LAKELAND BANCORP INC
Form 10-K
March 16, 2015
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-K

(Mark One)

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE FISCAL YEAR ENDED DECEMBER 31, 2014.**

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD FROM __________ TO __________.**

Commission file number: 000-17820

LAKELAND BANCORP, INC.

(Exact name of registrant as specified in its charter)

New Jersey	**22-2953275**
(State or other jurisdiction of	**(I.R.S. Employer**
incorporation or organization)	**Identification No.)**
250 Oak Ridge Road, Oak Ridge, New Jersey	**07438**
(Address of principal executive offices)	**(Zip code)**

Registrant s telephone number, including area code: (973) 697-2000

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

Title of each class	**Name of each exchange on which registered**
Common Stock, no par value	**NASDAQ**

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 x

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

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 x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post such files). Yes x 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 to this Form 10-K. x

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

Large accelerated filer ¨	Accelerated filer x
Non-accelerated filer ¨	Smaller Reporting Company ¨

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

As of June 30, 2014, the aggregate market value of the registrant s common stock held by non-affiliates of the registrant was approximately $377,000,000, based on the closing sale price as reported on the NASDAQ Global Select Market.

The number of shares outstanding of the registrant s common stock, as of March 1, 2015, was 37,896,357.

DOCUMENTS INCORPORATED BY REFERENCE:

Lakeland Bancorp, Inc s. Proxy Statement for its 2015 Annual Meeting of Shareholders (Part III).

LAKELAND BANCORP, INC.

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PART I

ITEM 1 Business.

GENERAL

Lakeland Bancorp, Inc. (the Company or Lakeland Bancorp) is a bank holding company headquartered in Oak Ridge, New Jersey. The Company was organized in March of 1989 and commenced operations on May 19, 1989, upon the consummation of the acquisition of all of the outstanding stock of Lakeland Bank, formerly named Lakeland State Bank (Lakeland or the Bank or Lakeland Bank). Through Lakeland, the Company currently operates 51 banking offices, located in Bergen, Essex, Morris, Passaic, Somerset, Sussex, Union and Warren counties in New Jersey. Lakeland offers a full range of lending services, including commercial loans and leases, real estate and consumer loans to small and medium-sized businesses, professionals and individuals located in its markets.

The Company has shown substantial growth through a combination of organic growth and acquisitions. Since 1998, Lakeland has opened 27 new branch offices (including acquired branches). The Company has acquired five community banks with an aggregate asset total of approximately $1.1 billion, including the acquisition of Somerset Hills Bank and its parent, Somerset Hills Bancorp (Somerset Hills), which closed on May 31, 2013. All of the acquired banks have been merged into Lakeland and their holding companies, if applicable, have been merged into the Company.

At December 31, 2014, Lakeland Bancorp had total consolidated assets of $3.5 billion, total consolidated deposits of $2.8 billion, total consolidated loans, net of the allowance for loan and lease losses, of $2.6 billion and total consolidated stockholders equity of $379.4 million.

This Annual Report on Form 10-K contains certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 (Forward-Looking Statements). Such statements are subject to risks and uncertainties that could cause actual results to differ materially from those projected in such Forward-Looking Statements. Certain factors which could materially affect such results and the future performance of the Company are described in Item 1A Risk Factors of this Annual Report on Form 10-K.

Unless otherwise indicated, all weighted average, actual shares and per share information contained in this Annual Report on Form 10-K have been adjusted retroactively for the effect of stock dividends, including the Company s 5% stock dividend which was distributed on June 17, 2014.

Commercial Bank Services

Through Lakeland, the Company offers a broad range of lending, depository, and related financial services to individuals and small to medium sized businesses located primarily in northern and central New Jersey. In the lending area, these services include short and medium term loans, lines of credit, letters of credit, inventory and accounts receivable financing, real estate construction loans, mortgage loans and merchant credit card services. In addition to commercial real estate loans, Lakeland makes commercial and industrial loans. These types of loans can diversify the Company s exposure in a depressed real estate market. Lakeland s equipment financing division provides a solution to small and medium sized companies who prefer to lease equipment over other financial alternatives. Lakeland s asset based loan department provides commercial borrowers with another lending alternative.

Depository products include demand deposits, as well as savings, money market and time accounts. The Company also offers wire transfer, internet banking, mobile banking and night depository services to the business community and municipal relationships. In addition, Lakeland offers cash management services, such as remote capture of deposits and overnight sweep repurchase agreements.

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Consumer Banking

Lakeland also offers a broad range of consumer banking services, including checking accounts, savings accounts, NOW accounts, money market accounts, certificates of deposit, internet banking, secured and unsecured loans, consumer installment loans, mortgage loans, and safe deposit services.

As a result of the merger with Somerset Hills, Lakeland expanded its mortgage division by acquiring a mortgage company subsidiary, which originates and sells residential mortgage loans, and a 50% interest in a title company.

Other Services

Investment and advisory services for individuals and businesses are also available.

Competition

Lakeland faces considerable competition in its market areas for deposits and loans from other depository institutions. Many of Lakeland s depository institution competitors have substantially greater resources, broader geographic markets, and higher lending limits than Lakeland and are also able to provide more services and make greater use of media advertising. In recent years, intense market demands, economic pressures, increased customer awareness of products and services, and the availability of electronic services have forced banking institutions to diversify their services and become more cost-effective.

Lakeland also competes with credit unions, brokerage firms, insurance companies, money market mutual funds, consumer finance companies, mortgage companies and other financial companies, some of which are not subject to the same degree of regulation and restrictions as Lakeland in attracting deposits and making loans. Interest rates on deposit accounts, convenience of facilities, products and services, and marketing are all significant factors in the competition for deposits. Competition for loans comes from other commercial banks, savings institutions, insurance companies, consumer finance companies, credit unions, mortgage banking firms and other institutional lenders. Lakeland primarily competes for loan originations through its structuring of loan transactions and the overall quality of service it provides. Competition is affected by the availability of lendable funds, general and local economic conditions, interest rates, and other factors that are not readily predictable.

The Company expects that competition will continue in the future.

Concentration

The Company is not dependent for deposits or exposed by loan concentrations to a single customer or a small group of customers the loss of any one or more of which would have a material adverse effect upon the financial condition of the Company.

Employees

At December 31, 2014, the Company had 566 full-time equivalent employees. None of these employees is covered by a collective bargaining agreement. The Company considers relations with its employees to be good.

SUPERVISION AND REGULATION

General

The Company is a registered bank holding company under the federal Bank Holding Company Act of 1956, as amended (the Holding Company Act), and is required to file with the Federal Reserve Board an annual report and such additional information as the Federal Reserve Board may require pursuant to the Holding Company Act. The Company is subject to examination by the Federal Reserve Board.

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Lakeland is a state chartered banking association subject to supervision and examination by the Department of Banking and Insurance of the State of New Jersey (the Department) and the Federal Deposit Insurance Corporation (the FDIC). The regulations of the State of New Jersey and FDIC govern most aspects of Lakeland s business, including reserves against deposits, loans, investments, mergers and acquisitions, borrowings, dividends, and location of branch offices. Lakeland is subject to certain restrictions imposed by law on, among other things, (i) the maximum amount of obligations of any one person or entity which may be outstanding at any one time, (ii) investments in stock or other securities of the Company or any subsidiary of the Company, and (iii) the taking of such stock or securities as collateral for loans to any borrower.

The Holding Company Act

The Holding Company Act limits the activities which may be engaged in by the Company and its subsidiaries to those of banking, the ownership and acquisition of assets and securities of banking organizations, and the management of banking organizations, and to certain non-banking activities which the Federal Reserve Board finds, by order or regulation, to be so closely related to banking or managing or controlling a bank as to be a proper incident thereto. The Federal Reserve Board is empowered to differentiate between activities by a bank holding company or a subsidiary thereof and activities commenced by acquisition of a going concern.

With respect to non-banking activities, the Federal Reserve Board has by regulation determined that several non-banking activities are closely related to banking within the meaning of the Holding Company Act and thus may be performed by bank holding companies. Although the Company s management periodically reviews other avenues of business opportunities that are included in that regulation, the Company has no present plans to engage in any of these activities other than providing investment brokerage services.

With respect to the acquisition of banking organizations, the Company is required to obtain the prior approval of the Federal Reserve Board before it may, by merger, purchase or otherwise, directly or indirectly acquire all or substantially all of the assets of any bank or bank holding company, if, after such acquisition, it will own or control more than 5% of the voting shares of such bank or bank holding company.

Regulation of Bank Subsidiaries

There are various legal limitations, including Sections 23A and 23B of the Federal Reserve Act, which govern the extent to which a bank subsidiary may finance or otherwise supply funds to its holding company or its holding company s non-bank subsidiaries. Under federal law, no bank subsidiary may, subject to certain limited exceptions, make loans or extensions of credit to, or investments in the securities of, its parent or the non-bank subsidiaries of its parent (other than direct subsidiaries of such bank which are not financial subsidiaries) or take their securities as collateral for loans to any borrower. Each bank subsidiary is also subject to collateral security requirements for any loans or extensions of credit permitted by such exceptions.

Commitments to Affiliated Institutions

The policy of the Federal Reserve Board provides that a bank holding company is expected to act as a source of financial strength to its subsidiary banks and to commit resources to support such subsidiary banks in circumstances in which it might not do so absent such policy.

Interstate Banking

The Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 permits bank holding companies to acquire banks in states other than their home state, regardless of applicable state law. New Jersey enacted legislation to authorize interstate banking and branching and the entry into New Jersey of foreign country banks. New Jersey did not authorize de novo branching into the state. However, under federal law, federal savings banks, which meet certain conditions, may branch de novo into a state, regardless of state law. The Dodd-Frank

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Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act) removes the restrictions on interstate branching contained in the Riegle-Neal Act, and allows national banks and state banks to establish branches in any state if, under the laws of the state in which the branch is to be located, a state bank chartered by that state would be permitted to establish the branch.

Gramm-Leach-Bliley Act of 1999

The Gramm-Leach-Bliley Financial Services Modernization Act of 1999 (the Modernization Act) became effective in early 2000. The Modernization Act:

- allows bank holding companies meeting management, capital, and Community Reinvestment Act standards to engage in a substantially broader range of non-banking activities than previously was permissible, including insurance underwriting and making merchant banking investments in commercial and financial companies; if a bank holding company elects to become a financial holding company, it files a certification, effective in 30 days, and thereafter may engage in certain financial activities without further approvals (Lakeland Bancorp is such a financial holding company);
- allows insurers and other financial services companies to acquire banks;
- removes various restrictions that previously applied to bank holding company ownership of securities firms and mutual fund advisory companies; and
- establishes the overall regulatory structure applicable to bank holding companies that also engage in insurance and securities operations.

The Modernization Act also modified other financial laws, including laws related to financial privacy and community reinvestment.

The USA PATRIOT Act

In response to the events of September 11, 2001, the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (the USA PATRIOT Act), was signed into law on October 26, 2001. The USA PATRIOT Act gives the federal government new powers to address terrorist threats through enhanced domestic security measures, expanded surveillance powers, increased information sharing, and broadened anti-money laundering requirements. By way of amendments to the Bank Secrecy Act, Title III of the USA PATRIOT Act encourages information sharing among bank regulatory agencies and law enforcement bodies. Further, certain provisions of Title III impose affirmative obligations on a broad range of financial institutions, including banks, thrifts, brokers, dealers, credit unions, money transfer agents and parties registered under the Commodity Exchange Act.

Among other requirements, Title III of the USA PATRIOT Act imposes the following requirements with respect to financial institutions:

- All financial institutions must establish anti-money laundering programs that include, at a minimum: (i) internal policies, procedures, and controls; (ii) specific designation of an anti-money laundering compliance officer; (iii) ongoing employee training programs; and (iv) an independent audit function to test the anti-money laundering program.
- The Secretary of the Department of the Treasury, in conjunction with other bank regulators, was authorized to issue regulations that provide for minimum standards with respect to customer identification at the time new accounts are opened.
- Financial institutions that establish, maintain, administer, or manage private banking accounts or correspondent accounts in the United States for non-United States persons or their representatives (including foreign individuals visiting the United States) are

required to establish appropriate, specific and, where necessary, enhanced due diligence policies, procedures, and controls designed to detect and report money laundering.

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Financial institutions are prohibited from establishing, maintaining, administering or managing correspondent accounts for foreign shell banks (foreign banks that do not have a physical presence in any country), and will be subject to certain record keeping obligations with respect to correspondent accounts of foreign banks.

