assets	354	431	(77)
Swap valuation allowance	—	673	(673)
Branch/office restructure	175	372	(197)
Other	3,264	3,364	(100)
Total operating expenses	<u>\$ 35,574</u>	<u>\$ 34,169</u>	<u>\$ 1,405</u>

Operating expenses totaled \$35.6 million for the three months ended March 31, 2023, compared to \$34.2 million for the same 2022 period, reflecting an increase of \$1.4 million, or 4 percent. The increased operating expenses for the three months ended March 31, 2023 were principally attributable to: increased corporate and health insurance costs; hiring in line with the Company's strategic plan, which included an increase in full-time equivalent employees from 478 at March 31, 2022 to 512 at March 31, 2023; normal salary increases, and increased FDIC assessment expense. The three months ended March 31, 2023 included \$175,000 of expenses associated with the closure of three retail branch locations compared to \$372,000 of expenses associated with the consolidation of private banking offices in the same quarter of 2022. The quarter ended March 31, 2023 included increased restricted stock expense associated with additional shares being granted to executives due to performance measures exceeding peers, as well as \$300,000 of expense related to restricted stock expense associated with a retiring executive. The quarter ended March 31, 2022 included \$1.5 million of severance expense related to certain staff reorganizations within several areas of the Bank and \$673,000 of expense attributable to a swap valuation allowance.

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, New Jersey and at private banking locations in Morristown, Princeton, Red Bank, Summit and Teaneck, New Jersey and at the Bank's subsidiary, PGB Trust & Investments of Delaware, in Greenville, Delaware.

The market value of the assets under management and/or administration ("AUM/AUA") of Peapack Private was \$10.4 billion at March 31, 2023, reflecting a 5 percent increase from \$9.9 billion at December 31, 2022 and a decrease of 3 percent from \$10.7 billion at March 31, 2022. The equity market generally improved during Q1 2023, growing 7 percent, but is still down almost 10 percent compared to a year ago.

In the March 2023 quarter, Peapack Private generated \$13.8 million in fee income compared to \$14.8 million for the March 2022 quarter, reflecting a 7 percent decrease. The decrease in fee income for the three months ended March 31, 2023 was largely due to the equity and bond market decline in 2022.

Operating expenses relative to Peapack Private reflected increases due to overall growth in the business and new hires when comparing the three months ended March 31, 2023 to the same period for 2022. 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 wealth 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				
	March 31, 2023	December 31, 2022	September 30, 2022	June 30, 2022	March 31, 2022
Loans past due 90 days or more and still accruing	\$ —	\$ —	\$ —	\$ —	\$ —
Nonaccrual loans	28,659	18,974	15,724	15,078	15,884
Other real estate owned	116	116	116	116	—
Total nonperforming assets	<u>\$ 28,775</u>	<u>\$ 19,090</u>	<u>\$ 15,840</u>	<u>\$ 15,194</u>	<u>\$ 15,884</u>
Performing modifications (A)	\$ 248	\$ —	\$ —	\$ —	\$ —
Performing TDRs (B)(C)	\$ —	\$ 965	\$ 2,761	\$ 2,272	\$ 2,375
Loans past due 30 through 89 days and still accruing (D)	\$ 2,762	\$ 7,592	\$ 7,248	\$ 3,126	\$ 606
Loans subject to special mention	\$ 46,566	\$ 64,842	\$ 82,107	\$ 98,787	\$ 110,252
Classified loans	\$ 58,010	\$ 42,985	\$ 27,507	\$ 27,167	\$ 47,386
Individually evaluated loans	\$ 27,736	\$ 16,732	\$ 13,047	\$ 13,227	\$ 16,147
Nonperforming loans as a % of total loans (E)	0.53 %	0.36 %	0.30 %	0.29 %	0.31 %
Nonperforming assets as a % of total assets (E)	0.44 %	0.30 %	0.26 %	0.25 %	0.25 %
Nonperforming assets as a % of total loans plus other real estate owned (E)	0.54 %	0.36 %	0.31 %	0.29 %	0.31 %

(A) Amounts reflect modifications that are paying according to modified terms.

(B) Amounts reflect TDRs that are paying according to restructured terms. On January 1, 2023, the Company adopted Accounting Standards Update 2022-02, which replaced the accounting and recognition of TDRs.

(C) Amount excludes \$13.4 million at December 31, 2022, \$12.9 million at September 30, 2022, \$13.5 million at June 30, 2022 and \$13.6 million at March 31, 2022 of TDRs included in nonaccrual loans.

