PEAPACK GLADSTONE FINANCIAL CORP
Form 10-K
March 14, 2019

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

Annual Report Pursuant to Section 13 or 15(d)

of the Securities Exchange Act of 1934

For the Fiscal Year Ended December 31, 2018

Commission File No. 001-16197

PEAPACK-GLADSTONE FINANCIAL CORPORATION

(Exact name of registrant as specified in its charter)

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

500 Hills Drive, Suite 300	
Bedminster, NJ	07921
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number (908) 234-0700

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

Title of Each Class	Name of Exchange on which Registered
Common Stock, No par value	NASDAQ Global Select Market

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

NONE

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No .

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No .

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 requirements 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 Regulation 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment of this Form 10-K

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 the 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

The aggregate market value of the shares held by unaffiliated stockholders was approximately $632 million on June 30, 2018.

As of March 1, 2019, 19,349,230 shares of no par value Common Stock were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Company's Definitive Proxy Statement for the Company's 2019 Annual Meeting of Shareholders (the "2019 Proxy Statement") are incorporated by reference into Part III. The Company expects to file the 2019 Proxy Statement within 120 days of December 31, 2018.

FORM 10-K

PEAPACK-GLADSTONE FINANCIAL CORPORATION

For the Year Ended December 31, 2018

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PART I

Item 1. BUSINESS

The disclosures set forth in this Form 10-K are qualified by Item 1A-Risk Factors and the section captioned "Cautionary Statement Concerning Forward-Looking Statements" in Item 7-Management's Discussion and Analysis of Financial Condition and Results of Operations of this report and other cautionary statements set forth elsewhere in this report and filed by us from time to time with the Securities and Exchange Commission. The terms "Peapack," the "Company," "we," "our" and "us" refer to Peapack-Gladstone Financial Corporation and its wholly-owned subsidiaries unless otherwise indicated or the context requires otherwise.

The Corporation

Peapack-Gladstone Financial Corporation is a bank holding company registered under the Bank Holding Company Act of 1956, as amended (the "Holding Company Act"). The Company was organized under the laws of New Jersey in August 1997 by the Board of Directors of Peapack-Gladstone Bank (the "Bank"), its principal subsidiary, to become a holding company for the Bank. The Bank is a state chartered commercial bank founded in 1921 under the laws of the State of New Jersey. The Bank is a member of the Federal Reserve System. Through its branch network in Somerset, Morris, Hunterdon and Union counties and its private banking locations in Bedminster, Morristown, Princeton and Teaneck, its private wealth management, commercial private banking, retail private banking and residential lending divisions, along with its online platforms, Peapack-Gladstone Bank offers an unparalleled commitment to client service.

Our wealth management clients include individuals, families, foundations, endowments, trusts and estates. Our commercial loan clients include business owners, professionals, retailers, contractors and real estate investors. Most forms of commercial lending are offered, including working capital lines of credit, term loans for fixed asset acquisitions, commercial mortgages, multifamily mortgages and other forms of asset-based financing.

In addition to commercial lending activities, we offer a wide range of consumer banking services, including checking and savings accounts, money market and interest-bearing checking accounts, certificates of deposit, and individual retirement accounts. We also offer residential mortgages, home equity lines of credit and other second mortgage loans. Automated teller machines are available at 24 locations. Internet banking, including an online bill payment option and mobile phone banking, is available to clients.

Available Information

Peapack-Gladstone Financial Corporation is a public company, and files interim, quarterly and annual reports with the Securities and Exchange Commission (the "SEC"). These reports and any amendments to these reports are available for free on the SEC's website, www.sec.gov, and on our website, www.pgbank.com, as soon as reasonably practical after they have been filed with or furnished to the SEC. Information on our website should not be considered a part of this Annual Report on Form 10-K.

Employees

As of December 31, 2018, the Company employed 409 full-time equivalent persons. Management considers relations with employees to be satisfactory.

Peapack-Gladstone Bank's Private Wealth Management Division

The Bank's Private Wealth Management Division is a New Jersey-chartered trust and investment businesses with $5.8 billion of assets under management and/or administration as of December 31, 2018. It is headquartered in Bedminster, with additional private banking locations in Morristown, Princeton and Teaneck, New Jersey, as well as at the Bank's subsidiaries, PGB Trust & Investments of Delaware, in Greenville, Delaware, Murphy Capital Management ("MCM"), in Gladstone, New Jersey, Quadrant Capital Management ("Quadrant"), in Fairfield, New Jersey and Lassus Wherley and Associates ("Lassus Wherley") in New Providence, New Jersey and Bonita Springs, Florida. The Bank's Private Wealth Management Division is known for its integrity, client service and broad range of fiduciary, investment management and tax services, designed specifically to meet the needs of high net-worth individuals, families, foundations and endowments.

We believe our wealth management business differentiates us from our competition and adds significant value. We intend to grow this business further both in and around our market areas through our Delaware Trust subsidiary; through our existing wealth, loan and depository client base; through our innovative private banking service model, which utilizes private bankers working together to provide fully integrated client solutions; and through potential acquisitions of complimentary and/or additive wealth management businesses. Throughout the wealth management division and all other business lines, we will continue to provide the unparalleled personalized, high-touch service our valued clients have come to expect.

Our Markets

Our current market is defined as the NY-NJ-PA metropolitan statistical area. Our primary market areas are located in New Jersey and areas of New York. New Jersey had a total population exceeding 8.9 million and a median household income of $76,475 as of 2013-2017, compared to the U.S. median household income of $57,652 as of 2013-2017, according to estimates from the United States Census Bureau. Somerset County, where we are headquartered, is among one of the wealthiest in New Jersey, with a 2013-2017 median household income of $106,046 according to estimates from the United States Census Bureau. We believe that these markets have economic and competitive dynamics that are consistent with our objectives and favorable to executing our growth strategy.

Competition

We operate in a market area with a high concentration of banking and financial institutions and we face substantial competition in attracting deposits and in originating loans and leases. A number of our competitors are significantly larger institutions with greater financial and managerial resources and lending limits. Our ability to compete successfully is a significant factor affecting our growth potential and profitability.

Our competition for deposits, loans and leases historically has come from other insured financial institutions such as local and regional commercial banks, savings institutions, leasing companies and credit unions located in our primary market area. We also compete with mortgage banking and finance companies for real estate loans and with commercial banks and savings institutions for consumer loans.

The Company also faces direct competition for wealth and advisory services from registered investment advisory firms and investment management companies.

Our Business Strategy

We implemented our Strategic Plan – Expanding Our Reach – in early 2013. At that time, we recognized three industry headwinds, the Plan would help address.

- that the low interest rate and tight spread environment would likely continue;
- that costs associated with compliance and risk management would increase significantly; and
- that our clients would continue to shift from traditional branches in favor of electronic delivery channels.

The key elements of our business strategy include:

- a robust wealth management business that provides a diversified and relatively predictable and stable source of revenue over time, with growth organically and through strategic acquisitions;
- a focus on commercial banking with private bankers focused on providing high touch client service through an advice based approach encompassing corporate and industrial (C&I) lending (including equipment finance lending and leasing), wealth management, depository services, electronic banking, SBA and other commercial real estate lending, and corporate advisory services;

- a highly efficient branch network and deposit gathering processes;
- robust risk management processes, including, but not limited to, active loan portfolio, capital, liquidity, and interest rate risk stress testing;
- a focus on the community and community service and involvement.

Governmental Policies and Legislation

The banking industry is highly regulated. Statutory and regulatory controls increase a bank holding company's cost of doing business and limit the options of its management to deploy assets and maximize income. Proposals to change the laws and regulations governing the operations and taxation of banks, bank holding companies and other financial institutions are frequently made in Congress, in state legislatures and before various bank regulatory agencies. The likelihood of any major changes and the impact such changes might have on the Company or the Bank is impossible to predict. The following description is not intended to be complete and is qualified in its entirety to applicable laws and regulations.

Bank Regulation

As a New Jersey-chartered commercial bank, the Bank is subject to the regulation, supervision, and examination of the New Jersey Department of Banking and Insurance ("NJDOBI"). As a Federal Reserve-member bank, the Bank is also subject to the regulation, supervision and examination of the Federal Reserve Board ("FRB") as its primary federal regulator. The regulations of the FRB and the NJDOBI impact virtually all of our activities, including the minimum level of capital we must maintain, our ability to pay dividends, our ability to expand through new branches or acquisitions and various other matters.

Investment Advisory Regulations

In addition to the Bank's Private Wealth Management Division, we offer wealth management services through two subsidiaries of the Bank. These subsidiaries are registered investment advisers under the Investment Advisers Act of 1940, as amended, and as such are supervised by the SEC. They are also subject to various other federal laws and state licensing and/or registration requirements. These laws and regulations generally grant supervisory agencies broad administrative powers, including the power to limit or restrict the carrying on of business for failure to comply with such laws.

Holding Company Supervision

The Company is a bank holding company within the meaning of the Holding Company Act. As a bank holding company, the Company is supervised by the FRB and is required to file reports with the FRB and provide such additional information as the FRB may require.

The Holding Company Act prohibits the Company, with certain exceptions, from acquiring direct or indirect ownership or control of more than five percent of the voting shares of any company which is not a bank and from engaging in any business other than that of banking, managing and controlling banks or furnishing services to subsidiary banks, except that it may, upon application, engage in, and may own shares of companies engaged in, certain businesses found by the FRB to be so closely related to banking "as to be a proper incident thereto." The Holding Company Act requires prior approval by the FRB of the acquisition by the Company of more than five percent of the voting stock of any additional bank. Satisfactory capital ratios, Community Reinvestment Act ratings and anti-money laundering policies are generally prerequisites to obtaining federal regulatory approval to make acquisitions. The policy of the FRB provides that a bank holding company is expected to act as a source of financial strength to its subsidiary bank and to commit resources to support the subsidiary bank in circumstances in which it might not do so absent that policy. Acquisitions through the Bank require the approval of the FRB and the NJDOBI.