Bank regulators are directed to consider a holding company s effectiveness in combating money laundering when ruling on Federal Reserve Act and Bank Merger Act applications.

The United States Treasury Department has issued a number of implementing regulations which address various requirements of the USA PATRIOT Act and are applicable to financial institutions such as Lakeland. These regulations impose obligations on financial institutions to maintain appropriate policies, procedures and controls to detect, prevent and report money laundering and terrorist financing and to verify the identity of their customers.

Sarbanes-Oxley Act of 2002

On July 30, 2002, the Sarbanes-Oxley Act of 2002 (the SOA) was signed into law. The stated goals of the SOA are to increase corporate responsibility, to provide for enhanced penalties for accounting and auditing improprieties at publicly traded companies and to protect investors by improving the accuracy and reliability of corporate disclosures pursuant to the securities laws.

The SOA generally applies to all companies, both U.S. and non-U.S., that file or are required to file periodic reports with the Securities and Exchange Commission (the SEC) under the Securities Exchange Act of 1934 (the Exchange Act).

The SOA includes very specific additional disclosure requirements and corporate governance rules, requires the SEC and securities exchanges to adopt extensive additional disclosure, corporate governance and other related rules and mandates further studies of certain issues by the SEC and the Comptroller General. The SOA represents significant federal involvement in matters traditionally left to state regulatory systems, such as the regulation of the accounting profession, and to state corporate law, such as the relationship between a board of directors and management and between a board of directors and its committees.

The SOA addresses, among other matters:

audit committees for all reporting companies;

certification of financial statements by the chief executive officer and the chief financial officer;

the forfeiture of bonuses or other incentive-based compensation and profits from the sale of an issuer s securities by directors and senior officers in the twelve month period following initial publication of any financial statements that later require restatement;

a prohibition on insider trading during pension plan black out periods;

disclosure of off-balance sheet transactions;

a prohibition on personal loans to directors and officers (other than loans made by an insured depository institution (as defined in the Federal Deposit Insurance Act), if the loan is subject to the insider lending restrictions of Section 22(h) of the Federal Reserve Act);

expedited filing requirements for Form 4 s;

disclosure of a code of ethics and filing a Form 8-K for a change or waiver of such code;

real time filing of periodic reports;

the formation of a public accounting oversight board;

auditor independence; and

various increased criminal penalties for violations of the securities laws.

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The SEC has enacted various rules to implement various provisions of the SOA with respect to, among other matters, disclosure in periodic filings pursuant to the Exchange Act.

Regulation W

Transactions between a bank and its affiliates are quantitatively and qualitatively restricted under the Federal Reserve Act. The Federal Deposit Insurance Act applies Sections 23A and 23B to insured nonmember banks in the same manner and to the same extent as if they were members of the Federal Reserve System. The Federal Reserve Board has also issued Regulation W, which codifies prior regulations under Sections 23A and 23B of the Federal Reserve Act and interpretative guidance with respect to affiliate transactions. Regulation W incorporates the exemption from the affiliate transaction rules but expands the exemption to cover the purchase of any type of loan or extension of credit from an affiliate. Affiliates of a bank include, among other entities, the bank s holding company and companies that are under common control with the bank. The Company is considered to be an affiliate of Lakeland. In general, subject to certain specified exemptions, a bank or its subsidiaries are limited in their ability to engage in covered transactions with affiliates:

- to an amount equal to 10% of the bank s capital and surplus, in the case of covered transactions with any one affiliate; and
- to an amount equal to 20% of the bank s capital and surplus, in the case of covered transactions with all affiliates.

In addition, a bank and its subsidiaries may engage in covered transactions and other specified transactions only on terms and under circumstances that are substantially the same, or at least as favorable to the bank or its subsidiary, as those prevailing at the time for comparable transactions with nonaffiliated companies. A covered transaction includes:

- a loan or extension of credit to an affiliate;
- a purchase of, or an investment in, securities issued by an affiliate;
- a purchase of assets from an affiliate, with some exceptions;
- the acceptance of securities issued by an affiliate as collateral for a loan or extension of credit to any party; and
- the issuance of a guarantee, acceptance or letter of credit on behalf of an affiliate.

In addition, under Regulation W:

- a bank and its subsidiaries may not purchase a low-quality asset from an affiliate;
- covered transactions and other specified transactions between a bank or its subsidiaries and an affiliate must be on terms and conditions that are consistent with safe and sound banking practices; and
- with some exceptions, each loan or extension of credit by a bank to an affiliate must be secured by certain types of collateral with a market value ranging from 100% to 130%, depending on the type of collateral, of the amount of the loan or extension of credit.

Regulation W generally excludes all non-bank and non-savings association subsidiaries of banks from treatment as affiliates, except to the extent that the Federal Reserve Board decides to treat these subsidiaries as affiliates.

Community Reinvestment Act

Under the Community Reinvestment Act (CRA), as implemented by FDIC regulations, a state bank has a continuing and affirmative obligation consistent with its safe and sound operation to help meet the credit needs of

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its entire community, including low and moderate income neighborhoods. The CRA does not establish specific lending requirements or programs for financial institutions nor does it limit an institution s discretion to develop the types of products and services that it believes are best suited to its particular community. The CRA requires the FDIC, in connection with its examination of a state non-member bank, to assess the bank s record of meeting the credit needs of its community and to take that record into account in its evaluation of certain applications by the bank. Under the FDIC s CRA evaluation system, the FDIC focuses on three tests: (i) a lending test, to evaluate the institution s record of making loans in its service areas; (ii) an investment test, to evaluate the institution s record of investing in community development projects, affordable housing and programs benefiting low or moderate income individuals and businesses; and (iii) a service test, to evaluate the institution s delivery of services through its branches, ATMs and other offices.

Securities and Exchange Commission

The common stock of the Company is registered with the SEC under the Exchange Act. As a result, the Company and its officers, directors, and major stockholders are obligated to file certain reports with the SEC. The Company is subject to proxy and tender offer rules promulgated pursuant to the Exchange Act. You may read and copy any document the Company files with the SEC at the SEC s Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information about the Public Reference Room. The SEC maintains a website at http://www.sec.gov that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC, such as the Company.

The Company maintains a website at http://www.lakelandbank.com. The Company makes available on its website the proxy statements and reports on Forms 8-K, 10-K and 10-Q that it files with the SEC as soon as reasonably practicable after such material is electronically filed with or furnished to the SEC. Additionally, the Company has adopted and posted on its website a Code of Ethics that applies to its principal executive officer, principal financial officer and principal accounting officer. The Company intends to disclose any amendments to or waivers of the Code of Ethics on its website.

Effect of Government Monetary Policies

The earnings of the Company are and will be affected by domestic economic conditions and the monetary and fiscal policies of the United States government and its agencies. The monetary policies of the Federal Reserve Board have had, and will likely continue to have, an important impact on the operating results of commercial banks through the Board s power to implement national monetary policy in order to, among other things, curb inflation or combat a recession. The Federal Reserve Board has a major effect upon the levels of bank loans, investments and deposits through its open market operations in United States government securities and through its regulation of, among other things, the discount rate of borrowings of banks and the reserve requirements against bank deposits. It is not possible to predict the nature and impact of future changes in monetary fiscal policies.

Dividend Restrictions

The Company is a legal entity separate and distinct from Lakeland. Virtually all of the revenue of the Company available for payment of dividends on its capital stock will result from amounts paid to the Company by Lakeland. All such dividends are subject to various limitations imposed by federal and state laws and by regulations and policies adopted by federal and state regulatory agencies. Under state law, a bank may not pay dividends unless, following the dividend payment, the capital stock of the bank would be unimpaired and either (a) the bank will have a surplus of not less than 50% of its capital stock, or, if not, (b) the payment of the dividend will not reduce the surplus of the bank.

If, in the opinion of the FDIC, a bank under its jurisdiction is engaged in or is about to engage in an unsafe or unsound practice (which could include the payment of dividends), the FDIC may require, after notice and

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hearing, that such bank cease and desist from such practice or, as a result of an unrelated practice, require the bank to limit dividends in the future. The Federal Reserve Board has similar authority with respect to bank holding companies. In addition, the Federal Reserve Board and the FDIC have issued policy statements which provide that insured banks and bank holding companies should generally only pay dividends out of current operating earnings. Regulatory pressures to reclassify and charge off loans and to establish additional loan loss reserves can have the effect of reducing current operating earnings and thus impacting an institution s ability to pay dividends. Further, as described herein, the regulatory authorities have established guidelines with respect to the maintenance of appropriate levels of capital by a bank or bank holding company under their jurisdiction. Compliance with the standards set forth in these policy statements and guidelines could limit the amount of dividends which the Company and Lakeland may pay. Under the Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA), banking institutions which are deemed to be undercapitalized will, in most instances, be prohibited from paying dividends. See FDICIA. See also New Capital Rules.

Capital Adequacy Guidelines

The Federal Reserve Board has adopted risk-based capital guidelines. These guidelines establish minimum levels of capital and require capital adequacy to be measured in part upon the degree of risk associated with certain assets. Under current guidelines, all banks and bank holding companies must have a core or Tier 1 capital to risk-weighted assets ratio of at least 4% and a total capital to risk-weighted assets ratio of at least 8%. At December 31, 2014, the Company s Tier 1 capital to risk-weighted assets ratio and total capital to risk-weighted assets ratio were 11.76% and 12.98%, respectively.

In addition, the Federal Reserve Board and the FDIC have approved leverage ratio guidelines (Tier 1 capital to average consolidated assets, less goodwill) for bank holding companies such as the Company. These guidelines provide for a minimum leverage ratio of 3% for bank holding companies that meet certain specified criteria, including that they have the highest regulatory rating. All other holding companies are required to maintain a leverage ratio of 3% plus an additional cushion of at least 100 to 200 basis points. The Company s leverage ratio was 9.08% at December 31, 2014.

See FDICIA and New Capital Rules.

FDICIA

Enacted in December 1991, FDICIA substantially revised the bank regulatory provisions of the Federal Deposit Insurance Act and several other federal banking statutes. Among other things, FDICIA requires federal banking agencies to broaden the scope of regulatory corrective action taken with respect to banks that do not meet minimum capital requirements and to take such actions promptly in order to minimize losses to the FDIC. Under FDICIA, federal banking agencies were required to establish minimum levels of capital (including both a leverage limit and a risk-based capital requirement) and specify for each capital measure the levels at which depository institutions will be considered well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized or critically undercapitalized.

Under regulations adopted under these provisions, for an institution to be well capitalized it must have a total risk-based capital ratio of at least 10%, a Tier 1 risk-based capital ratio of at least 6% and a Tier 1 leverage ratio of at least 5% and not be subject to any specific capital order or directive. For an institution to be adequately capitalized it must have a total risk-based capital ratio of at least 8%, a Tier 1 risk-based capital ratio of at least 4% and a Tier 1 leverage ratio of at least 4% (or in some cases 3%). Under the regulations, an institution will be deemed to be undercapitalized if it has a total risk-based capital ratio that is less than 8%, a Tier 1 risk-based capital ratio that is less than 4%, or a Tier 1 leverage ratio of less than 4% (or in some cases 3%). An institution will be deemed to be significantly undercapitalized if it has a total risk-based capital ratio that is less than 6%, a Tier 1 risk-based capital ratio that is less than 3%, or a leverage ratio that is less than 3% and will be deemed to be critically undercapitalized if it has a ratio of tangible equity to total assets that is equal to or less than 2%. An institution may be deemed to be in a capitalization category that is lower than is indicated by its actual capital

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position if it receives an unsatisfactory examination rating or is deemed to be in an unsafe or unsound condition or to be engaging in unsafe or unsound practices. As of December 31, 2014, Lakeland met all regulatory requirements for classification as well capitalized under the current regulatory framework.

See New Capital Rules below.

New Capital Rules

In December 2010 and January 2011, the Basel Committee on Banking Supervision (the Basel Committee) published the final texts of reforms on capital and liquidity generally referred to as Basel III. The Basel Committee is a committee of central banks and bank supervisors/regulators from the major industrialized countries that develops broad policy guidelines for use by each country s supervisors in determining the supervisory policies and regulations to which they apply. In July 2013, the Federal Reserve Board, the FDIC and the Comptroller of the Currency adopted final rules (the New Rules), which implement certain provisions of Basel III and the Dodd-Frank Act. The New Rules replace the general risk-based capital rules of the various banking agencies with a single, integrated regulatory capital framework. The New Rules require higher capital cushions and more stringent criteria for what qualifies as regulatory capital.