(D) Includes \$4.5 million outstanding to U.S. governmental entities at December 31, 2022.

(E) Nonperforming loans/assets do not include performing TDRs or modifications.

PROVISION FOR CREDIT LOSSES: The provision for credit losses was \$1.5 million and \$2.4 million for the first quarters of 2023 and 2022, respectively. The decreased provision for credit losses for the three months ended March 31, 2023, when compared to the three months ended March 31, 2022, was due principally to weaker loan growth in the first quarter of 2023.

The allowance for credit losses was \$62.3 million as of March 31, 2023, compared to \$60.8 million at December 31, 2022. The increase in the allowance for credit losses ("ACL") was primarily due to the provision for credit losses of \$1.5 million. The allowance for credit losses as a percentage of loans was 1.16 percent and 1.15 percent at March 31, 2023 and December 31, 2022, respectively. The specific reserves recorded on individually evaluated loans were \$2.6 million at March 31, 2023 compared to \$1.5 million as of December 31, 2022. Total individually evaluated loans were \$27.7 million and \$16.7 million as of March 31, 2023 and December 31, 2022, respectively. The increase in specific reserves and balance of individually evaluated loans was primarily due to one multifamily relationship of \$9.7 million that transferred to nonaccrual status during the first quarter of 2023. The general component of the allowance increased from \$59.3 million at December 31, 2022 to \$59.6 million at March 31, 2023.

On January 1, 2022, the Company adopted ASU 2016-13 (*Topic 326*), which replaced the incurred loss methodology with CECL for financial instruments measured at amortized cost and other commitments to extend credit. The allowance for credit losses is a valuation allowance for Management's estimate of expected credit losses in the loan portfolio. The process to determine expected credit losses 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 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 via a quantitative analysis which considers available information from internal and external sources related to past loan loss and prepayment experience and current conditions, as well as the incorporation of reasonable and supportable forecasts. Management evaluates a variety of factors including available published economic information in arriving at its forecast. Expected credit losses are estimated over the contractual term of the loans, adjusted for expected prepayments when appropriate. Also included in the allowance for credit losses are qualitative reserves that are expected, but, in the Management's assessment, may not be adequately represented in the quantitative analysis or the forecasts described above. Factors may include changes in lending policies and procedures, size and composition of the portfolio, experience and depth of management and the effect of external factors such as competition, legal and regulatory requirements, amount others. The allowance is available for any loan that, in Management's judgment, should be charged off.

The adoption of CECL resulted in a day one reduction of \$5.5 million on January 1, 2022. The lower allowance was in part attributed to historically low charge-offs combined with the shorter duration of the loan portfolio employed in our CECL analysis. Further, the incurred loss method required significant qualitative factors, including factors related to COVID-19, and the use of a multiplier for potential losses on criticized and classified loans, neither of which are included within the CECL methodology. The CECL methodology utilizes significantly less qualitative factors as it uses economic factors and historical losses over a full economic cycle and calculates losses based on DCF on an individual loan basis. Accordingly, the CECL model quantitatively accounts for some of the qualitative factors utilized in the incurred loss methodology.

A summary of the allowance for credit losses for the quarterly periods indicated follows:

(Dollars in thousands)	March 31, 2023	December 31, 2022	September 30, 2022	June 30, 2022	March 31, 2022
Allowance for credit losses:					
Beginning of period	\$ 60,829	\$ 59,683	\$ 59,022	\$ 58,386	\$ 61,697
Day one CECL adjustment	—	—	—	—	(5,536)
Provision for credit losses (A)	1,464	2,103	665	646	2,489
(Charge-offs)/recoveries, net	(43)	(957)	(4)	(10)	(264)
End of period	<u>\$ 62,250</u>	<u>\$ 60,829</u>	<u>\$ 59,683</u>	<u>\$ 59,022</u>	<u>\$ 58,386</u>
Allowance for credit losses as a % of total loans	1.16 %	1.15 %	1.15 %	1.14 %	1.13 %
General allowance for credit losses as a % of total loans	1.11 %	1.12 %	1.10 %	1.09 %	1.09 %
Allowance for credit losses as a % of non-performing loans	217.21 %	320.59 %	379.57 %	391.44 %	367.58 %

(A) Commencing on January 1, 2022, the allowance calculation is based on the CECL methodology. Provision to rollforward the ACL excludes a provision of \$49,000 for the three months ended March 31, 2023, a credit of \$173,000 for the three months ended December 31, 2022, a credit of \$66,000 for the three months ended September 30, 2022, a provision of \$803,000 for the three months ended June 30, 2022 and a credit of \$114,000 for the three months ended March 31, 2022 related to the off-balance sheet commitments.