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010

The Dodd-Frank Wall Street Report and Consumer Protection Act of 2010 (the "Dodd-Frank Act") significantly changed bank regulation and has affected the lending, investment, trading and operating activities of depository institutions and their holding companies. The Dodd-Frank Act also created a new Consumer Financial Protection Bureau (the "CFPB") with extensive powers to supervise and enforce consumer protection laws. The CFPB has broad rule-making authority for a wide range of consumer protection laws that apply to all banks and savings institutions, including the authority to prohibit "unfair, deceptive or abusive" acts and practices. The CFPB also has examination and enforcement authority over all banks and savings institutions with more than $10 billion in assets. Banks and savings institutions with $10 billion or less in assets, such as the Bank, continue to be examined by their applicable federal bank regulators. The Dodd-Frank Act required the CFPB to issue regulations requiring lenders to make a reasonable good faith determination as to a prospective borrower's ability to repay a residential mortgage loan. The final "Ability to Repay" rules, which were effective beginning January 2014, established a "qualified mortgage" safe harbor for loans whose terms and features are deemed to make the loan less risky.

The CFPB may issue additional final rules regarding mortgages in the future, including amendments to certain mortgage servicing rules regarding forced-placed insurance notices, policies and procedures and other matters. We cannot ensure you that existing or future regulations will not have a material adverse impact on our residential mortgage loan business.

To the extent the Dodd-Frank Act remains in place or is not materially amended it is likely to continue to affect our cost of doing business, limit our permissible activities, and affect the competitive balance within our industry and market areas.

The Economic Growth Regulatory Relief and Consumer Protection Act of 2018 (the "Relief Act") modified certain aspects of the Dodd-Frank Act to relieve regulatory burden. In particular, the legislation exempted banks with less than $10 billion of assets from the ability to repay requirements for certain qualified residential mortgage loans held in portfolio.

Capital Requirements

Pursuant to the Federal Deposit Insurance Corporation Improvement Act of 1991 ("FDICIA"), each federal banking agency has promulgated regulations, specifying the levels at which a financial institution would be considered "well capitalized," "adequately capitalized," "undercapitalized," "significantly undercapitalized," or "critically undercapitalized," and to take certain mandatory and discretionary supervisory actions based on the capital level of the institution.

FRB regulations require member banks to meet several minimum capital standards: a common equity Tier 1 ("CET1") capital to risk-based assets ratio of 4.5%, a Tier 1 capital to risk-based assets ratio of 6.0%, a total capital to risk-based assets of 8%, and a 4% Tier 1 capital to total assets leverage ratio. The present capital requirements were effective January 1, 2015 and represent increased standards over the previous requirements. The current requirements implement recommendations of the Basel Committee on Banking Supervision and certain requirements of federal law.

The capital standards require the maintenance of CET1 capital, Tier 1 capital and total capital to risk-weighted assets of at least 4.5%, 6% and 8%, respectively, and a leverage ratio of at least 4% Tier 1 capital. CET1 capital is generally defined as common stockholders' equity and retained earnings. Tier 1 capital is generally defined as CET1 and additional Tier 1 capital. Additional Tier 1 capital includes certain noncumulative perpetual preferred stock and related surplus and minority interests in equity accounts of consolidated subsidiaries. Total capital includes Tier 1 capital and Tier 2 capital. Tier 2 capital is comprised of capital instruments and related surplus, meeting specified requirements, and may include cumulative preferred stock and long-term perpetual preferred stock, mandatory convertible securities, intermediate preferred stock and subordinated debt.

As fully phased in on January 1, 2019, the capital requirements also require the Company and the Bank to maintain a 2.5% “capital conservation buffer,” composed entirely of CET1, on top of the minimum risk-weighted asset ratios, effectively resulting in minimum ratios of (i) CET1 to risk-weighted assets of at least 7.0%, (ii) Tier 1 capital to risk-weighted assets of at least 8.5%, and (iii) total capital to risk-weighted assets of at least 10.5%. The capital conservation buffer is designed to absorb losses during periods of economic stress. Banking institutions with a ratio of (i) CET1 to risk-weighted assets, (ii) Tier 1 capital to risk-weighted assets or (iii) total capital to risk-weighted assets above the respective minimum but below the capital conservation buffer will face constraints on dividends, equity repurchases and discretionary bonus payments to executive officers based on the amount of the shortfall.

Under current capital standards, the effects of accumulated other comprehensive income items included in capital are excluded for the purposes of determining regulatory capital ratios. Under the Basel Rules, the effects of certain accumulated other comprehensive items are not excluded; however, non-advanced approaches banking organizations, including the Company and the Bank, may make a one-time permanent election to continue to exclude these items effective as of January 1, 2015. This election was made by the Company.

Federal law requires that federal bank regulatory authorities take “prompt corrective action” with respect to institutions that do not meet minimum capital requirements. The FRB has adopted regulations to implement the prompt corrective action legislation. The regulations were amended to incorporate the previously mentioned increased regulatory capital standards that were effective January 1, 2015. An institution is deemed to be “well capitalized” if it has a total risk-based capital ratio of 10.0% or greater, a Tier 1 risk-based capital ratio of 8.0% or greater, a leverage ratio of 5.0% or greater and a CET1 ratio of 6.5% or greater. An institution is “adequately capitalized” if it has a total risk-based capital ratio of 8.0% or greater, a Tier 1 risk-based capital ratio of 6.0% or greater, a leverage ratio of 4.0% or greater and a CET1 ratio of 4.5% or greater. An institution is “undercapitalized” if it has a total risk-based capital ratio of less than 8.0%, a Tier 1 risk-based capital ratio of less than 6.0%, a leverage ratio of less than 4.0% or a CET1 ratio of less than 4.5%. An institution is deemed to be “significantly undercapitalized” if it has a total risk-based capital ratio of less than 6.0%, a Tier 1 risk-based capital ratio of less than 4.0%, a leverage ratio of less than 3.0% or a CET1 ratio of less than 3.0%. An institution is considered to be “critically undercapitalized” if it has a ratio of tangible equity (as defined in the regulations) to total assets that is equal to or less than 2.0%.

The Bank’s capital ratios were all above the minimum levels required for it to be considered a “well capitalized” financial institution at December 31, 2018 under the “prompt corrective action” regulations in effect as of such date.

The Regulatory Relief Act required that the federal banking agencies, including the FRB, to establish a “community bank leverage ratio” of between 8-10% of average total consolidated assets for qualifying institutions with less than $10 billion of assets. Institutions with tangible equity (subject to certain adjustments) meeting the specified level and electing to follow the alternative framework would be deemed to comply with the applicable regulatory capital requirements, including the risk-based requirements, and be considered to be “well-capitalized.” The agencies have issued a proposed rule that would set the “community bank leverage ratio” at 9%.

Insurance Funds Legislation

The Bank’s deposits are insured up to applicable limits by the Deposit Insurance Fund of the FDIC. Under the FDIC’s risk-based system, insured institutions are assigned to one of four risk categories based on supervisory evaluations, regulatory capital levels and certain other factors with less risky institutions paying lower assessments on their deposits.

Effective July 1, 2016, the FDIC adopted changes that eliminated the risk categories. Assessments for institutions are now based on financial measures and supervisory ratings derived from statistical modeling estimating the probability of failure within three years. In conjunction with the Deposit Insurance Fund's reserve ratio achieving 1.15%, the assessment range (inclusive of possible adjustments) was reduced for insured institutions of less than $10 billion in total assets to a range of 1.5 basis points to 30 basis points. In conjunction with the reserve ratio achieving 1.35%, the FDIC announced that institutions with less than $10 billion of assets would be receiving certain assessment credits for the portion of assessments paid to help the ratio raise from 1.15% to 1.35%. Such credits will commence when the ratio reaches 1.38%.

Restrictions on the Payment of Dividends

The holders of the Company's common stock are entitled to receive dividends, when, as and if declared by the Board of Directors of the Company out of funds legally available. The only statutory limitation is that such dividends may not be paid when the Company is insolvent. Since the principal source of income for the Company will be dividends on Bank common stock paid to the Company by the Bank, the Company's ability to pay dividends to its shareholders will depend on whether the Bank pays dividends to it. As a practical matter, restrictions on the ability of the Bank to pay dividends act as restrictions on the amount of funds available for the payment of dividends by the Company. As a New Jersey chartered commercial bank, the Bank is subject to the restrictions on the payment of dividends contained in the New Jersey Banking Act of 1948, as amended (the "Banking Act"). Under the Banking Act, the Bank may pay dividends only out of retained earnings, and out of surplus to the extent that surplus exceeds 50% of stated capital. Under the Financial Institutions Supervisory Act, the FDIC has the authority to prohibit a state-chartered bank from engaging in conduct that, in the FDIC's opinion, constitutes an unsafe or unsound banking practice. Under certain circumstances, the FDIC could claim that the payment of a dividend or other distribution by the Bank to the Company constitutes an unsafe or unsound practice. The Company is also subject to FRB policies, which may, in certain circumstances, limit its ability to pay dividends. The FRB policies require, among other things, that a bank holding company maintain a minimum capital base and serve as a source of strength to its subsidiary bank. The FRB by supervisory letters has advised holding corporations that it is has supervisory concerns when the level of dividends is too high and would seek to prevent dividends if the dividends paid by the holding company exceeded its earnings. The FRB would most likely seek to prohibit any dividend payment that would reduce a holding company's capital below these minimum amounts. In addition, the FRB staff has recently begun interpreting its regulatory capital regulations to require holding companies to receive FRB approval prior to any repurchases or redemptions of its common shares.