For bank holding companies and banks like Lakeland Bancorp and Lakeland Bank, January 1, 2015 is the start date for compliance with the revised minimum regulatory capital ratios and for determining risk-weighted assets under what the New Rules call a standardized approach. As of January 1, 2015, Lakeland Bancorp and Lakeland Bank are required to maintain the following minimum capital ratios, expressed as a percentage of risk-weighted assets:

- Common Equity Tier 1 Capital Ratio of 4.5% (this is a new concept and requirement, and is referred to as the CET1);
- Tier 1 Capital Ratio (CET1 capital plus Additional Tier 1 capital) of 6.0%; and
- Total Capital Ratio (Tier 1 capital plus Tier 2 capital) of 8.0%.

In addition, Lakeland Bancorp and Lakeland Bank are subject to a leverage ratio of 4% (calculated as Tier 1 capital to average consolidated assets as reported on the consolidated financial statements).

The New Rules also require a capital conservation buffer. When fully phased in on January 1, 2019, Lakeland Bancorp and Lakeland Bank will be required to maintain a 2.5% capital conservation buffer, in addition to the minimum capital ratios described above, resulting in the following minimum capital ratios on January 1, 2019:

- CET1 of 7%;
- Tier 1 Capital Ratio of 8.5%; and
- Total Capital Ratio of 10.5%.

The purpose of the capital conservation buffer is to ensure that banking organizations conserve capital when it is needed most, allowing them to weather periods of economic stress. Banking institutions with a CET1, Tier 1 Capital Ratio and Total Capital Ratio above the minimum capital ratios but below the minimum capital ratios plus the capital conservation buffer will face constraints on their ability to pay dividends, repurchase equity and pay discretionary bonuses to executive officers, based on the amount of the shortfall. The implementation of the capital conservation buffer will begin on January 1, 2016 at the 0.625% level, and increase by 0.625% on each subsequent January 1 until it reaches 2.5% on January 1, 2019.

The New Rules also adopted a countercyclical capital buffer, which is not applicable to Lakeland Bancorp or Lakeland Bank. That buffer is applicable only to advanced approaches banking organizations, which generally are those with consolidated total assets of at least $250 billion.

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The New Rules provide for several deductions from and adjustments to CET1, which will be phased in between January 1, 2015 and January 1, 2018. For example, mortgage servicing rights, deferred tax assets dependent upon future taxable income and significant investments in common equity issued by nonconsolidated financial entities must be deducted from CET1 to the extent that any one of those categories exceeds 10% of CET1 or all such categories in the aggregate exceed 15% of CET1.

Under prior capital standards, the effects of accumulated other comprehensive income items included in capital were excluded for the purposes of determining regulatory capital ratios. Under the New Rules, the effects of certain accumulated other comprehensive income items are not excluded; however, banking organizations such as Lakeland Bancorp and Lakeland Bank may make a one-time permanent election to continue to exclude these items effective as of January 1, 2015. Lakeland Bancorp and Lakeland Bank intend to make such an election to continue to exclude these items.

While the New Rules generally require the phase-out of non-qualifying capital instruments such as trust preferred securities and cumulative perpetual preferred stock, holding companies with less than $15 billion in total consolidated assets as of December 31, 2009, such as Lakeland Bancorp, may permanently include non-qualifying instruments that were issued and included in Tier 1 or Tier 2 capital prior to May 19, 2010 in Additional Tier 1 or Tier 2 capital until they redeem such instruments or until the instruments mature.

The New Rules prescribe a standardized approach for calculating risk-weighted assets that expands the risk-weighting categories from the previous four categories (0%, 20%, 50% and 100%) to a much larger and more risk-sensitive number of categories, depending on the nature of the assets, generally ranging from 0% for U.S. Government and agency securities, to 600% for certain equity exposures, and resulting in higher risk weights for a variety of asset categories. In addition, the New Rules provide more advantageous risk weights for derivatives and repurchase-style transactions cleared through a qualifying central counterparty and increase the scope of eligible guarantors and eligible collateral for purposes of credit risk mitigation.

Consistent with the Dodd-Frank Act, the New Rules adopt alternatives to credit ratings for calculating the risk-weighting for certain assets.

With respect to Lakeland Bank, the New Rules revise the prompt corrective action regulations under Section 38 of the Federal Deposit Insurance Act by (i) introducing a CET1 ratio requirement at each capital quality level (other than critically undercapitalized), with the required CET1 ratio being 6.5% for well-capitalized status; (ii) increasing the minimum Tier 1 capital ratio requirement for each category, with the minimum Tier 1 capital ratio for well-capitalized status being 8% (as compared to the current 6%); and (iii) requiring a leverage ratio of 5% to be well-capitalized (as compared to the current required leverage ratio of 3% or 4%). The New Rules do not change the total risk-based capital requirement for any prompt corrective action category. When the capital conservation buffer is fully phased in, the capital ratios applicable to depository institutions under the New Rules will exceed the ratios to be considered well-capitalized under the prompt corrective action regulations.

The Company believes that as of December 31, 2014, Lakeland Bancorp and Lakeland Bank would meet all capital requirements under the New Rules on a fully phased-in basis, if such requirements were currently in effect.

Volcker Rule

In December 2013, the Federal Reserve Board, the FDIC and several other governmental regulatory agencies issued final rules to implement the Volcker Rule contained in section 619 of the Dodd-Frank Act, generally to become effective in July 2015. The Volcker Rule prohibits an insured depository institution and its affiliates from (i) engaging in proprietary trading and (ii) investing in or sponsoring certain types of funds (defined as Covered Funds) subject to certain limited exceptions. The Company does not own any interests in any hedge funds or private equity funds that are designated Covered Funds under the Volcker Rule.

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Federal Deposit Insurance and Premiums

Lakeland s deposits are insured up to applicable limits by the Deposit Insurance Fund (DIF) of the FDIC and are subject to deposit insurance assessments to maintain the DIF. As a result of the Dodd-Frank Act, the basic federal deposit insurance limit was permanently increased to at least $250,000.

In November 2010, the FDIC approved a rule to change the assessment base from adjusted domestic deposits to average consolidated total assets minus average tangible equity, as required by the Dodd-Frank Act. These new assessment rates began in the second quarter of 2011 and were paid at the end of September 2011. Since the new base is larger than the current base, the FDIC s rule lowered the total base assessment rates to between 2.5 and 9 basis points for banks in the lowest risk category, and 30 to 45 basis points for banks in the highest risk category. The Company paid $2.0 million in total FDIC assessments (including the FICO premium described below) in both 2014 and 2013.

Pursuant to the Dodd-Frank Act, the FDIC has established 2.0% as the designated reserve ratio (DRR), that is, the ratio of the DIF to insured deposits. The FDIC has adopted a plan under which it will meet the statutory minimum DRR of 1.35% by September 30, 2020, the deadline imposed by the Dodd-Frank Act. The Dodd-Frank Act requires the FDIC to offset the effect on institutions with assets less than $10 billion of the increase in the statutory minimum DRR to 1.35% from the former statutory minimum of 1.15%. The FDIC has not yet announced how it will implement this offset.

In addition to deposit insurance assessments, the FDIC is required to continue to collect from institutions payments for the servicing of obligations of the Financing Corporation (FICO) that were issued in connection with the resolution of savings and loan associations, so long as such obligations remain outstanding. Lakeland paid a FICO premium of approximately $190,000 in 2014 and expects to pay a similar amount in 2015.

The Dodd-Frank Act

The Dodd-Frank Act, which was signed into law on July 21, 2010, will continue to have a broad impact on the financial services industry as a result of significant regulatory and compliance changes, including, among other things, (i) enhanced resolution authority over troubled and failing banks and their holding companies; (ii) increased capital and liquidity requirements; (iii) increased regulatory examination fees; (iv) changes to assessments to be paid to the FDIC for federal deposit insurance; and (v) numerous other provisions designed to improve supervision and oversight of, and strengthening safety and soundness for, the financial services sector. Many of the requirements called for in the Dodd-Frank Act will be implemented over time and most will be subject to implementing regulations over the course of several years.

The following is a summary of certain provisions of the Dodd-Frank Act:

Minimum Capital Requirements. The Dodd-Frank Act requires new capital rules and the application of the same leverage and risk-based capital requirements that apply to insured depository institutions to most bank holding companies. In addition to making bank holding companies subject to the same capital requirements as their bank subsidiaries, these provisions (often referred to as the Collins Amendment to the Dodd-Frank Act) were also intended to eliminate or significantly reduce the use of hybrid capital instruments, especially trust preferred securities, as regulatory capital. See New Capital Rules for a description of new capital requirements adopted by U.S. federal banking regulators in 2013 and the treatment of trust preferred securities under such rules.

Deposit Insurance. The Dodd-Frank Act makes permanent the $250,000 deposit insurance limit for insured deposits. Amendments to the Federal Deposit Insurance Act also revised the assessment base against which an insured depository institution s deposit insurance premiums paid to the Deposit Insurance Fund (DIF) are calculated. Under the amendments, the assessment base is no longer the institution s deposit base, but rather its average consolidated total assets less its average tangible equity during the assessment period. Additionally, the Dodd-Frank Act makes changes to the minimum designated reserve ratio of the DIF, increasing the minimum from 1.15 percent to 1.35 percent of the estimated amount of total insured deposits and eliminating the requirement that the FDIC pay dividends to depository institutions when the reserve ratio exceeds certain thresholds. In December 2010, the FDIC increased the designated reserve ratio to 2.0 percent.

Shareholder Votes. The Dodd-Frank Act requires publicly traded companies like Lakeland Bancorp to give shareholders a non-binding vote on executive compensation and so-called golden parachute payments in certain circumstances. The Dodd-Frank Act also authorizes the SEC to promulgate rules that would allow shareholders to nominate their own candidates using a company s proxy materials.

Transactions with Affiliates. The Dodd-Frank Act enhances the requirements for certain transactions with affiliates under Section 23A and 23B of the Federal Reserve Act, including an expansion of the definition of covered transactions and increasing the amount of time for which collateral requirements regarding covered transactions must be maintained. These requirements became effective during 2011.

Transactions with Insiders. Insider transaction limitations are expanded through the strengthening of loan restrictions to insiders and the expansion of the types of transactions subject to the various limits, including derivative transactions, repurchase agreements, reverse repurchase agreements and securities lending or borrowing transactions. Restrictions are also placed on certain asset sales to and from an insider to an institution, including requirements that such sales be on market terms and, in certain circumstances, approved by the institution s board of directors. These requirements became effective during 2011.

Enhanced Lending Limits. The Dodd-Frank Act strengthened the previous limits on a depository institution s credit exposure to one borrower which limited a depository institution s ability to extend credit to one person (or group of related persons) in an amount exceeding certain thresholds. The Dodd-Frank Act expanded the scope of these restrictions to include credit exposure arising from derivative transactions, repurchase agreements, and securities lending and borrowing transactions.

Compensation Practices. The Dodd-Frank Act provides that the appropriate federal regulators must establish standards prohibiting as an unsafe and unsound practice any compensation plan of a bank holding company or other covered financial institution that provides an insider or other employee with excessive compensation or compensation that gives rise to excessive risk or could lead to a material financial loss to such firm. In June 2010, prior to the Dodd-Frank Act, the bank regulatory agencies promulgated the *Interagency Guidance on Sound Incentive Compensation Policies*, which sets forth three key principles concerning incentive compensation arrangements:

- such arrangements should provide employees incentives that balance risk and financial results in a manner that does not encourage employees to expose the financial institution to imprudent risks;
- such arrangements should be compatible with effective controls and risk management; and
- such arrangements should be supported by strong corporate governance with effective and active oversight by the financial institution s board of directors.

Together, the Dodd-Frank Act and the recent guidance from the bank regulatory agencies on compensation may impact the Company s compensation practices.

The Consumer Financial Protection Bureau (Bureau). The Dodd-Frank Act created the Bureau within the Federal Reserve. The Bureau is tasked with establishing and implementing rules and regulations under certain federal consumer protection laws with respect to the conduct of providers of certain consumer financial products and services. The Bureau has rulemaking authority over many of the statutes governing products and services offered to bank consumers. In addition, the Dodd-Frank Act permits states to adopt consumer protection laws and regulations that are more stringent than those regulations promulgated by the Bureau and state attorneys general are permitted to enforce consumer protection rules adopted by the Bureau against state-chartered institutions. The Bureau has examination and enforcement authority over all banks and savings institutions with more than $10 billion in assets.