INCOME TAXES: Income tax expense for the quarter ended March 31, 2023 was \$6.6 million as compared to \$4.4 million for the same period in 2022.

The effective tax rate for the three months ended March 31, 2023 was 26.43 percent compared to 24.45 percent for the same quarter in 2022. The March 31, 2023 and 2022 quarters both benefitted from the vesting of restricted stock at prices higher than grant prices. The March 2023 quarter when compared to the same 2022 quarter included additional expense associated with recent legislation that changed the nexus standard for New York City business tax.

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

The Company strives to maintain capital levels in excess of internal "triggers" and in excess of those considered to be well capitalized under regulatory guidelines applicable to banks and bank holding companies. 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 \$18.4 million for the three months ended March 31, 2023 and a net gain in accumulated other comprehensive income of \$6.8 million (\$8.7 million gain related to the available for sale portfolio partially offset by a \$1.9 million loss on cash flow hedges), which was partially offset by the purchase of shares through the Company's stock repurchase program. The Company repurchased 83,014 shares, at an average price of \$34.35, for a total cost of \$2.9 million during the three months ended March 31, 2023.

The Company employs quarterly capital stress testing - adverse case and severely adverse case. In the most recent completed stress test based on December 31, 2022 financial information, under the 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 March 31, 2023 and December 31, 2022, 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.

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" ("CBLR") (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 CBLR at 9 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 11.03 percent at March 31, 2023.

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
<u>As of March 31, 2023:</u>								
Total capital (to risk-weighted assets)	763,7 \$ 32	15.18 %	502,9 \$ 71	10.00 %	402,3 \$ 77	8.00 %	528,11 \$ 9	10.50 %
Tier I capital (to risk-weighted assets)	700,8 58	13.93	402,3 77	8.00	301,7 82	6.00	427,5 25	8.50
Common equity tier I (to risk-weighted assets)	700,8 40	13.93	326,9 31	6.50	226,3 37	4.50	352,0 79	7.00
Tier I capital (to average assets)	700,8 58	11.03	317,8 18	5.00	254,2 54	4.00	254,2 54	4.00
<u>As of December 31, 2022:</u>								
Total capital (to risk-weighted assets)	741,7 \$ 19	14.67 %	505,7 \$ 60	10.00 %	404,6 \$ 08	8.00 %	531,0 \$ 48	10.50 %
Tier I capital (to risk-weighted assets)	680,1 37	13.45	404,6 08	8.00	303,4 56	6.00	429,8 96	8.50
Common equity tier I (to risk-weighted assets)	680,11 9	13.45	328,7 44	6.50	227,5 92	4.50	354,0 32	7.00
Tier I capital (to average assets)	680,1 37	10.85	313,3 28	5.00	250,6 62	4.00	250,6 62	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
<u>As of March 31, 2022:</u>								
Total capital	762,09				402,42		528,18	
(to risk-weighted assets)	\$ 5	15.15 %	N/A	N/A	\$ 7	8.00 %	\$ 6	10.50 %
Tier I capital	573,15				301,82		427,57	
(to risk-weighted assets)	4	11.39	N/A	N/A	0	6.00	9	8.50
Common equity tier I	573,13				226,36		352,12	
(to risk-weighted assets)	6	11.39	N/A	N/A	5	4.50	4	7.00
Tier I capital	573,15				254,26		254,26	
(to average assets)	4	9.02	N/A	N/A	4	4.00	4	4.00
<u>As of December 31, 2022:</u>								
Total capital	754,19				404,83		531,34	
(to risk-weighted assets)	\$ 7	14.73 %	N/A	N/A	\$ 0	8.00 %	\$ 0	10.50 %
Tier I capital	557,62				303,62		430,13	
(to risk-weighted assets)	7	11.02	N/A	N/A	3	6.00	2	8.50
Common equity tier I	557,60				227,71		354,22	
(to risk-weighted assets)	9	11.02	N/A	N/A	7	4.50	7	7.00
Tier I capital	557,62				250,74		250,74	
(to average assets)	7	8.90	N/A	N/A	6	4.00	6	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) Common Equity Tier 1 to risk-weighted assets, (ii) Tier 1 capital to risk-weighted assets or (iii) total capital to risk-weighted assets above the respective minimum but below the capital conservation buffer face constraints on dividends, equity repurchases and discretionary bonus payments to executive officers based on the amount of the shortfall.

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. 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 March 31, 2023 were purchased in the open market.