Sarbanes-Oxley Act of 2002

The Sarbanes-Oxley Act of 2002 was enacted to address, among other issues, corporate governance, auditing and accounting, executive compensation, and enhanced and timely disclosure of corporate information. We have existing policies, procedures and systems designed to comply with these regulations.

Other Laws and Regulations

Interest and other charges collected or contracted for by the Bank are subject to state usury laws and federal laws concerning interest rates. The Bank's operations are also subject to federal laws (and their implementing regulations) applicable to credit transactions, such as the:

- Truth-In-Lending Act, governing disclosures of credit terms to consumer borrowers;
- Real Estate Settlement Procedures Act, requiring that borrowers for mortgage loans for one- to four-family residential real estate receive various disclosures, including good faith estimates of settlement costs, lender servicing and escrow account practices, and prohibiting certain practices that increase the cost of settlement services;
- Home Mortgage Disclosure Act, requiring financial institutions to provide information to enable the public and public officials to determine whether a financial institution is fulfilling its obligation to help meet the housing needs of the community it serves;
- Equal Credit Opportunity Act, prohibiting discrimination on the basis of race, creed or other prohibited factors in extending credit;
- Fair Credit Reporting Act, governing the use and provision of information to credit reporting agencies;
- Fair Debt Collection Act, governing the manner in which consumer debts may be collected by collection agencies; and
- Truth in Savings Act, prescribing disclosure and advertising requirements with respect to deposit accounts.

The operations of the Bank also are subject to the:

- Right to Financial Privacy Act, which imposes a duty to maintain confidentiality of consumer financial records and prescribes procedures for complying with administrative subpoenas of financial records;
- Electronic Funds Transfer Act and Regulation E promulgated thereunder, governing automatic deposits to and withdrawals from deposit accounts and customers' rights and liabilities arising from the use of automated teller

machines and other electronic banking services;

- Check Clearing for the 21st Century Act (also known as “Check 21”), which gives “substitute checks,” such as digital check images and copies made from that image, the same legal standing as the original paper check;
- USA PATRIOT Act, which requires institutions operating to, among other things, establish broadened anti-money laundering compliance programs, due diligence policies and controls to ensure the detection and reporting of money laundering. Such required compliance programs are intended to supplement existing compliance

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requirements, also applicable to financial institutions, under the Bank Secrecy Act and the Office of Foreign Assets Control regulations; and

- Gramm-Leach-Bliley Act, which places limitations on the sharing of consumer financial information by financial institutions with unaffiliated third parties. Specifically, the Gramm-Leach-Bliley Act requires all financial institutions offering financial products or services to retail customers to provide such customers with the financial institution's privacy policy and provide such customers the opportunity to "opt out" of the sharing of certain personal financial information with unaffiliated third parties.

Item 1A. RISK FACTORS

The material risks and uncertainties that Management believes affect the Company are described below. These risks and uncertainties are not the only ones affecting the Company. Additional risks and uncertainties that Management is not aware of or focused on or that Management currently deems immaterial may also impair the Company's business operations. This report is qualified in its entirety by these risk factors. If any one or more of the following risks actually occur, the Company's financial condition and results of operations could be materially and adversely affected.

Risks Relating to Ownership of Our Common Stock

We may not be able to manage our growth, which may adversely impact our financial results.

As part of our expansion strategy, we plan to broaden and expand our commercial lending in both existing and new geographic markets. In addition, as part of our expansion strategy, we may add new lines of business or offer new products and services within existing lines of business. There are substantial risks and uncertainties associated with these efforts, particularly in instances where the markets are not fully developed. We may invest significant time and resources to develop and market new lines of business and/or products and services. Initial timetables for the introduction and development of new lines of business and/or new products or services may not be achieved and price and profitability targets may not prove feasible. External factors, such as compliance with regulations, competitive alternatives, and shifting customer preferences may also impact the successful implementation of a new line of business or a new product or service. Additionally, any new line of business and/or new product or service could have a significant impact on the effectiveness of our system of internal controls. Failure to successfully manage these risks could have a material adverse effect on our business, results of operations and financial condition.

Our ability to implement our expansion strategy will depend upon a variety of factors, including our ability to attract and retain experienced personnel, the continued availability of desirable business opportunities and locations, the competitive responses from other financial institutions in the new market areas and our ability to manage growth. In order to implement our expansion strategy, we plan to hire new personnel in our existing and target markets. However, we may be unable to hire qualified personnel. In addition, the organizational and overhead costs may be greater than we anticipated. Moreover, we may not be able to obtain the regulatory approvals necessary. New business expansion efforts may take longer than expected to reach profitability, and we cannot assure that they will become profitable. The additional costs of adding new personnel may adversely impact our financial results.

Our ability to manage growth successfully will depend on whether we can continue to fund this growth while maintaining cost controls and asset quality, as well as on factors beyond our control, such as national and regional economic conditions and interest rate trends. If we are not able to control costs and maintain asset quality, such growth could adversely impact our earnings and financial condition.

We may need to raise additional capital in the future, which may not be available when needed.

The Company is required by federal regulatory authorities to maintain adequate levels of capital to support its operations. The Company may at some point need to raise additional capital to support continued growth. The Company's ability to raise additional capital, if needed, will depend on conditions in the capital markets at that time, which are outside the Company's control, and on its financial performance. Accordingly, the Company cannot be assured of its ability to raise additional capital if needed or on terms acceptable to the Company. If the Company cannot raise additional capital when needed, the ability to further expand its operations could be materially impaired. Further, if we raise capital through the issuance of additional shares of our common stock, it would dilute the ownership interests of existing shareholders and may dilute the per share book value of our common stock. New investors may also have rights, preferences and privileges senior to our current shareholders, which may adversely impact our current shareholders.

The Dodd-Frank Wall Street Reform and Consumer Protection Act has and may continue to adversely affect our business activities, financial position and profitability by increasing our regulatory compliance burden and associated costs, placing restrictions on certain products and services, and limiting our future capital raising strategies.

The Dodd-Frank Act has and may continue to increase our regulatory compliance burden. Among the Dodd-Frank Act's significant regulatory changes, it created the CFPB which is empowered to promulgate new consumer protection regulations and revise existing regulations in many areas of consumer protection. The CFPB has exclusive authority to issue regulations, orders and guidance to administer and implement the objectives of federal consumer protection laws. Moreover, the Dodd-Frank Act permits states to adopt stricter consumer protection laws and state attorney generals may enforce consumer protection rules issued by the CFPB. The CFPB and these other changes have increased, and may continue to increase, our regulatory compliance burden and costs and may restrict the financial products and services we offer to our clients.

The Dodd-Frank Act also imposed more stringent capital requirements on bank holding companies by, among other things, imposing leverage ratios on bank holding companies and prohibiting new trust preferred issuances from counting as Tier I capital. These restrictions may limit our future capital strategies. The Dodd-Frank Act also increased regulation of derivatives and hedging transactions, which could limit our ability to enter into, or increase the costs associated with, interest rate and other hedging transactions.

Negative developments in the financial services industry and U.S. and global credit markets may adversely impact our operations and results.

Our businesses and operations, which primarily consist of lending money to clients in the form of loans, borrowing money from clients in the form of deposits and investing in securities, are sensitive to general business and economic conditions in the United States. If the U.S. economy weakens, our growth and profitability from our lending, deposit and investment operations could be constrained. Uncertainty about the federal fiscal policymaking process and the medium and long-term fiscal outlook of the federal government is a concern for businesses, consumers and investors in the United States. In addition, economic conditions in foreign countries could affect the stability of global financial markets, which could hinder U.S. economic growth. Weak economic conditions are often characterized by deflation, fluctuations in debt and equity capital markets, a lack of liquidity and/or depressed prices in the secondary market for mortgage loans, increased delinquencies on mortgage, consumer and commercial loans, residential and commercial real estate price declines and lower home sales and commercial activity.

Our business is also significantly affected by monetary and related policies of the U.S. federal government and its agencies. Changes in any of these policies are influenced by macroeconomic conditions and other factors that are beyond our control. Adverse economic conditions and government policy responses to such conditions could have a material adverse effect on our business, financial condition, results of operations and prospects.

We are more sensitive than our more geographically diversified competitors to adverse changes in the local economy.

Much of our business is with clients located within Central and Northern New Jersey, as well as New York City. Our business loans are generally made to small to mid-sized businesses, most of whose success depends on the regional economy. These businesses generally have fewer financial resources in terms of capital or borrowing capacity than larger entities. Adverse economic and business conditions in our market area could reduce our growth rate, affect our borrowers' ability to repay their loans and, consequently, adversely affect our financial condition and performance. Further, we place substantial reliance on real estate as collateral for our loan portfolio. A sharp downturn in real estate values in our market area could leave many of our loans under-secured, which could adversely affect our earnings.

If our allowance for loan losses are not sufficient to cover actual loan losses, our earnings would decrease.

We maintain an allowance for loan losses based on, among other things, the level of non-performing loans, loan growth and composition, national and regional economic conditions, historical loss experience, delinquency trends among loan types and various quantitative and qualitative factors. However, we cannot predict loan losses with certainty and we cannot assure you that charge-offs in future periods will not exceed the allowance for loan losses. In addition, regulatory agencies, as an integral part of their examination process, review our allowance for loan losses and may require additions to the allowance based on their judgment about information available to them at the time of their examination. Factors that require an increase in our allowance for loan losses could reduce our earnings.