Institutions with $10 billion or less in assets, such as the Bank, will continue to be examined for compliance with the consumer laws by their primary bank regulators.

De Novo Banking. The Dodd-Frank Act allows de novo interstate branching by banks.

Many aspects of the Dodd-Frank Act still remain subject to rulemaking by various regulatory agencies and will take effect over several years, making it difficult to anticipate the overall financial impact on the Company, its customers or the financial industry more generally. Provisions in the legislation that require revisions to the capital requirements of the Company and the Bank could require the Company and the Bank to seek additional sources of capital in the future. See New Capital Rules.

Proposed Legislation

From time to time proposals are made in the United States Congress, the New Jersey Legislature, and before various bank regulatory authorities, which would alter the powers of, and place restrictions on, different types of banking organizations. It is impossible to predict the impact, if any, of potential legislative trends on the business of the Company and its subsidiaries.

In accordance with federal law providing for deregulation of interest on all deposits, banks and thrift organizations are now unrestricted by law or regulation from paying interest at any rate on most time deposits. It is not clear whether deregulation and other pending changes in certain aspects of the banking industry will result in further increases in the cost of funds in relation to prevailing lending rates.

ITEM 1A Risk Factors.

Our business, financial condition, operating results and cash flows can be affected by a number of factors, including, but not limited to, those set forth below, any one of which could cause our actual results to vary materially from recent results or from our anticipated future results.

Recently enacted legislation, particularly the Dodd-Frank Act, could materially and adversely affect us by increasing compliance costs, heightening our risk of noncompliance with applicable regulations, and changing the competitive landscape in the banking industry.

From time to time, the U.S. Congress and state legislatures consider changing laws and enact new laws to further regulate the financial services industry. On July 21, 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, or the Dodd-Frank Act, was signed into law. The Dodd-Frank Act has resulted in sweeping changes in the regulation of financial institutions. As discussed in the section herein entitled Business-Supervision and Regulation, the Dodd-Frank Act contains numerous provisions that affect all banks and bank holding companies. Many of the provisions in the Dodd-Frank Act remain subject to regulatory rule-making and implementation, the effects of which are not yet known. Although we cannot predict the specific impact and long-term effects that the Dodd-Frank Act and the regulations promulgated thereunder will have on us and our prospects, our target markets and the financial industry more generally, we believe that the Dodd-Frank Act and the regulations promulgated thereunder are likely to impose additional administrative and regulatory burdens that will obligate us to incur additional expenses and will adversely affect our margins and profitability. For example, the elimination of the prohibition on the payment of interest on demand deposits could materially increase our interest expense, depending on our competitors responses. Provisions in the legislation that require revisions to the capital requirements of the Company and the Bank, and the adoption by federal regulators in July 2013 of new capital requirements described under Business-Supervision and Regulation-New Capital Rules, could require the Company and the Bank to seek additional sources of capital in the future. More stringent consumer protection regulations could materially and adversely affect our profitability. We will also have a heightened risk of noncompliance with all of the additional regulations. Finally, the impact of some of these new regulations is not known and may affect our ability to compete long-term with larger competitors.

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The Company and the Bank may be subject to more stringent capital and liquidity requirements.

The Dodd-Frank Act also imposes more stringent capital requirements on bank holding companies such as Lakeland Bancorp 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 will limit our future capital strategies. Under the Dodd-Frank Act, our currently outstanding trust preferred securities will continue to count as Tier I capital, but we will be unable to issue replacement or additional trust preferred securities which would count as Tier I capital.

As further described above under Business-Supervision and Regulation-New Capital Rules, we will be required to meet new capital requirements beginning on January 1, 2015. In addition, beginning in 2016, banks and bank holding companies will be required to maintain a capital conservation buffer on top of minimum risk-weighted asset ratios. When fully phased in on January 1, 2019, the capital conservation buffer will be 2.5%. Banking institutions which do not maintain capital in excess of the capital conservation buffer will face constraints on the payment of dividends, equity repurchases and compensation based on the amount of the shortfall. Accordingly, if the Bank fails to maintain the applicable minimum capital ratios and the capital conservation buffer, distributions to Lakeland Bancorp may be prohibited or limited.

Future increases in minimum capital requirements could adversely affect our net income. Furthermore, our failure to comply with the minimum capital requirements could result in our regulators taking formal or informal actions against us which could restrict our future growth or operations.

The Company s future growth may require the Company to raise additional capital in the future, but that capital may not be available when it is needed or may be available only at an excessive cost.

The Company is required by regulatory authorities to maintain adequate levels of capital to support its operations. The Company anticipates that current capital levels will satisfy regulatory requirements for the foreseeable future. The Company, however, may at some point choose to raise additional capital to support its continued growth. The Company s ability to raise additional capital will depend, in part, on conditions in the capital markets at that time, which are outside of the Company s control. Accordingly, the Company may be unable to raise additional capital, if and when needed, on terms acceptable to the Company, or at all. If the Company cannot raise additional capital when needed, its ability to further expand operations through internal growth and acquisitions could be materially impacted. In the event of a material decrease in the Company s stock price, future issuances of equity securities could result in dilution of existing shareholder interests.

Europe s debt crisis could have a material adverse effect on our liquidity, financial condition and results of operations.

The possibility that certain European Union (EU) member states will default on their debt obligations has negatively impacted economic conditions and global markets. The continued uncertainty over the outcome of international and the EU s financial support programs and the possibility that other EU member states may experience similar financial troubles could further disrupt global markets. The negative impact on economic conditions and global markets could also have a material adverse effect on our liquidity, financial condition and results of operations.

A decrease in our ability to borrow funds could adversely affect our liquidity.

Our ability to obtain funding from the Federal Home Loan Bank or through our overnight federal funds lines with other banks could be negatively affected if we experienced a substantial deterioration in our financial condition or if such funding became restricted due to a deterioration in the financial markets. While we have a contingency funds management plan to address such a situation if it were to occur (such plan includes deposit promotions, the sale of securities and the curtailment of loan growth, if necessary), a significant decrease in our ability to borrow funds could adversely affect our liquidity.

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We are subject to interest rate risk and variations in interest rates may negatively affect our financial performance.

We are unable to predict actual fluctuations of market interest rates. Rate fluctuations are influenced by many factors, including:

- inflation or deflation
- excess growth or recession;
- a rise or fall in unemployment;
- tightening or expansion of the money supply;
- domestic and international disorder;
- instability in domestic and foreign financial markets; and
- actions taken or statements made by the Federal Reserve Board.

Both increases and decreases in the interest rate environment may reduce our profits. We expect that we will continue to realize income from the difference or spread between the interest we earn on loans, securities and other interest-earning assets, and the interest we pay on deposits, borrowings and other interest-bearing liabilities. Our net interest spreads are affected by the differences between the maturities and repricing characteristics of our interest-earning assets and interest-bearing liabilities. Our interest-earning assets may not reprice as slowly or rapidly as our interest-bearing liabilities. Changes in market interest rates could materially and adversely affect our net interest spread, asset quality, levels of prepayments, cash flows, the market value of our securities portfolio, loan and deposit growth, costs and yields on loans and deposits and our overall profitability. Competition for our deposits has increased significantly as a result of the recent low interest rate environment.

Declines in value may adversely impact our investment portfolio.

As of December 31, 2014, the Company had approximately $457.4 million and $108.0 million in available for sale and held to maturity investment securities, respectively. We may be required to record impairment charges on our investment securities if they suffer a decline in value that is considered other-than-temporary. Numerous factors, including lack of liquidity for sales of certain investment securities, absence of reliable pricing information for investment securities, adverse changes in business climate, adverse actions by regulators, or unanticipated changes in the competitive environment could have a negative effect on our investment portfolio in future periods. If an impairment charge is significant enough it could affect the ability of Lakeland to upstream dividends to us, which could have a material adverse effect on our liquidity and our ability to pay dividends to shareholders and could also negatively impact our regulatory capital ratios.

The Company may incur impairment to goodwill.

We review our goodwill at least annually. Our valuation methodology for assessing impairment requires management to make judgments and assumptions based on historical experience and to rely on projections of future operating performance. We operate in a competitive environment and projections of future operating results and cash flows may vary significantly from actual results. Additionally, if our analysis results in an impairment to our goodwill, we would be required to record a non-cash charge to earnings in our financial statements during the period in which such impairment is determined to exist. Any such charge could have a material adverse effect on our results of operations and our stock price.

The extensive regulation and supervision to which we are subject impose substantial restrictions on our business.

The Company, Lakeland and certain non-bank subsidiaries are subject to extensive regulation and supervision. Banking regulations are primarily intended to protect depositors funds, federal deposit insurance

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funds and the banking system as a whole. Such laws are not designed to protect our shareholders. These regulations affect our lending practices, capital structure, investment practices, dividend policy and growth, among other things. Lakeland is also subject to a number of laws which, among other things, govern its lending practices and require the Bank to establish and maintain comprehensive programs relating to anti-money laundering and customer identification. The United States Congress and federal regulatory agencies continually review banking laws, regulations and policies for possible changes. Changes to statutes, regulations or regulatory policies, including changes in interpretation or implementation of statutes, regulations or policies, could affect us in substantial and unpredictable ways. Such changes could subject us to additional costs, limit the types of financial services and products we may offer and/or increase the ability of non-banks to offer competing financial services and products, among other things. Failure to comply with laws, regulations or policies could result in sanctions by regulatory agencies, civil money penalties and/or reputational damage, which could have a material adverse effect on our business, financial condition and results of operations.

Lakeland s ability to pay dividends is subject to regulatory limitations which, to the extent that our holding company requires such dividends in the future, may affect our holding company s ability to pay its obligations and pay dividends to shareholders.

As a bank holding company, the Company is a separate legal entity from Lakeland and its subsidiaries, and we do not have significant operations of our own. We currently depend on Lakeland s cash and liquidity to pay our operating expenses and dividends to shareholders. The availability of dividends from Lakeland is limited by various statutes and regulations. The inability of the Company to receive dividends from Lakeland could adversely affect our financial condition, results of operations, cash flows and prospects and the Company s ability to pay dividends.

In addition, as described under Business-Supervision and Regulation-New Capital Rules, beginning in 2016, banks and bank holding companies will be required to maintain a capital conservation buffer on top of minimum risk-weighted asset ratios. When fully phased in on January 1, 2019, the capital conservation buffer will be 2.5%. Banking institutions which do not maintain capital in excess of the capital conservation buffer will face constraints on the payment of dividends, equity repurchases and compensation based on the amount of the shortfall. Accordingly, if the Bank fails to maintain the applicable minimum capital ratios and the capital conservation buffer, distributions to Lakeland Bancorp may be prohibited or limited.

Our allowance for loan and lease losses may not be adequate to cover actual losses.

Like all commercial banks, Lakeland maintains an allowance for loan and lease losses to provide for loan and lease defaults and non-performance. If our allowance for loan and lease losses is not adequate to cover actual loan and lease losses, we may be required to significantly increase future provisions for loan and lease losses, which could materially and adversely affect our operating results. Our allowance for loan and lease losses is determined by analyzing historical loan and lease losses, current trends in delinquencies and charge-offs, plans for problem loan and lease resolution, the opinions of our regulators, changes in the size and composition of the loan and lease portfolio and industry information. We also consider the possible effects of economic events, which are difficult to predict. The amount of future losses is affected by changes in economic, operating and other conditions, including changes in interest rates, many of which are beyond our control. These losses may exceed our current estimates. Federal regulatory agencies, as an integral part of their examination process, review our loans and the allowance for loan and lease losses. While we believe that our allowance for loan and lease losses in relation to our current loan portfolio is adequate to cover current losses, we cannot assure you that we will not need to increase our allowance for loan and lease losses or that the regulators will not require us to increase this allowance. Future increases in our allowance for loan and lease losses could materially and adversely affect our earnings and profitability.

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Our mortgage banking operations expose us to risks that are different from community banking.