On April 24, 2023, the Board of Directors declared a regular cash dividend of \$0.05 per share payable on May 22, 2023 to shareholders of record on May 8, 2023.

Management believes the Company's capital position and capital ratios are adequate. Further, Management believes the Company has sufficient common equity to support its planned growth 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. During the first quarter of 2023, the Company experienced positive trends in its liquidity position. Cash and cash equivalents

increased by \$61.2 million. Deposit balances grew by \$103.6 million, or 8 percent on an annualized basis. The ratio of cash and cash equivalents and available for sale securities to total assets increased to 13.13 percent. Cash and cash equivalents, including interest-earning deposits, totaled \$251.3 million at March 31, 2023. In addition, the Company had \$556.3 million in securities designated as available for sale at March 31, 2023. These securities can be sold, or used as collateral for borrowings, in response to liquidity concerns. Available for sale and held to maturity securities with a carrying value of \$454.9 million and \$101.3 million as of March 31, 2023, respectively, 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.

As of March 31, 2023, the Company had approximately \$1.5 billion of secured funding available from the Federal Home Loan Bank. Additionally, the Company had \$1.8 billion of secured funding available from the Federal Reserve Discount Window, none of which was drawn.

Brokered interest-bearing demand (“overnight”) deposits were \$10.0 million at March 31, 2023. 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 March 31, 2023, the Company had transacted pay fixed, receive floating interest rate swaps totaling \$310.0 million in notional amount, which includes \$100.0 million of forward-starting swaps.

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.

Management believes the Company’s liquidity position and sources were adequate at March 31, 2023.

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 generally manages interest rate risk through the management of capital, cash flows and the 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 engages 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 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 these swaps, the Company is receiving floating and paying fixed interest rates with total notional value of \$310.0 million as of March 31, 2023. The Company's interest rate swaps include \$100.0 million of forward starting swaps that extend swaps set to mature in 2023 for an additional two to five years.

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 March 31, 2023, \$607.4 million of notional value in swaps were executed and outstanding with borrowers under this program.

As noted above, ALCO uses simulation modeling to analyze the Company's net interest income sensitivity, as well as the Company's economic value of portfolio equity under various interest rate scenarios. The 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 March 31, 2023. 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 March 31, 2023.

In an immediate and sustained 100 basis point increase in market rates at March 31, 2023, net interest income would increase approximately 0.1 percent for year 1 and 3.2 percent for year 2, compared to a flat interest rate scenario. In an immediate and sustained 100 basis point decrease in market rates at March 31, 2023, net interest income would decrease approximately 0.9 percent for year 1 and 4.1 percent for year 2, compared to a flat interest rate scenario.

In an immediate and sustained 200 basis point increase in market rates at March 31, 2023, net interest income for year 1 would increase approximately 0.9 percent, when compared to a flat interest rate scenario. In year 2 net interest income would increase 6.5 percent, when compared to a flat interest rate scenario.

In an immediate and sustained 200 basis point decrease in market rates at March 31, 2023, net interest income for year 1 would decrease approximately 3.2 percent, when compared to a flat interest rate scenario. In year 2 net interest income would decrease 9.9 percent, when compared to a flat interest rate scenario.

The Company's interest rate sensitivity models indicate the Company is asset sensitive as of March 31, 2023 and that net interest income would improve in a rising rate environment, but decline in a falling rate environment.

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 March 31, 2023.

(Dollars in thousands) Change In Interest Rates (Basis Points)	Estimated Increase/ Decrease in EVPE			EVPE as a Percentage of Present Value of Assets (B)	
	Estimated EVPE (A)	Amount	Percent	EVPE Ratio (C)	Increase/(Decrease) (basis points)
+200	\$ 691,976	\$ (71,042)	(9.31)%	11.54%	(61)
+100	725,994	(37,024)	(4.85)	11.84	(31)
Flat interest rates	763,018	—	—	12.15	—
-100	820,966	57,948	7.59	12.72	57
-200	823,551	60,533	7.93	12.52	37

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

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

(C) 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.

ITEM 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”)) are designed to provide reasonable assurance that information required to be disclosed in reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the forms and rules of the Securities and Exchange Commission and that such information is accumulated and communicated to management, including the Chief Executive Officer and the Chief Financial Officer, to allow timely decisions regarding required disclosures.

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

Changes in Internal Control Over Financial Reporting

There have been no changes in the Company’s internal control over financial reporting during the quarter ended March 31, 2023, that have materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.

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

Other than described below, 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, 2022.

Recent bank industry events involving financial institution failures may adversely affect our business and the market price of our common stock.