Changes in interest rates may adversely affect our earnings and financial condition.

Our net income depends primarily upon our net interest income. Net interest income is the difference between interest income earned on loans, investments and other interest-earning assets and the interest expense incurred on deposits and borrowed funds.

Different types of assets and liabilities may react differently, and at different times, to changes in market interest rates. We expect that we will periodically experience “gaps” in the interest rate sensitivities of our assets and liabilities. That means either our interest-bearing liabilities will be more sensitive to changes in market interest rates than our interest-earning assets, or vice versa. When interest-bearing liabilities mature or reprice more quickly than interest-earning assets, an increase in market rates of interest could reduce our net interest income. Likewise, when interest-earning assets mature or reprice more quickly than interest-bearing liabilities, falling interest rates could reduce our net interest income. We are unable to predict changes in market interest rates, which are affected by many factors beyond our control, including inflation, recession, unemployment, money supply, governmental policy, domestic and international events and changes in the United States and other financial markets.

We may be adversely affected by recent changes in U.S. tax laws.

The Tax Cuts and Jobs Act, which was enacted in December 2017, is likely to have negative effects on our financial performance. The new legislation has enacted limitations on certain deductions that will have an impact on the banking industry, borrowers and the market for single-family residential real estate. These limitations include (1) a lower limit on the deductibility of mortgage interest on single-family residential mortgage loans, (2) the elimination of interest deductions for home equity loans, (3) a limitation on the deductibility of business interest expense and (4) a limitation on the deductibility of property taxes and state and local income taxes.

The recent changes in the tax laws may have an adverse effect on the market for, and the valuation of, residential properties, and on the demand for such loans in the future, and could make it harder for borrowers to make their loan payments. In addition, these recent changes may also have a disproportionate effect on taxpayers in states with high residential home prices and high state and local taxes, like New Jersey. If home ownership becomes less attractive, demand for mortgage loans could decrease. The value of the properties securing loans in our loan portfolio may be adversely impacted as a result of the changing economics of home ownership, which could require an increase in our provision for loan losses, which would reduce our profitability and could materially adversely affect our business, financial condition and results of operations.

Our exposure to credit risk could adversely affect our earnings and financial condition.

There are certain risks inherent in making loans, including risks that the principal of or interest on the loan will not be repaid timely or at all or that the value of any collateral supporting the loan will be insufficient to cover our outstanding exposure. These risks may be affected by the strength of the borrower’s business sector and local, regional and national market and economic conditions. Our risk management practices, such as monitoring the concentration of our loans within specific industries and our credit approval practices, may not adequately reduce credit risk, and our credit administration personnel, policies and procedures may not adequately adapt to changes in economic or any other conditions affecting clients and the quality of the loan portfolio. Finally, many of our loans are made to small and medium-sized businesses that are less able to withstand competitive, economic and financial pressures than larger borrowers. A failure to effectively measure and limit the credit risk associated with our loan portfolio could have a material adverse effect on our business, financial condition, results of operations and prospects.

Competition from other financial institutions in originating loans and attracting deposits may adversely affect our profitability.

We face substantial competition in originating loans. This competition comes principally from other banks, savings institutions, mortgage banking companies and other lenders. Many of our competitors enjoy advantages, including greater financial resources and higher lending limits, a wider geographic presence, and more accessible branch office locations.

In attracting deposits, we face substantial competition from other insured depository institutions such as banks, savings institutions and credit unions, as well as institutions offering uninsured investment alternatives, including money market funds. Many of our competitors enjoy advantages, including greater financial resources, more aggressive marketing campaigns, better brand recognition and more branch locations. These competitors may offer higher interest rates than we do, which could decrease the deposits that we attract or require us to increase our rates to retain existing deposits or attract new deposits. Increased deposit competition could adversely affect our ability to generate the funds necessary for lending operations and increase our cost of funds.

We also compete with non-bank providers of financial services, such as brokerage firms, consumer finance companies, insurance companies and governmental organizations, which may offer more favorable terms. Some of our non-bank competitors are not subject to the same extensive regulations that govern our operations. As a result, such non-bank competitors may have advantages over us in providing certain products and services. This competition may reduce or limit our margins on banking services, reduce our market share and adversely affect our earnings and financial condition.

Limits on our ability to use brokered deposits as part of our funding strategy may adversely affect our ability to grow.

A “brokered deposit” is any deposit that is obtained from or through the mediation or assistance of a deposit broker, which includes larger correspondent banks and securities brokerage firms. These deposit brokers attract deposits from individuals and companies throughout the country and internationally whose deposit decisions are based almost exclusively on obtaining the highest interest rates. At December 31, 2018, brokered deposits represented approximately 6.1 percent of our total deposits and equaled $236.1 million, comprised of the following: interest-bearing demand-brokered of $180.0 million, and brokered certificates of deposits of $56.1 million. There are risks associated with using brokered deposits. In order to continue to maintain our level of brokered deposits, we may be forced to pay higher interest rates than contemplated by our asset-liability pricing strategy. In addition, banks that become less than “well capitalized” under applicable regulatory capital requirements may be restricted in their ability to accept or prohibited from accepting brokered deposits. If this funding source becomes more difficult to access, we will have to seek alternative funding sources in order to continue to fund our growth. This may include increasing our reliance on Federal Home Loan Bank borrowings, attempting to attract non-brokered deposits, reducing our available for sale securities portfolio and selling loans. There can be no assurance that brokered deposits will be available, or if available, sufficient to support our continued growth.

Our commercial real estate loan and commercial C&I portfolios expose us to risks that may be greater than the risks related to our other mortgage loans.

Our loan portfolio includes non-owner-occupied commercial real estate loans for individuals and businesses for various purposes, which are secured by commercial properties, as well as real estate construction and development loans. These loans typically involve repayment dependent upon income generated, or expected to be generated, by the property securing the loan in amounts sufficient to cover operating expenses and debt service. This may be adversely affected by changes in the economy or local market conditions. These loans expose a lender to greater credit risk than loans secured by residential real estate because the collateral securing these loans typically cannot be liquidated as easily as residential real estate. If we foreclose on these loans, our holding period for the collateral typically is longer than for a single or multifamily residential property because there are fewer potential purchasers of the collateral. Additionally, non-owner-occupied commercial real estate loans generally involve relatively large balances to single borrowers or related groups of borrowers. Accordingly, charge-offs on non-owner-occupied commercial real estate loans may be larger on a per loan basis than those incurred with our residential or consumer loan portfolios. Unexpected deterioration in the credit quality of our commercial real estate loan portfolio would require us to increase our provision for loan losses, which would reduce our profitability and could materially adversely affect our business, financial condition, results of operations and prospects.

C&I loans are typically based on the borrowers’ ability to repay the loans from the cash flows of their businesses. These loans may involve greater risk because the availability of funds to repay each loan depends substantially on the success of the business itself. The collateral securing the loans and leases often depreciates over time, is difficult to appraise and liquidate and fluctuates in value based on the success of the business. In addition, many commercial business loans have a variable rate which is indexed off of a floating rate such as Prime or LIBOR. If interest rates rise, the borrower's debt service requirement may increase, negatively impacting the borrower's ability to service their debt.

We are subject to environmental liability risk associated with our lending activities.

In the course of our business, we may purchase real estate, or we may foreclose on and take title to real estate. As a result, we could be subject to environmental liabilities with respect to these properties. We may be held liable to a governmental entity or to third parties for property damage, personal injury, investigation and clean-up costs incurred by these parties in connection with environmental contamination or may be required to investigate or clean up hazardous or toxic substances or chemical releases at a property. The costs associated with investigation or remediation activities could be substantial. In addition, if we are the owner or former owner of a contaminated site, we may be subject to common law claims by third parties based on damages and costs resulting from environmental contamination emanating from the property. Any significant environmental liabilities could cause a material adverse effect on our business, financial condition, results of operations and prospects.

Lack of seasoning of our loan portfolio could increase risk of credit defaults in the future.

A large portion of loans in our loan portfolio and of our lending relationships are of relatively recent origin. In general, loans do not begin to show signs of credit deterioration or default until they have been outstanding for some period of time, a process referred to as "seasoning." As a result, a portfolio of older loans will usually behave more predictably than a newer portfolio. Because a large portion of our portfolio is relatively new, the current level of delinquencies and defaults may not represent the level that may prevail as the portfolio becomes more seasoned. If delinquencies and defaults increase, we may be required to increase our provision for loan losses, which could materially adversely affect our business, financial condition, results of operations and prospects.

Deterioration in the fiscal position of the U.S. federal government could adversely affect us and our banking operations.

The fiscal position of the U.S. federal government may become uncertain. In addition to causing economic and financial market disruptions, any deterioration in the fiscal outlook of the U.S. federal government, could, among other things, materially adversely affect the market value of the U.S. and other government and governmental agency securities that we hold, the availability of those securities as collateral for borrowing, and our ability to access capital markets on favorable terms. In particular, it could increase interest rates and disrupt payment systems, money markets, and long-term or short-term fixed income markets, adversely affecting the cost and availability of funding, which could negatively affect our profitability. Any of these developments could materially adversely affect our business, financial condition, results of operations and prospects.

Government regulation significantly affects our business.