The Bank s mortgage banking operations expose us to risks that are different from our retail banking operations. Our mortgage banking operations are dependent upon the level of demand for residential mortgages. During higher and rising interest rate environments, the level of refinancing activity tends to decline, which can lead to reduced volumes of business and lower revenues that may not exceed our fixed costs to run the business. In addition, mortgages sold to third-party investors are typically subject to certain repurchase provisions related to borrower refinancing, defaults, fraud or other reasons stipulated in the applicable third-party investor agreements. If the fair value of a loan when repurchased is less than the fair value when sold, the bank may be required to charge such shortfall to earnings.

In addition, the ability to repay and Qualified Mortgage rules promulgated as required by the Dodd-Frank Act, effective January 10, 2014, may expose the Company and our Sullivan Financial Services, Inc. subsidiary to greater losses, reduced volume and litigation related expenses and delays in taking title to collateral real estate, if these loans do not perform and borrowers challenge whether the rules were satisfied when originating the loans.

We are subject to various lending and other economic risks that could adversely affect our results of operations and financial condition.

Economic, political and market conditions, trends in industry and finance, legislative and regulatory changes, changes in governmental monetary and fiscal policies and inflation affect our business. These factors are beyond our control. A deterioration in economic conditions, particularly in New Jersey, could have the following consequences, any of which could materially adversely affect our business:

- loan and lease delinquencies may increase;
- problem assets and foreclosures may increase;
- demand for our products and services may decrease; and
- collateral for loans made by us may decline in value, in turn reducing the borrowing ability of our customers.

Deterioration in the real estate market, particularly in New Jersey, could adversely affect our business. A decline in real estate values in New Jersey would reduce our ability to recover on defaulted loans by selling the underlying real estate, which would increase the possibility that we may suffer losses on defaulted loans.

We may suffer losses in our loan portfolio despite our underwriting practices.

We seek to mitigate the risks inherent in our loan portfolio by adhering to specific underwriting practices. Although we believe that our underwriting criteria are appropriate for the various kinds of loans that we make, we may incur losses on loans that meet our underwriting criteria, and these losses may exceed the amounts set aside as reserves in our allowance for loan and lease losses.

We face strong competition from other financial institutions, financial service companies and other organizations offering services similar to the services that we provide.

Many competitors offer the types of loans and banking services that we offer. These competitors include other state and national banks, savings associations, regional banks and other community banks. We also face competition from many other types of financial institutions, including finance companies, brokerage firms, insurance companies, credit unions, mortgage banks and other financial intermediaries. Many of our competitors have greater financial resources than we do, which may enable them to offer a broader range of services and products, and to advertise more extensively, than we do. Our inability to compete effectively would adversely affect our business.

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The inability to attract and retain key personnel could adversely affect our Company s business.

The success of the Company depends partially on the ability to attract and retain a high level of experienced personnel. The inability to attract and retain key employees, as well as find suitable replacements, if necessary, could adversely affect the Company s customer relationships and internal operations.

The inability to stay current with technological change could adversely affect our business model.

Financial institutions continually are required to maintain and upgrade technology in order to provide the most current products and services to our customers, as well as create operational efficiencies. This technology requires personnel resources, as well as significant costs to implement. Failure to successfully implement technological change could adversely affect the Company s business, results of operations and financial condition.

The Company s framework for managing risks may not be effective in mitigating risk and loss to the Company; for example, the Company s internal control may be ineffective.

One critical component of the Company s risk management framework is its system of internal controls. Management regularly reviews and updates the Company s 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 reasonable, but not absolute, assurances that the objectives of the controls are met. Any failure or circumvention of the Company s controls and procedures or failure to comply with regulations related to controls and procedures could have a material adverse effect on the Company s business, results of operations, and financial condition.

The occurrence of any failure, breach, or interruption in service involving our systems or those of our service providers could damage our reputation, cause losses, increase our expenses, and result in a loss of customers, an increase in regulatory scrutiny, or expose us to civil litigation and possibly financial liability, any of which could adversely impact our financial condition, results of operations and the market price of our stock.

Communications and information systems are essential to the conduct of our business, as we use such systems to manage our customer relationships, our general ledger, our deposits and our loans. Our operations rely on the secure processing, storage and transmission of confidential and other information in our computer systems and networks. Although we take protective measures and endeavor to modify them as circumstances warrant, the security of our computer systems, software and networks may be vulnerable to breaches, unauthorized access, misuse, computer viruses or other malicious code and cyber attacks that could have a security impact. In addition, breaches of security may occur through intentional or unintentional acts by those having authorized or unauthorized access to our confidential or other information or the confidential or other information of our customers, clients or counterparties. If one or more of such events were to occur, the confidential and other information processed and stored in, and transmitted through, our computer systems and networks could potentially be jeopardized, or could otherwise cause interruptions or malfunctions in our operations or the operations of our customers, clients or counterparties. This could cause us significant reputational damage or result in our experiencing significant losses.

Furthermore, we may be required to expend significant additional resources to modify our protective measures or to investigate and remediate vulnerabilities or other exposures arising from operational and security risks. We also may be subject to litigation and financial losses that are either not insured against or not fully covered through any insurance we maintain. In addition, we routinely transmit and receive personal, confidential and proprietary information by e-mail and other electronic means. We have discussed and worked with our customers, clients and counterparties to develop secure transmission capabilities, but we do not have, and may be unable to put in place, secure capabilities with all of these constituents, and we may not be able to ensure that these third parties have appropriate controls in place to protect the confidentiality of such information.

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While we have established policies and procedures to prevent or limit the impact of systems failures and interruptions, there can be no assurance that such events will not occur or that they will be adequately addressed if they do. In addition, we outsource certain aspects of our data processing to certain third-party providers. If our third-party providers encounter difficulties, or if we have difficulty in communication with them, our ability to adequately process and account for customer transactions could be affected, and our business operations could be adversely impacted. Threats to information security also exist in the processing of customer information through various other vendors and their personnel.

If we do not successfully integrate any banks that we may acquire in the future, the combined company may be adversely affected.

If we make additional acquisitions in the future, we will need to integrate the acquired entities into our existing business and systems. We may experience difficulties in accomplishing this integration or in effectively managing the combined company after any future acquisition. Any actual cost savings or revenue enhancements that we may anticipate from a future acquisition will depend on future expense levels and operating results, the timing of certain events and general industry, regulatory and business conditions. Many of these events will be beyond our control, and we cannot assure you that if we make any acquisitions in the future, we will be successful in integrating those businesses into our own.

ITEM 1B Unresolved Staff Comments.

Not Applicable.

ITEM 2 Properties.

The Company s principal office is located at 250 Oak Ridge Road, Oak Ridge, New Jersey 07438. The Company completed construction of a new training and operations center in Milton, New Jersey in mid-2012. The Bank purchased an assignment of an existing lease for this facility which expires on February 28, 2016, and contains five (5) five-year options to renew, at the Bank s discretion, at fixed base rent amounts. To the extent that the Bank exercises all of the options, the lease will expire on February 28, 2041.

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The Company currently operates 51 banking locations in Bergen, Essex, Morris, Passaic, Somerset, Sussex, Union and Warren counties in New Jersey. In an effort to improve efficiencies and provide significant cost savings, the Company anticipates consolidating three branch offices in the second quarter of 2015. The following chart provides information about the Company s leased banking locations:

Location	Lease Expiration Date
Bristol Glen	October 31, 2015
Caldwell	September 30, 2024
Carlstadt	July 15, 2021
Cedar Crest	August 19, 2016
Hackensack	March 31, 2018
Hampton	September 30, 2019
Little Falls	November 30, 2015
Madison	September 30, 2016
Madison Avenue	April 30, 2017
Mendham	December 31, 2015
Morristown	May 31, 2018
North Haledon	June 30, 2017
Park Ridge	Month-to-month*
Pompton Plains	April 30, 2015
Ringwood	February 28, 2018
Rochelle Park	January 12, 2019
Sparta	August 31, 2032
Summit	September 30, 2019
Sussex/Wantage	June 19, 2017
Vernon	September 30, 2027
Wantage	October 31, 2016
Wayne	May 31, 2028
Wharton	July 31, 2015
Woodland Commons	August 31, 2016
West Caldwell	March 31, 2029

* The most recent lease expired on December 31, 2014. As the Company anticipates moving this office during 2015, it is currently paying the 2014 lease amounts on a month-to-month basis.

The Company has also entered into a lease for one additional location for administrative purposes in Wyckoff, New Jersey. This lease expires on February 28, 2017.

All other offices of the Company and Lakeland are owned and are unencumbered.

ITEM 3 Legal Proceedings.

There are no pending legal proceedings involving the Company or Lakeland other than those arising in the normal course of business. Management does not anticipate that the potential liability, if any, arising out of such legal proceedings will have a material effect on the financial condition or results of operations of the Company and Lakeland on a consolidated basis.

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ITEM 3A Executive Officers of the Registrant.

The following table sets forth the name and age of each executive officer of the Company. Each officer is appointed by the Company s Board of Directors. Unless otherwise indicated, the persons named below have held the position indicated for more than the past five years.

Name and Age	Officer of the Company Since	Position with the Company, its Subsidiary Banks, and Business Experience
Thomas J. Shara Age 57	2008	President and CEO, Lakeland Bancorp, Inc. (April 2, 2008 Present); President (April 2, 2008 January 29, 2013) and CEO (April 2, 2008 Present), Lakeland Bank; President and Chief Credit Officer (May 2007 April 1, 2008) and Executive Vice President and Senior Commercial Banking Officer (February 2006 May 2007), TD Banknorth, N.A. s Mid-Atlantic Division; Executive Vice President and Senior Loan Officer, Hudson United Bancorp and Hudson United Bank (prior years to February 2006)
Joseph F. Hurley Age 64	1999	Executive Vice President and Chief Financial Officer of the Company (November 1999 Present)
Robert A. Vandenbergh Age 63	1999	Regional President Lakeland Bank (May 31, 2013 Present) and Senior Executive Vice President and Chief Operating Officer of the Company (October 2008 Present); Senior Executive Vice President and Chief Operating Officer of Lakeland Bank (October 2008 January 29, 2013); President of Lakeland Bank (January 29, 2013 May 31, 2013); Senior Executive Vice President and Chief Lending Officer of the Company (December 2006 October 2008); Executive Vice President and Chief Lending Officer of the Company (October 1999 December 2006)
Stewart E. McClure, Jr. Age 64	2013	Regional President Lakeland Bank and Senior Executive Vice President of the Company (May 31, 2013 Present); President, Chief Executive Officer and Chief Operating Officer, and a director, of Somerset Hills Bancorp and Somerset Hills Bank (prior years to May 31, 2013)
Jeffrey J. Buonforte Age 63	1999	Executive Vice President and Senior Government Banking/Business Services Officer of the Company (June 2009 Present); Executive Vice President and Chief Retail Officer of the Company (November 1999 June 2009)
David S. Yanagisawa Age 63	2008	Executive Vice President and Chief Lending Officer of the Company (November 2008 Present); Senior Vice President, TD Banknorth, N.A. (February 2006 November 2008); Hudson United Bank, Senior Vice President (1997 February 2006)
James R. Noonan Age 63	2003	Executive Vice President and Chief Credit Officer of the Company (December 2003 Present)
Ronald E. Schwarz Age 60	2009	Executive Vice President and Chief Retail Officer of the Company (June 2009 Present); Executive Vice President and Market Executive of Sovereign Bank (June 2006 June 2009); Senior Vice President and Director of Retail Banking of Independence Community Bank (June 1999 June 2006)

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Name and Age	Officer of the Company Since	Position with the Company, its Subsidiary Banks, and Business Experience
Timothy J. Matteson, Esq. Age 45	2008	Executive Vice President, General Counsel and Corporate Secretary of the Company (March 2012 to Present); Senior Vice President and General Counsel of the Company (September 2008 March 2012); Assistant General Counsel, Israel Discount Bank (November 2007- September 2008); Senior Attorney and Senior Vice President, TD Banknorth, N.A. (February 2006 May 2007); General Counsel and Senior Vice President, Hudson United Bancorp and Hudson United Bank (January 2005 February 2006)

ITEM 4 MINE SAFETY DISCLOSURES.

Not applicable.

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PART II

ITEM 5 MARKET FOR THE REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES.

Shares of the common stock of Lakeland Bancorp, Inc. have been traded under the symbol LBAI on the NASDAQ Global Select Market (or the NASDAQ National Market) since February 22, 2000 and in the over the counter market prior to that date. As of December 31, 2014, there were 3,033 shareholders of record of the common stock. The following table sets forth the range of the high and low daily closing prices of the common stock as provided by NASDAQ and dividends declared for the periods presented. All information is adjusted for the Company s 5% stock dividends distributed on June 17, 2014.