Recent developments and events in the financial services industry, including the failures of Silicon Valley Bank, Signature Bank and First Republic Bank and the voluntary liquidation of Silvergate Bank, have resulted in decreased confidence in banks among depositors, other counterparties and investors, as well as significant disruption, volatility and reduced valuations of equity and other securities of banks in the capital markets. These events have occurred against the backdrop of a rapidly rising interest rate environment which, among other things, has resulted in unrealized losses in longer duration securities and loans held by banks, more competition for bank deposits and may increase the risk of a potential recession. These events and developments could materially and adversely impact our business or financial condition, including through potential liquidity pressures, reduced net interest margins, and potential increased credit losses. These recent events and developments have, and could continue to, adversely

impact the market price and volatility of our common stock. These recent events may also result in changes to laws or regulations governing banks and bank holding companies or result in the impositions of restrictions through supervisory or enforcement activities, including higher capital requirements, which could have a material impact on our businesses. The cost of resolving the recent failures may prompt the FDIC to increase its premiums above the recently increased levels or to issue additional special assessments.

Lawmakers' failure to address the federal debt ceiling in a timely manner, downgrades of the U.S. credit rating and uncertain credit and financial market conditions may affect the stability of securities issued or guaranteed by the federal government, which may affect the valuation or liquidity of our investment securities portfolio and increase future borrowing costs.

As a result of uncertain political, credit and financial market conditions, including the potential consequences of the federal government defaulting on its obligations for a period of time due to federal debt ceiling limitations or other unresolved political issues, investments in financial instruments issued or guaranteed by the federal government pose credit default and liquidity risks. Given that future deterioration in the U.S. credit and financial markets is a possibility, no assurance can be made that losses or significant deterioration in the fair value of our U.S. government issued or guaranteed investments will not occur. At March 31, 2023, we had approximately \$230.8 million and \$386.1 million invested in U.S. government agency securities and residential mortgage-backed securities issued or guaranteed by government-sponsored enterprises, respectively, and no investments in U.S. treasury securities. Downgrades to the U.S. credit rating could affect the stability of securities issued or guaranteed by the federal government and the valuation or liquidity of our portfolio of such investment securities, and could result in our counterparties requiring additional collateral for our borrowings. Further, unless and until U.S. political, credit and financial market conditions have been sufficiently resolved or stabilized, it may increase our future borrowing costs.

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 (A)	Average Price Paid Per Share	Maximum Number of Shares That May Yet Be Purchased Under the Plans Or Programs (B)
January 1, 2023 -				
January 31, 2023	—	—	\$ —	933,014
February 1, 2023 -				
February 28, 2023	—	3,197	37.15	933,014
March 1, 2023 -				
March 31, 2023	83,014	72,950	32.66	850,000
Total	83,014	76,147	\$ 34.91	

(A) Represents shares withheld to satisfy tax withholding obligations upon the exercise of stock options and/or the vesting of restricted stock awards/units. Such shares are repurchased pursuant to the applicable plan and are not under the Company's share repurchase program.

(B) On January 27, 2022, the Company's Board of Directors approved a plan to repurchase up to 920,000 shares, which was approximately 5 percent of the outstanding shares as of that date, through March 31, 2023. On January 26, 2023, the Company's Board of Directors approved a plan to repurchase up to 890,000 shares, which was approximately 5 percent of the outstanding shares as of that date, through March 31, 2024. The timing and amount of shares repurchased will depend on certain factors, including but not limited to, market conditions and prices, the Company's liquidity and capital requirements and alternative uses of capital.

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 March 23, 2023 (File No. 001-16197).</u>
10.1	<u>Retirement Transition Agreement for Robert Plante (incorporated herein by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on March 28, 2023 (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 Frank A. Cavallaro, 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 Frank A. Cavallaro, 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: May 9, 2023

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

DATE: May 9, 2023

By: /s/ Frank A. Cavallaro
Frank A. Cavallaro
Senior Executive Vice President and Chief Financial Officer
(Principal Financial Officer)

DATE: May 9, 2023

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: May 9, 2023

By: /s/ Douglas L. Kennedy

Name: Douglas L. Kennedy

Title: President and Chief Executive Officer

CERTIFICATION

I, Frank A. Cavallaro, 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: May 9, 2023

By: /s/ Frank A. Cavallaro

Name: Frank A. Cavallaro

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 March 31, 2023 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 Frank A. Cavallaro, 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: May 9, 2023

/s/ Frank A. Cavallaro

Name: Frank A. Cavallaro
Title: Senior Executive Vice President
Chief Financial Officer
Date: May 9, 2023