The banking industry is extensively regulated. Banking regulations are intended primarily to protect depositors, and the FDIC deposit insurance fund, not the shareholders of the Company. We are subject to regulation and supervision by the New Jersey Department of Banking and Insurance and the Federal Reserve Bank. Regulatory requirements affect our lending practices, capital structure, investment practices, dividend policy and growth. The bank regulatory agencies possess broad authority to prevent or remedy unsafe or unsound practices or violations of law. We are subject to various regulatory capital requirements, which involve both quantitative measures of our assets and liabilities and qualitative judgments by regulators regarding risks and other factors. Failure to meet minimum capital requirements or comply with other regulations could result in actions by regulators that could adversely affect our ability to pay dividends or otherwise adversely impact operations. In addition, changes in laws, regulations and regulatory practices affecting the banking industry may limit the manner in which we conduct our business. Such changes may adversely affect us, including our ability to offer new products and services, obtain financing, attract deposits, make loans and achieve satisfactory spreads and may impose additional costs on us.

The Bank is also subject to a number of Federal laws, which, among other things, require it to lend to various sectors of the economy and population, and establish and maintain comprehensive programs relating to anti-money laundering and customer identification. The Bank's compliance with these laws will be considered by the Federal banking regulators when reviewing bank merger and bank holding company acquisitions or commencing new activities or making new investments in reliance on the Gramm-Leach-Bliley Act. As a public company, we are also subject to the corporate governance standards set forth in the Sarbanes-Oxley Act, as well as any rules or regulations promulgated by the SEC or the NASDAQ Stock Market.

We are subject to certain capital requirements, which may adversely impact our return on equity, require us to raise additional capital, or constrain us from paying dividends or repurchasing shares.

A final capital rule that became effective for financial institutions on January 1, 2015, included minimum risk-based capital and leverage ratios, and refined the definition of what constitutes “capital” for purposes of calculating these ratios. The final rule also established a “capital conservation buffer” of 2.5%. The new capital conservation buffer requirement was phased in beginning in January 2016 at 0.625% of risk-weighted assets and increased each year until fully implemented at January 1, 2019. A financial institution, such as the Bank, is subject to limitations on paying dividends, engaging in share repurchases, and paying discretionary bonuses if its capital level falls below the buffer amount. These limitations establish a maximum percentage of eligible retained income that can be utilized for such actions.

The application of more stringent capital requirements could, among other things, result in lower returns on equity, require the raising of additional capital, and result in regulatory actions if we were to be unable to comply with such requirements. Furthermore, the imposition of liquidity requirements in connection with the implementation of Basel III could result in our having to lengthen the term of our funding, restructure our business models, and/or increase our holdings of liquid assets. See Part I, Item1, "Business - Capital Requirements."

We are subject to liquidity risk.

Liquidity risk is the potential that we will be unable to meet our obligations as they become due, capitalize on growth opportunities as they arise, or pay regular dividends because of an inability to liquidate assets or obtain adequate funding in a timely basis, at a reasonable cost and within acceptable risk tolerances.

Liquidity is required to fund various obligations, including credit commitments to borrowers, mortgage and other loan originations, withdrawals by depositors, repayment of borrowings, dividends to shareholders, operating expenses and capital expenditures.

Liquidity is derived primarily from retail deposit growth and retention; principal and interest payments on loans; sale, maturity and prepayment of investment securities; net cash provided from operations and access to other funding sources.

Our access to funding sources in amounts adequate to finance our activities could be impaired by factors that affect us specifically or the financial services industry in general. Factors that could detrimentally impact our access to liquidity sources include a decrease in the level of our business activity due to a market downturn or adverse regulatory action against us. Our ability to borrow could also be impaired by factors that are not specific to us, such as a severe disruption of the financial or credit markets or negative views and expectations about the prospects for the financial services industry as a whole. Our ability to borrow from alternative sources, such as brokered deposits, could also be impaired should the Bank's regulatory capital falls below well capitalized.

Cyber-attacks and information security breaches could compromise our information or result in the data of our customers being improperly divulged, which could expose us to liability and losses.

Many financial institutions and companies engaged in data processing have reported significant breaches in the security of their websites or other systems, some of which have involved sophisticated and targeted attacks intended to obtain unauthorized access to confidential information, destroy data, disable or degrade service, or sabotage systems, often through the introduction of computer viruses or malware, cyber-attacks and other means. Although we have not experienced, to date, any material losses relating to such cyber-attacks or other information security breaches, there can be no assurance that we will not suffer such losses in the future. Additionally, our risk exposure to security matters may remain elevated or increase in the future due to, among other things, the increasing size and prominence of the Company in the financial services industry, our expansion of Internet and mobile banking tools and products based on customer needs.

Our information technology systems and the systems of third parties upon which we rely may experience a failure, interruption or breach in security that could negatively affect our operations and reputation.

We rely heavily on information technology systems to conduct our business, including the systems of third-party service providers. Any failure, interruption, or breach in security or operational integrity of these systems could result in failures or disruptions in our customer relationship management and general ledger, deposit, loan, and other systems. While we have policies and procedures designed to prevent or limit the impact of any failure, interruption, or breach in our security systems (including privacy and cyber-attacks), there can be no assurance that such events will not occur or if they do occur, that they will be adequately addressed. Information security and cyber-security risks have increased significantly in recent years because of new technologies, the use of the Internet and other electronic delivery channels (including mobile devices) to conduct financial transactions. Accordingly, we may be required to expend additional resources to continue to enhance our protective measures or to investigate and remediate any information security vulnerabilities or exposures. The occurrence of any system failures, interruptions, or breaches in security could expose us to reputation risk, civil litigation, regulatory scrutiny and possible financial liability that could have a material adverse effect on our financial condition and results of operations.

Our ability to pay dividends to our common shareholders is limited by law.

Since the principal source of income for the Company is dividends paid to the Company by the Bank, the Company’s ability to pay dividends to its shareholders will depend on whether the Bank pays dividends to it. As a practical matter, restrictions on the ability of the Bank to pay dividends act as restrictions on the amount of funds available for the payment of dividends by the Company. As a New Jersey-chartered commercial bank, the Bank is subject to the restrictions on the payment of dividends contained in the New Jersey Banking Act of 1948, as amended. Under the Banking Act, the Bank may pay dividends only out of retained earnings, and out of surplus to the extent that surplus exceeds 50% of stated capital. The Company is also subject to FRB policies, which may, in certain circumstances, limit its ability to pay dividends. The FRB policies require, among other things, that a bank holding company maintain a minimum capital base and the FRB in supervisory guidance has cautioned bank holding companies about paying out too much of their earnings in dividends and has stated that banks should not pay out more in dividends than they earn. The FRB would most likely seek to prohibit any dividend payment that would reduce a holding company's capital below these minimum amounts.

We may lose lower-cost funding sources.

Checking, savings, and money market deposit account balances and other forms of client deposits can decrease when clients perceive alternative investments, such as the stock market, as providing a better risk/return tradeoff. If clients move money out of bank deposits and into other investments, we would lose a relatively low-cost source of funds and have to replace them with higher cost funds, increasing our funding costs and reducing our net interest income and net income. The Bank does have certain deposits with high dollar balances which are subject to volatility. Customers with large average deposits may move these deposits for operational needs, investment opportunities or other reasons which could require the Bank to pay higher interest rates to retain these deposits or use higher rate borrowings as an alternative funding source.

There may be changes in accounting policies or accounting standards.

Our accounting policies are fundamental to understanding our financial results and condition. Some of these policies require use of estimates and assumptions that may affect the value of our assets or liabilities and financial results. We identified our accounting policies regarding the allowance for loan losses, goodwill and other intangible assets, and income taxes to be critical because they require Management to make difficult, subjective and complex judgments about matters that are inherently uncertain. Under each of these policies, it is possible that materially different amounts would be reported under different conditions, using different assumptions, or as new information becomes available.

From time to time the Financial Accounting Standards Board (FASB) and the SEC change the financial accounting and reporting standards that govern the form and content of our external financial statements. In addition, accounting standard setters and those who interpret the accounting standards (such as the FASB, SEC, banking regulators and our independent auditors) may change or even reverse their previous interpretations or positions on how these standards should be applied. Changes in financial accounting and reporting standards and changes in current interpretations may be beyond our control, can be hard to predict and could materially impact how we report our financial results and condition. In certain cases, we could be required to apply a new or revised standard retroactively or apply an existing standard differently (also retroactively) which may result in our revising prior period financial statements in material amounts.

The FASB has recently issued an accounting standard update that will result in a significant change in how the Company recognizes credit losses and may have a material impact on the Company’s financial condition or results of operations.

In June 2016, the FASB issued an accounting standard update, “Financial Instruments-Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments,” which replaces the current “incurred loss” model for recognizing credit losses with an “expected loss” model referred to as the Current Expected Credit Loss ("CECL") model. Under the CECL model, the Company will be required to present certain financial assets carried at amortized cost, such as loans held for investment and held-to-maturity debt securities, at the net amount expected to be collected. The measurement of expected credit losses is to be based on information about past events, including historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amount. This measurement will take place at the time the financial asset is first added to the balance sheet and periodically thereafter. This differs significantly from the “incurred loss” model required under current generally accepted accounting principles ("GAAP"), which delays recognition until it is probable a loss has been incurred. Accordingly, we expect that the adoption of the CECL model will materially affect how the Company determines the allowance for loan losses and could require the Company to significantly increase our allowance. Moreover, the CECL model may create more volatility in the level of our allowance for loan losses. If we are required to materially increase the level of allowance for loan losses for any reason, such increase could adversely affect our business, financial condition and results of operations.

We encounter continuous technological change.

The financial services industry is continually undergoing rapid technological change with frequent introductions of new technology-driven products and services. The effective use of technology increases efficiency and enables financial institutions to better serve clients and to reduce costs. Our future success depends, in part, upon our ability to address the needs of our clients by using technology to provide products and services that will satisfy client demands, as well as to create additional efficiencies in our operations. Many of our competitors have substantially greater resources to invest in technological improvements. We may not be able to effectively implement new technology-driven products and services or be successful in marketing these products and services to our clients. Failure to successfully keep pace with technological change affecting the financial services industry could have a material adverse impact on our business and, in turn, our financial condition and results of operations.