	High	Low	Dividends Declared
Year ended December 31, 2014			
First Quarter	$ 11.53	$ 9.87	$ 0.071
Second Quarter	11.21	9.61	0.071
Third Quarter	11.11	9.76	0.075
Fourth Quarter	12.26	9.78	0.075

	High	Low	Dividends Declared
Year ended December 31, 2013			
First Quarter	$ 9.87	$8.95	$ 0.067
Second Quarter	9.93	8.65	0.067
Third Quarter	11.10	10.04	0.067
Fourth Quarter	12.04	10.51	0.071

Dividends on the Company s common stock are within the discretion of the Board of Directors of the Company and are dependent upon various factors, including the future earnings and financial condition of the Company and Lakeland and bank regulatory policies.

The Bank Holding Company Act of 1956 restricts the amount of dividends the Company can pay. Accordingly, dividends should generally only be paid out of current earnings, as defined.

The New Jersey Banking Act of 1948 restricts the amount of dividends paid on the capital stock of New Jersey chartered banks. Accordingly, no dividends shall be paid by such banks on their capital stock unless, following the payment of such dividends, the capital stock of the bank will be unimpaired and the bank will have a surplus of not less than 50% of its capital stock, or, if not, the payment of such dividend will not reduce the surplus of the bank. Under this limitation, approximately $270.2 million was available for the payment of dividends from Lakeland to the Company as of December 31, 2014.

Capital guidelines and other regulatory requirements may further limit the Company s and Lakeland s ability to pay dividends. See Item 1 Business Supervision and Regulation Dividend Restrictions and New Capital Rules.

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The following chart compares the Company s cumulative total shareholder return (on a dividend reinvested basis) over the past five years with the NASDAQ Market Index and the Peer Group Index. The Peer Group Index is the Zacks Regional Northeast Banks Index, which consists of 74 Regional Northeast Banks.

Company/Market/Peer Group	12/31/2009	12/31/2010	12/31/2011	12/31/2012	12/31/2013	12/31/2014
Lakeland Bancorp, Inc.	100.00	175.57	148.06	188.41	235.37	240.78
NASDAQ Market Index	100.00	118.02	117.04	137.47	192.62	221.02
Zacks Regional Northeast Banks	100.00	125.49	118.27	138.36	175.51	189.06

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Item 6 Selected Financial Data

SELECTED CONSOLIDATED FINANCIAL DATA

The following should be read in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations and the Company s consolidated financial statements included in items 7 and 8 of this report. The selective financial data set forth below has been derived from the Company s audited consolidated financial statements.

	2014	2013	2012	2011	2010
		(in thousands except per share data)			
Years Ended December 31					
Interest income	**$ 122,503**	$ 114,199	$ 110,959	$ 117,524	$ 125,649
Interest expense	**8,937**	9,657	15,446	20,111	25,895
Net interest income	**113,566**	104,542	95,513	97,413	99,754
Provision for loan and lease losses	**5,865**	9,343	14,907	18,816	19,281
Noninterest income excluding gains on investment securities, and gain on debt extinguishment	**17,720**	18,925	17,856	16,888	17,654
Gains on sales of investment securities	**2**	839	1,049	1,229	1,614
Gain on early debt extinguishment		1,197			
Merger related expenses		2,834			
Long-term debt prepayment fee		1,209	782	800	1,835
Noninterest expenses	**79,135**	74,698	66,891	67,351	68,570
Income before income taxes	**46,288**	37,419	31,838	28,563	29,336
Income tax provision	**15,159**	12,450	10,096	8,712	10,125
Net income	**31,129**	24,969	21,742	19,851	19,211
Dividends on preferred stock and accretion			620	2,167	3,987
Net income available to common shareholders	**$ 31,129**	$ 24,969	$ 21,122	$ 17,684	$ 15,224
Per-Share Data(1)					
Weighted average shares outstanding:					
Basic	**37,749**	34,742	29,000	27,901	27,669
Diluted	**37,869**	34,902	29,077	28,015	27,704
Earnings per share:					
Basic	**$ 0.82**	$ 0.71	$ 0.72	$ 0.63	$ 0.55
Diluted	**$ 0.82**	$ 0.71	$ 0.72	$ 0.63	$ 0.55
Cash dividend per common share	**$ 0.29**	$ 0.27	$ 0.24	$ 0.22	$ 0.18
Book value per common share	**$ 10.01**	$ 9.28	$ 9.00	$ 8.56	$ 8.00
Tangible book value per common share(2)	**$ 7.06**	$ 6.31	$ 6.21	$ 5.47	$ 4.86
At December 31					
Investment securities available for sale and other(5)	**$ 467,295**	$ 439,044	$ 399,092	$ 471,944	$ 487,107
Investment securities held to maturity	**107,976**	101,744	96,925	71,700	66,573
Loans and leases, net of deferred costs	**2,653,826**	2,469,016	2,146,843	2,041,575	2,014,617
Goodwill and other identifiable intangible assets	**111,934**	112,398	87,111	87,111	87,689
Total assets	**3,538,325**	3,317,791	2,918,703	2,825,950	2,792,674
Total deposits	**2,790,819**	2,709,205	2,370,997	2,249,653	2,195,889
Total core deposits(3)	**2,510,857**	2,413,119	2,067,205	1,890,101	1,783,040
Term borrowings	**243,736**	160,238	136,548	232,322	272,322
Total stockholders equity	**379,438**	351,424	280,867	259,783	260,709
Performance ratios					
Return on Average Assets	**0.92%**	0.80%	0.77%	0.71%	0.69%
Return on Average Tangible Common Equity(2)	**12.21%**	11.42%	12.85%	13.65%	14.49%
Return on Average Equity	**8.48%**	7.78%	8.42%	7.79%	7.13%
Efficiency ratio(4)	**59.35%**	59.74%	58.33%	56.87%	56.40%
Net Interest Margin (tax equivalent basis)	**3.64%**	3.69%	3.70%	3.85%	3.95%

Loans to Deposits	**95.09%**	91.13%	90.55%	90.75%	91.74%
Capital ratios					
Common Equity to Asset ratio	**10.72%**	10.59%	9.62%	8.54%	7.99%
Tangible common equity to tangible assets(2)	**7.81%**	7.46%	6.84%	5.63%	5.01%
Tier 1 leverage ratio	**9.08%**	8.90%	8.62%	8.33%	9.21%
Tier 1 risk-based capital ratio	**11.76%**	11.73%	11.52%	11.23%	12.43%
Total risk-based capital ratio	**12.98%**	12.98%	12.77%	13.39%	13.68%

(1) Restated for 5% stock dividends in 2014, 2012 and 2011.

(2) A non-GAAP financial measure. See Non-GAAP Financial Measures for a reconciliation of such measures to data calculated in accordance with generally accepted accounting principles.

(3) Core deposits represent all deposits with the exception of time deposits.

(4) Ratio represents non-interest expense, excluding other real estate expense, other repossessed asset expense, long-term debt prepayment fee, merger related expenses, provision for unfunded lending commitments and core deposit amortization, as a percentage of total revenue (calculated on a tax equivalent basis), excluding gains (losses) on securities and gain on debt extinguishment. Total revenue represents net interest income (calculated on a tax equivalent basis) plus non-interest income.

(5) Includes investment in Federal Home Loan Bank and other membership stock, at cost.

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ITEM 7 MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

AND RESULTS OF OPERATIONS

This section presents a review of Lakeland Bancorp, Inc. s consolidated results of operations and financial condition. You should read this section in conjunction with the selected consolidated financial data that is presented on the preceding page as well as the accompanying consolidated financial statements and notes to financial statements. As used in the following discussion, the term Company refers to Lakeland Bancorp, Inc. and Lakeland refers to the Company s wholly owned banking subsidiary Lakeland Bank.

Statements Regarding Forward-Looking Information

The information disclosed in this document includes various forward-looking statements that are made in reliance upon the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 with respect to credit quality (including delinquency trends and the allowance for loan and lease losses), corporate objectives, and other financial and business matters. The words anticipates, projects, intends, estimates, expects, believes, plans, may, will, should, could, and other similar expressions are intended to identify such forward-looking statemen Company cautions that these forward-looking statements are necessarily speculative and speak only as of the date made, and are subject to numerous assumptions, risks and uncertainties, all of which may change over time. Actual results could differ materially from such forward-looking statements.

In addition to the risk factors disclosed in Item 1A in this Annual Report on Form 10-K, the following factors, among others, could cause the Company s actual results to differ materially and adversely from such forward-looking statements: changes in the financial services industry and the U.S. and global capital markets, changes in economic conditions nationally, regionally and in the Company s markets, the nature and timing of actions of the Federal Reserve Board and other regulators, the nature and timing of legislation affecting the financial services industry including but not limited to the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, government intervention in the U.S. financial system, changes in levels of market interest rates, pricing pressures on loan and deposit products, credit risks of Lakeland s lending and leasing activities, customers acceptance of Lakeland s products and services and competition.

The above-listed risk factors are not necessarily exhaustive, particularly as to possible future events, and new risk factors may emerge from time to time. Certain events may occur that could cause the Company s actual results to be materially different than those described in the Company s periodic filings with the Securities and Exchange Commission. Any statements made by the Company that are not historical facts should be considered to be forward-looking statements. The Company is not obligated to update and does not undertake to update any of its forward-looking statements made herein.

Strategy

The Company, through its wholly owned subsidiary, Lakeland Bank, currently operates 51 banking offices located in Northern and Central New Jersey. Lakeland offers a broad range of lending, depository, and related financial services to individuals and small to medium sized businesses located in its market areas. Lakeland also offers a broad range of consumer banking services, including lending, depository, safe deposit services and other non-traditional banking services.

Lakeland s growth has come from a combination of organic growth and acquisitions. Since 1998 when Lakeland completed its first acquisition, Lakeland has opened 27 new branch offices (including acquired branches). The Company has acquired five community banks with an aggregate asset total of approximately $1.1 billion at the date of acquisition including the acquisition of the Somerset Hills Bank and its parent, Somerset Hills Bancorp, which closed on May 31, 2013. All acquired banks have been merged into Lakeland and their holding companies, if applicable, have been merged into the Company. The Company s strategy is to continue growth both organically and through acquisition should opportunities allow. The Company continues to evaluate opportunities to increase market share by expanding within existing and contiguous markets.

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The Company s strategic aim is to provide an adequate return to its shareholders by focusing on profitable growth through services that meet the needs of its customers in its market areas. This will be accomplished by continuing to offer commercial and consumer loan, deposit and other financial product services in a changing economic and technological environment. The Company recognizes that there are more service delivery channels than the traditional branch office and has offered internet banking, mobile banking and cash management services to meet the needs of its business and consumer customers.

The Company s results of operations are primarily dependent upon net interest income, the difference between interest earned on interest-earning assets and the interest paid on interest-bearing liabilities. For information on how interest rate change can influence the Company s net interest income and how the Company manages it net interest income, see Interest Rate Risk below.

The Company generates non-interest income such as income from retail and business account fees, loan servicing fees, loan origination fees, appreciation in the cash surrender value of bank owned life insurance, income from loan or securities sales, fees from wealth management services and investment product sales, income from the origination and sale of residential mortgages and other fees. The Company s operating expenses consist primarily of compensation and benefits expense, occupancy and equipment expense, data processing expense, the amortization of intangible assets, marketing and advertising expense and other general and administrative expenses. The Company s results of operations are also affected by general economic conditions, changes in market interest rates, changes in asset quality, changes in asset values, actions of regulatory agencies and government policies.

The Company continues to control its expenses by evaluating its infrastructure, which includes the consolidating and closing of branches in markets where it may have more branches than necessary. The Company closed one such branch in 2014 and anticipates closing three branches in the second quarter of 2015.

Critical Accounting Policies, Judgments and Estimates

The accounting and reporting policies of the Company and Lakeland conform with accounting principles generally accepted in the United States of America (U.S. GAAP) and predominant practices within the banking industry. The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. These estimates and assumptions also affect reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates. Significant estimates implicit in these financial statements are as follows. For additional accounting policies and detail, refer to Note 1 to the consolidated financial statements included in item 8 of this report.