We are subject to operational risk.

We face the risk that the design of our controls and procedures, including those to mitigate the risk of fraud by employees or outsiders, may prove to be inadequate or are circumvented, thereby causing delays in detection of errors or inaccuracies in data and information. Management regularly reviews and updates our internal controls, disclosure controls and procedures, and corporate governance policies and procedures. Any system of controls, however well designed and operated, is based in part on certain assumptions and can provide only reasonable, not absolute, assurances that the objectives of the system are met. Any failure or circumvention of our controls and procedures or failure to comply with regulations related to controls and procedures could have a material adverse effect on our business, results of operations and financial condition.

We may also be subject to disruptions of our systems arising from events that are wholly or partially beyond our control (including, for example, computer viruses or electrical or telecommunications outages), which may give rise to losses in service to clients and to financial loss or liability. We are further exposed to the risk that our external vendors may be unable to fulfill their contractual obligations (or will be subject to the same risk of fraud or operational errors by their respective employees as we are) and to the risk that our (or our vendors') business continuity and data security systems prove to be inadequate.

We are dependent on key personnel and the loss of one or more of those key personnel may materially and adversely affect our prospects.

Our performance is largely dependent on the talents and efforts of highly skilled individuals. There is intense competition in the financial services industry for qualified employees. In addition, we face increasing competition with businesses outside the financial services industry for the most highly skilled individuals. Our business operations could be adversely affected if we were unable to attract new employees and retain and motivate our existing employees.

A Federal government shutdown would result in reduced loan originations and related gains on sale of Small Business Administration Loans.

In late 2015, we began providing loans that are partially guaranteed by the Small Business Administration ("SBA") to provide working capital and/or finance the purchase of equipment, inventory or commercial real estate. We generally sell the guaranteed portion of the SBA loans in the secondary market, while retaining the non-guaranteed portion in the loan portfolio. During 2018, the gain on the sale of such loans amounted to $1.6 million. During a federal government shutdown, we are not able to close or sell these types of loans, thereby negatively affecting our non-interest income.

Legal proceedings and related matters could adversely affect us.

From time to time as part of the Company's normal course of business, clients make claims and take legal action against the Company based on its actions or inactions. If such claims and legal actions are not resolved in a manner favorable to the Company, they may result in financial liability and/or adversely affect the market perception of the Company and its products and services. This may also impact client demand for the Company's products and services. Any financial liability or reputation damage could have a material adverse effect on the Company's business, which, in turn, could have a material adverse effect on its financial condition and results of operations.

Revenues and profitability from our wealth management business may be adversely affected by any reduction in assets under management, which could reduce fees earned.

The wealth management business derives the majority of its revenue from non-interest income, which consists of trust, investment advisory and other servicing fees. Substantial revenues are generated from investment management contracts with clients. Under these contracts, the investment advisory fees paid to us are typically based on the market value of assets under management. Assets under management and supervision may decline for various reasons including declines in the market value of the assets in the funds and accounts managed or supervised, which could be caused by price declines in the securities markets generally or by price declines in specific market segments. Assets under management may also decrease due to redemptions and other withdrawals by clients or termination of contracts. This could be in response to adverse market conditions or in pursuit of other investment opportunities. If the assets under management we supervise decline and there is a related decrease in fees, it will negatively affect our results of operations.

We may not be able to attract and retain wealth management clients.

Due to strong competition, our wealth management business may not be able to attract and retain clients. Competition is strong because there are numerous well-established and successful investment management and wealth advisory firms including commercial banks and trust companies, investment advisory firms, mutual fund companies, stock brokerage firms, and other financial companies. Many of our competitors have greater resources than we have. Our ability to successfully attract and retain wealth management clients is dependent upon our ability to compete with competitors' investment products, level of investment performance, client services and marketing and distribution capabilities. If we are not successful, our results of operations and financial condition may be negatively impacted.

The wealth management industry is subject to extensive regulation, supervision and examination by regulators, and any enforcement action or adverse changes in the laws or regulations governing our business could decrease our revenues and profitability.

The wealth management business is subject to regulation by a number of regulatory agencies that are charged with safeguarding the integrity of the securities and other financial markets and with protecting the interests of customers participating in those markets. In the event of non-compliance with regulation, governmental regulators, including the SEC, and FINRA, may institute administrative or judicial proceedings that may result in censure, fines, civil penalties, the issuance of cease-and-desist orders or the deregistration or suspension of the non-compliant broker-dealer or investment adviser or other adverse consequences. The imposition of any such penalties or orders could have a material adverse effect on the wealth management segment's operating results and financial condition. We may be adversely affected as a result of new or revised legislation or regulations. Regulatory changes have imposed and may continue to impose additional costs, which could adversely impact our profitability.

Item 1B. UNRESOLVED STAFF COMMENTS
None.

Item 2. PROPERTIES
The Company owns nine branches and leases 11 branches. The Company leases an administrative and operations office building in Bedminster, New Jersey, private banking offices in Princeton, Morristown and Teaneck, New Jersey and wealth offices in Greenville, Delaware, Gladstone, Fairfield and New Providence, New Jersey and Bonita Springs, Florida.

Item 3. LEGAL PROCEEDINGS

In the normal course of 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 assert claims that if adversely decided, we believe would have a material adverse effect on the Company.

Item 4. MINE SAFETY DISCLOSURE
Not applicable.

PART II

Item 5. MARKET FOR REGISTRANT'S COMMON EQUITY RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

The common stock of the Company is traded on the NASDAQ Global Select Market under the symbol “PGC”. On March 1, 2019, there were approximately 908 registered shareholders of record.

Stock Performance Graph

The following graph compares the cumulative total return on a hypothetical $100 investment made on December 31, 2013 in (a) the Company’s common stock; (b) the Russell 3000 Stock Index, and (c) the Keefe, Bruyette & Woods KBW 50 Index (top 50 U.S. banks). The graph is calculated assuming that all dividends are reinvested during the relevant periods. The graph shows how a $100 investment would increase or decrease in value over time, based on dividends (stock or cash) and increases or decreases in the market price of the stock.

	Period Ended					
Index	12/31/13	12/31/14	12/31/15	12/31/16	12/31/17	12/31/18
Peapack-Gladstone Financial Corporation	100.00	98.20	110.13	166.59	190.10	137.54
Russell 3000 Index	100.00	112.56	113.10	127.50	154.44	146.34
KBW NASDAQ Bank Index	100.00	109.37	109.91	141.24	167.50	137.83

Stock Repurchases

The following table sets forth information for the last quarter of the fiscal year ended December 31, 2018 with respect to common shares withheld to satisfy withholding obligations (or repurchases of outstanding common shares):

	Total Number of Shares Withheld/Purchased (1)	Average Price Paid Per Share	Total Number of Shares Purchased As Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares That May Yet Be Purchased Under the Plans Or Programs (In Thousands)
October 1, 2018 - October 31, 2018	—	$ —	—	$ —
November 1, 2018 - November 30, 3018	—	—	—	—
December 1, 2018 - December 31, 2018	4,279	26.83	—	—
Total	4,279	$ 26.83	—	$ —

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

Sales of Unregistered Securities

None.

Item 6. SELECTED FINANCIAL DATA

The following is selected consolidated financial data for the Company and its subsidiaries for the years indicated. This information is derived from the historical consolidated financial statements and should be read in conjunction with the consolidated financial statements and notes.

	Years Ended December 31,				
(Dollars in thousands, except per share data)	2018	2017	2016	2015	2014
Summary earnings:					
Interest income	$159,686	$138,727	$117,048	$99,142	$75,575
Interest expense	44,523	27,586	20,613	14,690	7,681
Net interest income	115,163	111,141	96,435	84,452	67,894
Provision for loan losses	3,550	5,850	7,500	7,100	4,875
Net interest income after provision for loan losses	111,613	105,291	88,935	77,352	63,019
Wealth management income	33,245	23,183	18,240	17,039	15,242
Other income, exclusive of securities (losses)/gains, net	11,341	11,444	10,559	6,148	5,305
Securities (losses)/gains, net	(393)	—	119	527	260
Total expenses	98,086	85,611	75,112	68,926	59,540
Income before income tax expense	57,720	54,307	42,741	32,140	24,286
Income tax expense	13,550	17,810	16,264	12,168	9,396
Net income available to common shareholders	$44,170	$36,497	$26,477	$19,972	$14,890
Per share data:					
Earnings per share-basic	$2.33	$2.07	$1.62	$1.31	$1.23
Earnings per share-diluted	2.31	2.03	1.60	1.29	1.22
Cash dividends declared	0.20	0.20	0.20	0.20	0.20
Book value end-of-period	24.25	21.68	18.79	17.61	16.36
Basic weighted average shares outstanding	18,965,305	17,659,625	16,318,868	15,187,637	12,065,615
Common stock equivalents (dilutive)	183,340	284,060	196,130	247,359	106,492
Fully diluted weighted average shares outstanding	19,148,645	17,943,685	16,514,998	15,434,996	12,172,107

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

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

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

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

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

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

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

For the year ended December 31, 2018, the Company recorded net income of $44.17 million, and diluted earnings per share of $2.31 compared to $36.50 million and $2.03, respectively, for 2017, reflecting increases of $7.67 million, or 21 percent, and $0.28 per share, or 14 percent, respectively. During 2018, the Company continued to focus on executing its Strategic Plan – known as "Expanding Our Reach" – which focuses on the client experience and organic growth across all lines of business. The Strategic Plan called for expansion of the Company's wealth management business, organically and through wealth business acquisitions, and also expansion of the Company's commercial and industrial ("C&I") lending platform, through the use of private bankers, who lead with deposit gathering and wealth management discussions.

The following are select highlights for 2018:

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

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

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

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

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

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

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

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

EARNINGS SUMMARY:

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

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

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

2018 compared to 2017

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

The increase in net income for 2018 was due to higher net interest income and wealth management income, offset by increased operating expenses when compared to 2017. In addition, 2018 net income benefitted from the reduced Federal income tax rate due to the new tax law signed in December 2017. Wealth management acquisitions in 2017 and 2018 contributed to higher wealth management income and higher operating expenses in 2018. Higher operating expenses were also due to costs associated with the implementation of the Strategic Plan, described in the "Overview" section above.

2017 compared to 2016

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

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

NET INTEREST INCOME AND NET INTEREST MARGIN

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

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

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

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

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

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

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

Year Ended December 31, 2017

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

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

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

Year Ended December 31, 2016

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

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

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

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

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

2018 compared to 2017

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

On a fully tax-equivalent basis, interest income on earning assets increased $21.5 million, or 15 percent, to $161.3 million in 2018 from $139.8 million in 2017. Average earning assets for the year ended December 31, 2018 totaled $4.25 billion compared to $4.01 billion for 2017, an increase of $242.4 million or 6 percent. The average rate earned on earning assets was 3.79 percent in 2018, compared to 3.49 percent in 2017, an increase of 30 basis points. For the year ended December 31, 2018, the average balance of the commercial portfolio increased $326.2 million, or 43 percent, from 2017. The increase in this portfolio was attributed to: the addition of seasoned bankers including an equipment finance team in 2017; a continued focus on client service and value-added aspects of the lending process; and a continued focus on markets outside of the immediate branch service area, including markets around the Teaneck and Princeton private banking offices. For the year ended December 31, 2018, the average balance of the commercial mortgage portfolio (which includes multifamily mortgage loans) decreased $97.1 million to $1.98 billion from 2017. The Company continued to manage its balance sheet such that lower yielding, primarily fixed rate multifamily loans, which included a loan sale of $131.3 million of multi-family mortgage loans during the fourth quarter of 2018, declined as a percentage of the overall loan portfolio and higher yielding, primarily floating rate or short duration C&I loans became a larger percentage of the overall loan portfolio.

Average interest-bearing liabilities for the year ended December 31, 2018 totaled $3.37 billion, an increase of $189.4 million, or 6 percent, from $3.18 billion for 2017. The average rate paid increased to 1.32 percent for 2018 from 0.87 percent for 2017. The increase in the average balance of interest-bearing liabilities was principally due to growth in customer deposits (excluding brokered CDs and brokered interest-bearing demand but including funds from reciprocal deposits) of $97.7 million for 2018 when compared to 2017 and growth in the average balance of borrowings of $83.0 million.

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

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

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

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

2017 compared to 2016

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

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

Average interest-bearing liabilities for the year ended December 31, 2017 totaled $3.18 billion, an increase of $317.4 million, or 11 percent, from $2.86 billion for 2016. The average rate paid increased to 0.87 percent for 2017 from 0.72 percent for 2016. The increase in the average rate on interest-bearing liabilities was principally due to growth in higher costing certificates of deposit, the issuance of subordinated debt to help manage the Company's regulatory capital and interest rate risk positions, and competitive pressures in attracting new deposits in volumes sufficient to appropriately fund asset growth. The Company uses interest rate swaps to hedge against future rises in interest rates on the $180.0 million of interest-bearing demand-brokered deposits. These swaps resulted in an increase of approximately $898 thousand in interest expense, or an additional 0.50 percent in the average rate paid on those $180.0 million of deposits. Brokered certificates of deposit are generally medium/longer term and have been used in the Company's interest rate risk management practices. The Company utilized a diverse funding mix to meet its funding needs to manage interest rate risk, as well as to retain a higher level of liquidity on its balance sheet.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

GOODWILL:

At December 31, 2018 goodwill totaled $24.4 million, an increase of $7.3 million from $17.1 million at December 31, 2017. The increase in goodwill is due to the acquisition of Lassus Wherley in September 2018. The Bank intends to continue to grow its wealth management business through acquisition, as well as organically.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

a) Primary Residential Mortgages. The Bank originates one to four family residential mortgage loans in the Tri-State area New York, New Jersey and Connecticut, Pennsylvania and Florida. On a case by case basis, the Bank will lend in additional states. The Bank has developed a portfolio of mortgage products that are used exclusively to attract or maintain wealth, commercial or retail banking relationships. When reviewing residential mortgage loan applications, detailed verifiable information is gathered on income, assets, employment and a tri-merged credit report obtained from a credit repository that will determine total monthly debt obligations. Utilizing an independent appraisal from an approved appraisal management company, the Bank makes residential mortgage loans up to 80 percent of the appraised value and up to 97 percent with private mortgage insurance. Maximum loan-to-value (LTV) is determined based on property type and loan amount. On primary residence and second home properties, LTVs range from a maximum of 80 percent for loan amounts to $679,650 for retail customers to 70 percent for loan amounts to $3 million for wealth customers. For investment properties, LTVs range from a maximum of 80 percent for loan amounts to $453,100 for retail customers to 65 percent for loan amounts to $3 million for wealth customers. Loans greater than $3 million will also be considered based on the strength of the overall credit profile of the borrower. Underwriting guidelines include (i) minimum credit report scores of 680 and (ii) a maximum debt to income ratio of 45 percent. The Bank may consider an exception to any guideline if there are strong compensating factors that address and mitigate any risk. Generally, the Bank retains in its portfolio residential mortgage loans with fixed rate maturities of no greater than 7 years, which then convert to annually adjusted floating rates. Community Development loans granted under the Affordable Housing Program are offered with 30-year maturities. Loans with longer maturities or lower credit scores are sold to secondary market investors. The Bank does not originate, purchase or carry any sub-prime mortgage loans.

Risk characteristics associated with primary residential mortgage loans typically involve major living or lifestyle changes to the borrower, including unemployment or other loss of income; unexpected significant expenses, such as for major medical issues or catastrophic events; and divorce or death. In addition, residential mortgage loans that have adjustable rates could expose the borrower to higher debt service requirements in a rising interest rate environment. Further, real estate values could drop significantly and cause the value of the property to fall below the loan amount, creating additional potential exposure for the Bank.

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

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

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

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

Multifamily loans are expected to be repaid from the cash flows of the underlying property so the collective amount of rents must be sufficient to cover all operating expense, maintenance, taxes and debt service. The Bank includes debt service coverage covenants in these loans and the average ratio at original underwriting was about 1.5x. Increases in vacancy rates, interest rates or other changes in general economic conditions can all have an impact on the borrower and their ability to repay the loan. Certain markets, such as the Boroughs of New York City, are rent regulated, and as such, feature rents that are considered to be below market rates. Generally, rent regulated properties are characterized by relatively stable occupancy levels and longer-term tenants. As a loan asset class for many banks, multifamily loans have experienced much lower historical loss rates compared to other types of commercial lending.

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

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

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

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

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

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

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

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

f) Commercial and Industrial Loans. The Bank provides lines of credit and term loans to operating companies for business purposes. The loans are generally secured by business assets such as accounts receivable, inventory, business vehicles and equipment. In addition, these loans often include commercial real estate as collateral to strengthen the Bank's position and further mitigate risk. When underwriting business loans, among other things, the Bank evaluates the historical profitability and debt servicing capacity of the borrowing entity and the financial resources and character of the principal owners and guarantors.

Commercial and industrial loans are typically repaid first by the cash flows generated by the borrower's business operation. The primary risk characteristics are specific to the underlying business and its ability to generate sustainable profitability and resulting positive cash flows. Factors that may influence a business' profitability include, but are not limited to, demand for its products or services, quality and depth of management, degree of competition, regulatory changes, and general economic conditions. Commercial and industrial loans are generally secured by business assets; however, the ability of the Bank to foreclose and realize sufficient value from the assets is often highly uncertain. To mitigate the risk characteristics of commercial and industrial loans, the Bank will often require more frequent reporting requirements from the borrower in order to better monitor its business performance.

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

Asset risk in PCC's portfolio is generally recognized through changes to loan income, or through changes to lease-related income streams due to fluctuations in lease rates. Changes to lease income can occur when the existing lease contract expires, the asset comes off lease, or the business seeks to enter a new lease agreement. Asset risk may also change depreciation, resulting from changes in the residual value of the operating lease asset or through impairment of the asset carrying value, which can occur at any time during the life of the asset.

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

h) Consumer and Other. These are loans to individuals for household, family and other personal expenditures as well as obligations of states and political subdivisions in the U.S. This also represents all other loans that cannot be categorized in any of the previous mentioned loan segments. Consumer loans generally have higher interest rates and shorter terms than residential loans but tend to have higher credit risk due to the type of collateral securing the loan or in some cases the absence of collateral.

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

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

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

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

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

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

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

The portion of the allowance for loan losses allocated to loans collectively evaluated for impairment, commonly referred to as general reserves, was $38.2 million at December 31, 2018 and $35.9 million at December 31, 2017. General reserves at both December 31, 2018 and 2017 represent 0.98 percent of loans collectively evaluated for impairment. The Company experienced growth in the loan portfolio of approximately $227 million, including loans held for sale. Multifamily and residential loan classes make up 43 percent of the loan portfolio as of December 31, 2018 compared to approximately 53 percent at December 31, 2017. The decline in multifamily and residential loans is consistent with Management's strategy to reduce these portfolios as a percentage of the overall loan portfolio as C&I loans and lease financings become a larger percentage of the overall loan portfolio.