Allowance for loan and lease losses. The allowance for loan and lease losses is established through a provision for loan and lease losses charged to expense. Loan principal considered to be uncollectible by management is charged against the allowance for loan and lease losses. The allowance is an amount that management believes will be adequate to absorb losses on existing loans and leases that may become uncollectible based upon an evaluation of known and inherent risks in the loan and lease portfolio. The evaluation takes into consideration such factors as changes in the nature and size of the loan and lease portfolio, overall portfolio quality, specific problem loans and leases, and current economic conditions which may affect the borrowers ability to pay. The evaluation also analyzes historical losses by loan and lease category, and considers the resulting loss rates when determining the reserves on current loan and lease total amounts. Additionally, management assesses the loss emergence period for the expected losses of each loan segment and adjusts each historical loss factor accordingly. The loss emergence period is the estimated time from the date of a loss event (such as a personal bankruptcy) to the actual recognition of the loss (typically via the first full or partial loan charge-off), and is determined based upon a study of our past loss experience by loan segment. Loss estimates for specified problem loans and leases are also detailed. All of the factors considered in the analysis of the adequacy of the allowance for loan and lease losses may be subject to change. To the extent actual outcomes differ from management estimates, additional provisions for loan and lease losses may be required that would adversely impact earnings in future periods.

The determination of the adequacy of the allowance for loan and lease losses and the periodic provisioning for estimated losses included in the consolidated financial statements is the responsibility of management and the Board of Directors. The evaluation process is undertaken on a quarterly basis.

Methodology employed for assessing the adequacy of the allowance consists of the following criteria:

- The establishment of specific reserve amounts for all specifically identified classified loans and leases that have been designated as requiring attention by Lakeland.

- The establishment of reserves for pools of homogeneous types of loans and leases not subject to specific review, including impaired loans under $500,000, leases, 1 4 family residential mortgages, and consumer loans.

- The establishment of reserve amounts for the non-classified loans and leases in each portfolio based upon the historical average loss experience as modified by management s assessment of the loss emergence period for these portfolios and management s evaluation of key environmental factors.

- Lakeland also maintains an unallocated component in its allowance for loan and lease losses. Management believes that the unallocated component is warranted for inherent factors that cannot be practically assigned to individual loss categories, such as the periodic updating of appraisals on impaired loans, as well as periodic updating of commercial loan credit risk ratings by loan officers and Lakeland s internal credit review process.

Consideration is given to the results of ongoing credit quality monitoring processes, the adequacy and expertise of Lakeland s lending staff, underwriting policies, loss histories, delinquency trends, and the cyclical nature of economic and business conditions. Since many of Lakeland s loans depend on the sufficiency of collateral as a secondary source of repayment, any adverse trend in the real estate markets could affect underlying values available to protect Lakeland from loss.

A loan that management designates as impaired is reviewed for charge-off when it is placed on non-accrual status with a resulting charge-off if the loan is not secured by collateral having sufficient liquidation value to repay the loan and all outstanding interest owed, and the loan is not in the process of collection. Charge-offs are recommended by the Chief Credit Officer and approved by the Board on a monthly basis.

Loans and leases are considered impaired when, based on current information and events, it is probable that Lakeland will be unable to collect all amounts due in accordance with the original contractual terms of the loan agreement, including scheduled principal and interest payments. Impairment is measured based on the present value of expected cash flows discounted at the loan s effective interest rate, or as a practical expedient, Lakeland may measure impairment based on a loan s observable market price, or the fair value of the collateral, less estimated costs to sell, if the loan is collateral-dependent. Regardless of the measurement method, Lakeland measures impairment based on the fair value of the collateral when it is determined that foreclosure is probable. Most of Lakeland s impaired loans are collateral-dependent. Lakeland groups impaired commercial loans under $500,000 into a homogeneous pool and collectively evaluates them. Interest received on impaired loans and leases may be recorded as interest income. However, if management is not reasonably certain that an impaired loan and lease will be repaid in full, or if a specific time frame to resolve full collection cannot yet be reasonably determined, all payments received are recorded as reductions of principal.

Fair value measurements and fair value of financial instruments. Fair values of financial instruments are volatile and may be influenced by a number of factors, including market interest rates, prepayment speeds, discount rates, credit ratings and yield curves. Fair values for investment securities are based on quoted market

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prices, where available. If quoted market prices are not available, fair values are based on the quoted prices of similar instruments or an estimate of fair value by using a range of fair value estimates in the market place as a result of the illiquid market specific to the type of security.

When the fair value of a security is below its amortized cost, and depending on the length of time the condition exists and the extent the fair value is below amortized cost, additional analysis is performed to determine whether an other-than-temporary impairment condition exists. Available-for-sale and held-to-maturity securities are analyzed quarterly for possible other-than-temporary impairment. The analysis considers (i) the length of time and the extent to which the fair value has been less than cost, (ii) the financial condition and near-term prospects of the issuer which may include projections of cash flows, and (iii) the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. Often, the information available to conduct these assessments is limited and rapidly changing, making estimates of fair value subject to judgment. If actual information or conditions are different than estimated, the extent of the impairment of the security may be different than previously estimated, which could have a material effect on the Company s results of operations and financial condition.

Income taxes. The Company accounts for income taxes under the asset and liability method of accounting for income taxes. Deferred tax assets and liabilities are determined based on the difference between the financial statement and tax bases of assets and liabilities as measured by the enacted tax rates that will be in effect when these differences reverse. Deferred tax expense is the result of changes in deferred tax assets and liabilities. The principal types of differences between assets and liabilities for financial statement and tax return purposes are allowance for loan and lease losses, core deposit intangible, deferred loan costs and deferred compensation.

The Company evaluates the realizability of its deferred tax assets by examining its earnings history and projected future earnings and by assessing whether it is more likely than not that carryforwards would not be realized. Based upon the majority of the Company s deferred tax assets having no expiration date, the Company s earnings history, and the projections of future earnings, the Company s management believes that it is more likely than not that all of the Company s deferred tax assets as of December 31, 2014 will be realized.

The Company evaluates tax positions that may be uncertain using a recognition threshold of more-likely-than-not, and a measurement attribute for all tax positions taken or expected to be taken on a tax return, in order for those tax positions to be recognized in the financial statements. Additional information regarding the Company s uncertain tax positions is set forth in Note 9 to the Notes to the audited Consolidated Financial Statements contained herein.

Goodwill and other identifiable intangible assets. The Company reviews goodwill for impairment annually as of November 30 or when circumstances indicate a potential for impairment at the reporting unit level. U.S. GAAP requires at least an annual review of the fair value of a reporting unit that has goodwill in order to determine if it is more likely than not (that is, a likelihood of more than 50%) that the fair value of a reporting unit is less than its carrying amount, including goodwill. If this qualitative test determines it is unlikely (less than 50% probability) the carrying value of the reporting unit is less than its fair value, then the company does not have to perform a Step One impairment test. If the probability is greater than 50%, a Step One goodwill impairment test is required. The Step One test compares the fair value of each reporting unit to the carrying value of its net assets, including goodwill. The Company has determined that it has one reporting unit, Community Banking.

The Company performed a qualitative analysis to determine whether the weight of evidence, the significance of all identified events and circumstances indicated a greater than 50% likelihood existed that the carrying value of the reporting unit exceeded its fair value and if a Step One test would be required. The Company identified nine qualitative assessments that are relative to the banking industry and to the Company. These factors included macroeconomic factors, banking industry conditions, banking merger and acquisition trends, Lakeland s historical performance, the Company s stock price, the expected performance of Lakeland, the

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change of control premium of the Company versus its peers and other miscellaneous factors. After reviewing and weighting these factors, the Company, as well as a third party adviser, determined as of November 30, 2014 that there was a less than 50% probability that the fair value of the Company was less than its carrying amount. Therefore, no Step One test was required.

Use of Non-GAAP Disclosures

Reported amounts are presented in accordance with U.S. GAAP. The Company s management believes that the supplemental non-GAAP information, which consists of measurements and ratios based on tangible equity, tangible assets and the efficiency ratio, which excludes certain items considered to be non-recurring from earnings, is utilized by regulators and market analysts to evaluate a company s financial condition and therefore, such information is useful to investors. These disclosures should not be viewed as a substitute for financial results determined in accordance with U.S. GAAP, nor are they necessarily comparable to non-GAAP performance measures which may be presented by other companies.

Financial Overview

The year ended December 31, 2014 represented a year of continued growth for the Company. As discussed in this management s discussion and analysis:

Net income for the year ended December 31, 2014 was $31.1 million, or $0.82 per diluted share, compared to $25.0 million, or $0.71 per diluted share, for 2013. Excluding pre-tax merger related expenses of $2.8 million in 2013, net income was $27.1 million or $0.77 per diluted share.

Total loans increased $185.3 million, or 8%, from 2013 to 2014. Commercial real estate loans increased $139.9 million, or 10%, from December 31, 2013 to December 31, 2014.

Total deposits were $2.79 billion at December 31, 2014, an increase of $81.6 million, or 3%, from December 31, 2013. Noninterest-bearing demand deposits, which totaled $646.1 million at year-end 2014, increased by $45.4 million, or 8%, from December 31, 2013. Noninterest-bearing demand deposits represented 23% of total deposits at year-end 2014.

The Company s net interest margin at 3.64% for 2014 was five basis points lower than 2013.

The provision for loan and lease losses totaled $5.9 million in 2014, which was 37% lower than the $9.3 million reported for 2013. Net charge-offs at $5.0 million (0.19% of average loans) for 2014 were 41% lower than the $8.5 million (0.36% of average loans) for 2013.

The Somerset Hills acquisition, which was consummated on May 31, 2013, added six full service branches, $356.1 million in total assets, $10.4 million in investment securities, $246.5 million in loans (including $2.5 million in residential mortgages held for sale), and $311.8 million in deposits ($80.8 million in non-interest bearing demand deposits and $231.0 million in interest-bearing deposits) at fair value. The Company s financial statements reflect the impact of the merger from the date of acquisition, which should be considered when comparing earnings for the periods presented. For more information on the Somerset Hills acquisition, please see Note 2 Acquisitions in this Annual Report on Form 10-K.

Net Income

Net income for 2014 was $31.1 million or $0.82 per diluted share compared to net income of $25.0 million or $0.71 per diluted share in 2013. Net interest income at $113.6 million for 2014 increased $9.0 million compared to 2013 due to an $8.3 million increase in interest income and a $720,000 reduction in interest expense. The increase in net interest income reflects an increase in interest earning assets resulting from the Somerset Hills acquisition as well as organic growth.

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Net interest income

Net interest income is the difference between interest income on earning assets and the cost of funds supporting those assets. The Company s net interest income is determined by: *(i)* the volume of interest-earning assets that it holds and the yields that it earns on those assets, and *(ii)* the volume of interest-bearing liabilities that it has assumed and the rates that it pays on those liabilities.

Net interest income for 2014 on a tax-equivalent basis was $114.5 million, representing an increase of $9.0 million, or 9%, from the $105.5 million earned in 2013. The increase in net interest income primarily resulted from growth in average interest-earning assets of $291.2 million. The net interest margin decreased from 3.69% in 2013 to 3.64% in 2014 primarily as a result of an 11 basis point decline in the yield on interest earning assets partially offset by a six basis point decrease in the cost of interest bearing liabilities. The decrease in the net interest margin was somewhat mitigated by an increase in interest income earned on free funds (interest earning assets funded by non-interest bearing liabilities) resulting from an increase in average non-interest bearing deposits of $76.3 million. The components of net interest income will be discussed in greater detail below.

Interest income and expense volume/rate analysis. The following table shows the impact that changes in average balances of the Company s assets and liabilities and changes in average interest rates have had on the Company s net interest income over the past three years. This information is presented on a tax equivalent basis assuming a 35% tax rate. If a change in interest income or expense is attributable to a change in volume and a change in rate, the amount of the change is allocated proportionately.