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

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

ASSET QUALITY:

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

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

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

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

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

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

At December 31, 2018, there were $20.5 million of troubled debt restructured loans included in nonaccrual loans above compared to $8.1 million at December 31, 2017. All troubled debt restructured loans are considered and included in impaired loans at December 31, 2018 and had specific reserves of $262 thousand. At December 31, 2017, all troubled debt restructured loans were considered and included in impaired loans and had specific reserves of $423 thousand.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

2018 compared to 2017

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

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

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

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

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

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

2017 compared to 2016

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

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

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

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

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

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

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

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

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

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

2018 compared to 2017

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

2017 compared to 2016

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The Company’s regulatory total risk based capital ratio beginning June 30, 2016 was benefitted by the $48.7 million (net) subordinated debt issuance that closed in June 2016. The Company down-streamed approximately $40 million of those proceeds to the Bank as capital, benefitting all the Bank's regulatory capital ratios at that time.

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

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

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

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

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

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

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

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

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

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

Peapack-Gladstone Financial Corporation is a separate legal entity from the Bank and must provide for its own liquidity to pay dividends to its shareholders, to repurchase shares of its common stock, and for other corporate purposes. Peapack-Gladstone Financial Corporation's primary source of income is dividends received from the Bank. The Bank's ability to pay dividends is governed by applicable law. At December 31, 2018, Peapack-Gladstone Financial Corporation (unconsolidated basis) had liquid assets of $13.5 million.

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

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

PRIVATE WEALTH MANAGEMENT DIVISION:

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

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

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

2018 compared to 2017

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

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

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

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

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

2017 compared to 2016

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

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

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

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

Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Bedminster, New Jersey

Opinions on the Financial Statements and Internal Control over Financial Reporting

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

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

Basis for Opinions

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

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

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

Definition and Limitations of Internal Control Over Financial Reporting

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

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

/s/ Crowe LLP

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

Livingston, New Jersey

March 14, 2019

CONSOLIDATED STATEMENTS OF CONDITION

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

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

See accompanying notes to consolidated financial statements

CONSOLIDATED STATEMENTS OF INCOME

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

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

See accompanying notes to consolidated financial statements

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

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

See accompanying notes to consolidated financial statements

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

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

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

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

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

See accompanying notes to consolidated financial statements

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CONSOLIDATED STATEMENTS OF CASH FLOWS

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

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

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

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

See accompanying notes to consolidated financial statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1.SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

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

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

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

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

Interest income includes amortization of purchase premiums and discounts. Premiums and discounts on securities are amortized on the level-yield method without anticipating prepayments, except for mortgage-backed securities where prepayments are anticipated and premiums on callable debt securities which are amortized to the earliest call date. Gains and losses on sales are recorded on the trade date and determined using the specific identification method.

Management evaluates securities for other-than-temporary impairment on at least a quarterly basis, and more frequently when economic or market conditions warrant such an evaluation. For securities in an unrealized loss position, Management considers the extent and duration of the unrealized loss and the financial condition and near-term prospects of the issuer. Management also assesses whether it intends to sell, or it is more likely than not that it will be required to sell, a security in an unrealized loss position before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the entire difference between amortized cost and fair value is recognized as impairment through earnings. For debt securities that do not meet the aforementioned criteria, the amount of impairment is split into two components as follows: 1) other-than-temporary impairment related to credit loss, which is recognized in the income statement and 2) other-than-temporary impairment related to other factors, which is recognized in other comprehensive income. The credit loss is defined as the difference between the present value of the cash flows expected to be collected and the amortized cost basis.

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

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

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

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

SBA loans originated with the intent to sell in the secondary market are carried at the lower of cost or fair value. SBA loans are generally sold with the servicing rights retained. Gains and losses on the sale of SBA loans are based on the difference between the selling price and the carrying value of the related loan sold. Total SBA loans serviced totaled $35.1 million and $20.1 million as of December 31, 2018 and 2017, respectively. SBA loans held for sale totaled $1.2 million and $187 thousand as of December 31, 2018 and 2017, respectively. The servicing asset recorded was not material.

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

Loans: Loans that Management has the intent and ability to hold for the foreseeable future or until maturity are stated at the principal amount outstanding. Interest on loans is recognized based upon the principal amount outstanding. Loans are stated at face value, less purchased premium and discounts and net deferred fees. Loan origination fees and certain direct loan origination costs are deferred and recognized on a level-yield method, over the life of the loan as an adjustment to the loan’s yield. The definition of recorded investment in loans includes accrued interest receivable and deferred fees/cost, however, for the Company’s loan disclosures, accrued interest and deferred fees/costs was excluded as the impact was not material.

Loans are considered past due when they are not paid within 30 days in accordance with contractual terms. The accrual of income on loans, including impaired loans, is discontinued if, in the opinion of Management, principal or interest is not likely to be paid in accordance with the terms of the loan agreement, or when principal or interest is past due 90 days or more and collateral, if any, is insufficient to cover principal and interest. All interest accrued but not received for loans placed on nonaccrual are reversed against interest income. Payments received on nonaccrual loans are recorded as principal payments. A nonaccrual loan is returned to accrual status only when interest and principal payments are brought current and future payments are reasonably assured, generally when the Bank receives contractual payments for a minimum of six consecutive months. Commercial loans are generally charged off after an analysis is completed which indicates that collectability of the full principal balance is in doubt. Consumer loans are generally charged off after they become 120 days past due. Subsequent payments are credited to income only if collection of principal is not in doubt. If principal and interest payments are brought contractually current and future collectability is reasonably assured, loans are returned to accrual status. Nonaccrual mortgage loans are generally charged off when the value of the underlying collateral does not cover the outstanding principal balance. The majority of the Company's loans are secured by real estate in New Jersey and New York.

Allowance for Loan Losses: The allowance for loan and lease losses is a valuation allowance for credit losses that is Management's estimate of inherent losses in the loan portfolio. The process to determine reserves utilizes analytic tools and Management judgment and is reviewed on a quarterly basis. When Management is reasonably certain that a loan balance is not fully collectable, an impairment analysis is completed whereby a specific reserve may be established or a full or partial charge off is recorded against the allowance. Subsequent recoveries, if any, are credited to the allowance. Management estimates the allowance balance required using past loan loss experience, the size and composition of the portfolio, information about specific borrower situations, estimated collateral values, economic conditions and other factors. Allocations of the allowance may be made for specific loans via a specific reserve, but the entire allowance is available for any loan that, in Management's judgment, should be charged off.

The allowance consists of specific and general components. The specific component of the allowance relates to loans that are individually classified as impaired.

A loan is impaired when, based on current information and events, it is probable that the Bank will be unable to collect all amounts due according to the contractual terms of the loan agreement. Factors considered by Management in determining impairment include payment status, collateral value and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed.

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

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

The general component of the allowance covers non-impaired loans and is based primarily on the Bank's historical loss experience adjusted for current factors. The historical loss experience is determined by portfolio segment and is based on the actual loss history experience by the Company on a weighted average basis over the previous three years. This actual loss experience is adjusted by other qualitative factors based on the risks present for each portfolio segment. These qualitative factors include consideration of the following: levels of and trends in delinquencies and impaired loans; effects of any changes in risk selection and underwriting standards; other changes in lending policies, procedures and practices; experience, ability and depth of lending management and other relevant staffing and experience; national and local economic trends and conditions; industry conditions; and effects of changes in credit concentrations. For loans that are graded as non-impaired, the Company allocates a higher general reserve percentage than pass-rated loans using a multiple that is calculated annually through a migration analysis. At both December 31, 2018 and December 31, 2017, the multiple was 2.25 times for non-impaired special mention loans and 3.5 times for non-impaired substandard loans.

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

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

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

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

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

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

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

Asset risk in PCC’s portfolio is generally recognized through changes to loan income, or through changes to lease related income streams due to fluctuations in lease rates. Changes to lease income can occur when the existing lease contract expires, the asset comes off lease or the business seeks to enter a new lease agreement. Asset risk may also change depreciation, resulting from changes in the residual value of the operating lease asset or through impairment of the asset carrying value, which can occur at any time during the life of the asset.

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

Consumer and Other. These are loans to individuals for household, family and other personal expenditures as well as obligations of states and political subdivisions in the U.S. This also represents all other loans that cannot be categorized in any of the previous mentioned loan segments. Consumer loans generally have higher interest rates and shorter terms than residential loans but tend to have higher credit risk due to the type of collateral securing the loan or in some cases the absence of collateral.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Employee Stock Purchase Plan ("ESPP"): On April 22, 2014, the shareholders of the Company approved the 2014 ESPP. The ESPP provides for the granting of rights to purchase up to 150,000 shares of Peapack-Gladstone Financial Corporation common stock. Subject to certain eligibility requirements and restrictions, the ESPP allows employees to purchase shares during four three-month offering periods ("Offering Period"). Each participant in the Offering Period is granted an option to purchase a number of shares and may contribute between one percent and 15 percent of their compensation. At the end of each Offering Period on the purchase date, the number of shares to be purchased by the employee is determined by dividing the employee's contributions accumulated during the Offering Period by the applicable purchase price. The purchase price is an amount equal to 85 percent of the closing market price of a share of common stock on the purchase date. Participation in the ESPP is entirely voluntary and employees can cancel their purchases at any time during the period without penalty. The fair value of each share purchase right is determined using the Black-Scholes option pricing model. The Company recorded $189 thousand, $116 thousand and $100 thousand of expense in salaries and employee benefits expense for the twelve months ended December 31, 2018, 2017 and 2016. Total shares issued under the ESPP were 29,273, 25,404 and 32,190 during 2018, 2017 and 2016, respectively.

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

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

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

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

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