INTEREST INCOME AND EXPENSE VOLUME/RATE ANALYSIS

(tax equivalent basis, in thousands)

	2014 vs. 2013 Increase (Decrease) Due to Change in:			2013 vs. 2012 Increase (Decrease) Due to Change in:		
	Volume	**Rate**	**Total Change**	**Volume**	**Rate**	**Total Change**
Interest Income						
Loans and leases	**$ 10,473**	**$ (4,215)**	**$ 6,258**	$ 9,677	$ (5,861)	$ 3,816
Taxable investment securities and other	**938**	**1,117**	**2,055**	(241)	(348)	(589)
Tax-exempt investment securities	**(4)**	**24**	**20**	170	(215)	(45)
Federal funds sold	**(14)**	**(8)**	**(22)**	23	19	42
Total interest income	**11,393**	**(3,082)**	**8,311**	9,629	(6,405)	3,224
Interest Expense						
Savings deposits	**9**	**(30)**	**(21)**	26	(169)	(143)
Interest-bearing transaction accounts	**369**	**(750)**	**(381)**	887	(1,953)	(1,066)
Time deposits	**(164)**	**(459)**	**(623)**	(182)	(864)	(1,046)
Borrowings	**694**	**(389)**	**305**	(1,755)	(1,779)	(3,534)
Total interest expense	**908**	**(1,628)**	**(720)**	(1,024)	(4,765)	(5,789)
NET INTEREST INCOME (TAX EQUIVALENT BASIS)	**$ 10,485**	**$ (1,454)**	**$ 9,031**	$ 10,653	$ (1,640)	$ 9,013

The following table reflects the components of the Company s net interest income, setting forth for the years presented, (1) average assets, liabilities and stockholders equity, (2) interest income earned on interest-earning assets and interest expense paid on interest-bearing liabilities, (3) average yields earned on interest-earning assets and average rates paid on interest-bearing liabilities, (4) the Company s net interest spread (i.e., the average yield on interest-earning assets less the average cost of interest-bearing liabilities) and (5) the Company s net interest margin. Rates are computed on a tax equivalent basis assuming a 35% tax rate.

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CONSOLIDATED STATISTICS ON A TAX EQUIVALENT BASIS

	2014			2013			2012		
	Average Balance	Interest Income/ Expense	Average rates earned/ paid	Average Balance	Interest Income/ Expense	Average rates earned/ paid	Average Balance	Interest Income/ Expense	Average rates earned/ paid
	(dollars in thousands)								
Assets									
Interest-earning assets:									
Loans and leases (A)	**$ 2,568,056**	**$ 110,587**	**4.31%**	$ 2,317,158	$ 104,329	4.50%	$ 2,073,562	$ 100,513	4.85%
Taxable investment securities and other	**470,144**	**10,040**	**2.14%**	423,249	7,985	1.89%	435,733	8,574	1.97%
Tax-exempt securities	**73,662**	**2,777**	**3.77%**	73,768	2,757	3.74%	70,309	2,802	3.98%
Federal funds sold (B)	**35,404**	**71**	**0.20%**	41,870	93	0.22%	30,373	51	0.17%
Total interest-earning assets	**3,147,266**	**123,475**	**3.92%**	2,856,045	115,164	4.03%	2,609,977	111,940	4.29%
Noninterest earning assets:									
Allowance for loan and lease losses	**(30,146)**			(30,053)			(29,091)		
Other assets	**283,341**			276,868			252,055		
TOTAL ASSETS	**$ 3,400,461**			$ 3,102,860			$ 2,832,941		
Liabilities and Stockholders Equity									
Interest-bearing liabilities:									
Savings accounts	**$ 384,715**	**$ 202**	**0.05%**	$ 370,980	$ 223	0.06%	$ 347,766	$ 366	0.11%
Interest-bearing transaction accounts	**1,454,967**	**3,366**	**0.23%**	1,341,691	3,747	0.28%	1,171,318	4,813	0.41%
Time deposits	**283,905**	**1,496**	**0.53%**	309,384	2,119	0.68%	329,355	3,165	0.96%
Borrowings	**241,820**	**3,873**	**1.60%**	169,048	3,568	2.11%	237,814	7,102	2.99%
Total interest-bearing liabilities	**2,365,407**	**8,937**	**0.38%**	2,191,103	9,657	0.44%	2,086,253	15,446	0.74%
Noninterest-bearing liabilities:									
Demand deposits	**652,685**			576,421			474,579		
Other liabilities	**15,159**			14,513			13,826		
Stockholders equity	**367,210**			320,823			258,283		
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	**$ 3,400,461**			$ 3,102,860			$ 2,832,941		
Net interest income/spread		**114,538**	**3.54%**		105,507	3.59%		96,494	3.55%
Tax equivalent basis adjustment		**972**			965			981	
NET INTEREST INCOME		**$ 113,566**			$ 104,542			$ 95,513	
Net interest margin (C)			**3.64%**			3.69%			3.70%

(A) Includes non-accrual loans, the effect of which is to reduce the yield earned on loans, and deferred loan fees.
(B) Includes interest-bearing cash accounts.
(C) Net interest income on a tax equivalent basis divided by interest-earning assets.

Interest income on a tax equivalent basis increased from $115.2 million in 2013 to $123.5 million in 2014, an increase of $8.3 million, or 7%. The increase in interest income was primarily due to a $250.9 million increase in average loans and leases partially offset by a decrease in the yield on interest earning assets. The increase in average loans and leases is due primarily to the acquisition of Somerset Hills loans and leases which totaled $243.9 million at the time of acquisition as well as organic growth. The decline in yield on earning assets is primarily a result of loans being refinanced at lower rates and lower yields on new loans. The yield on average loans and leases at 4.31% in 2014 was 19 basis points lower than 2013. The yield on average taxable and tax exempt investment securities increased by 25 basis points and three basis points, respectively, compared to 2013.

Interest income on a tax equivalent basis increased from $111.9 million in 2012 to $115.2 million in 2013, an increase of $3.2 million, or 3%. The increase in interest income was primarily due to a $243.6 million increase in average loans and leases partially offset by a decrease in the yield on interest earning assets. The increase in average loans and leases is due primarily to the acquisition of Somerset Hills loans and leases which totaled $243.9 million at the time of acquisition. The decline in yield on earning assets is primarily a result of loans being refinanced at lower rates and lower yields on new loans and investments. The yield on average loans and leases at 4.50% in 2013 was 35 basis points lower than 2012. The yield on average taxable and tax exempt investment securities decreased by 8 basis points and 24 basis points, respectively, compared to 2012.

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Total interest expense decreased from $9.7 million in 2013 to $8.9 million in 2014, a decrease of $720,000, or 7%. The cost of average interest-bearing liabilities decreased from 0.44% in 2013 to 0.38% in 2014 as a result of declining rates and a change in mix of interest earning liabilities. The decrease in the cost of funds was due primarily to the continuing low rate environment which resulted in a five basis point reduction in the cost of interest-bearing transaction accounts, a 15 basis point reduction in the cost of time deposits and a 51 basis point reduction in the cost of borrowings. The cost of borrowings declined primarily as a result of new borrowings at lower rates as well as restructurings of other long-term borrowings in 2013. From 2013 to 2014, average savings accounts and interest-bearing transaction accounts increased by $13.7 million and $113.3 million, respectively. Average rates paid on interest-bearing liabilities declined in all categories.

Total interest expense decreased from $15.4 million in 2012 to $9.7 million in 2013, a decrease of $5.8 million, or 37%. The cost of average interest-bearing liabilities decreased from 0.74% in 2012 to 0.44% in 2013 as a result of declining rates and a change in mix of interest earning liabilities. The decrease in yield was due primarily to an 88 basis point reduction in the cost of borrowings, a $68.8 million reduction in higher yielding average borrowings, a $20.0 million reduction in higher yielding time deposits and the continuing low rate environment. In the fourth quarter of 2012, the Company redeemed a $25.8 million subordinated debenture that was paying 7.535%. In the second quarter of 2013, the Company acquired and extinguished $9 million in subordinated debentures that were paying LIBOR plus 310 basis points. From 2012 to 2013, average savings accounts and interest-bearing transaction accounts increased by $23.2 million and $170.4 million, respectively. Average rates paid on interest-bearing liabilities declined in all categories.

Net Interest Margin

Net interest margin is calculated by dividing net interest income on a fully taxable equivalent basis by average interest-earning assets. The Company s net interest margin was 3.64%, 3.69% and 3.70% for 2014, 2013 and 2012, respectively. The decrease in net interest margin from 2013 to 2014 was primarily a result of the decrease in yield on interest-earning assets.

Provision for Loan and Lease Losses

In determining the provision for loan and lease losses, management considers national and local economic conditions; trends in the portfolio including orientation to specific loan types or industries; experience, ability and depth of lending management in relation to the complexity of the portfolio; adequacy and adherence to policies, procedures and practices; levels and trends in delinquencies, impaired loans and leases and net charge-offs and the results of independent third party loan review.

The provision for loan and lease losses decreased from $9.3 million in 2013 to $5.9 million in 2014. The lower provision during 2014 was primarily a result of reduced net charge-offs at $5.0 million (0.19% of average loans), which were 41% lower than the $8.5 million (0.36% of average loans) for 2013.

The provision for loan and lease losses decreased from $14.9 million in 2012 to $9.3 million in 2013. Net charge-offs decreased from $14.4 million or 0.69% of average loans and leases in 2012 to $8.5 million or 0.36% of average loans and leases in 2013. The lower provision resulted from a decline in non-performing assets and from lower charge-offs during 2013.

Noninterest Income

Noninterest income decreased $3.2 million, or 15%, to $17.7 million in 2014 compared to 2013. In 2013 the Company recorded a $1.2 million pre-tax gain on the purchase and early extinguishment of $9.0 million of Lakeland Bancorp Capital Trust I debentures. Additionally, gain on sales of investment securities was $839,000 in 2013 compared to $2,000 in 2014. Other income at $1.1 million in 2014 was $983,000 lower than 2013. Within other income in 2014, the Company recorded no swap income, $573,000 in gains on sales of residential

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mortgages and $129,000 in gains on sales of other real estate owned compared to $181,000, $760,000, and $749,000, respectively, in 2013. Noninterest income represented 13% of total revenue in 2014. (Total revenue is defined as net interest income plus noninterest income).

Noninterest income increased $2.1 million, or 11%, to $21.0 million in 2013 compared to 2012. In 2013 the Company recorded a $1.2 million pre-tax gain on the debentures discussed above. Gain on sales of investment securities was $839,000 in 2013 compared to $1.0 million in 2012. Income on bank owned life insurance at $1.4 million in 2013 increased $66,000 or 5% compared to 2012 due primarily to the addition of policies acquired in the Somerset Hills merger. Other income at $2.1 million in 2013 was $576,000 higher than 2012 primarily due to increases in gain on sale of loans and gain on sale of other real estate, partially offset by a reduction in gain on sale of leases. Noninterest income represented 17% of total revenue in 2013.

Noninterest Expense

Noninterest expense totaling $79.1 million increased $394,000 from 2013 to 2014. There were no long term debt prepayment fees or merger related expenses in 2014 compared to $1.2 million and $2.8 million, respectively, in 2013. Excluding these nonrecurring expenses, noninterest expense increased $4.4 million. Salary and employee benefits at $45.2 million increased by $3.3 million, or 8%, primarily due to increased staffing resulting from the Somerset Hills merger. Also included in compensation expense in 2014 was the accrual of $293,000 in costs associated with the termination of a pension plan. Net occupancy expense at $8.9 million in 2014 increased $791,000 from 2013, due primarily to expenses relating to the six new branch locations acquired in the Somerset Hills acquisition and increased snow removal expenses during the first quarter of 2014. Furniture and equipment expense at $6.6 million increased $424,000 due primarily to the new branches previously mentioned and increased service contract expenses. Legal expense at $945,000 in 2014 decreased $87,000, while other real estate owned and other repossessed assets expense at $234,000 increased $210,000 compared to 2013. Other expenses at $11.4 million decreased $236,000 compared to 2013, due primarily to decreases in consulting expense, professional fees, data processing expense and loan related expenses.

Noninterest expense totaling $78.7 million increased $11.1 million in 2013 compared to 2012. In 2013 noninterest expense included $2.8 million in merger related expenses and $288,000 in core deposit intangible amortization resulting from the Somerset Hills acquisition. Salary and employee benefits at $41.9 million increased by $3.3 million, or 9%, primarily as a result of increased staffing levels from the six new Somerset Hills branches, the retention of some administrative personnel from the Somerset Hills acquisition, and normal salary increases. Net occupancy expense at $8.1 million in 2013 increased $985,000 from 2012, due primarily to expenses relating to the six new branch locations acquired in the Somerset Hills acquisition and a new branch opening in the fourth quarter of 2012. Furniture and equipment at $6.2 million increased $1.4 million from 2012 due primarily to the new branches previously mentioned, increased service contract expenses and increased depreciation costs resulting from the upgrading of the Company s computer systems. Long-term debt prepayment fees was $1.2 million in 2013 compared to $782,000 in 2012. FDIC insurance expense at $2.0 million in 2013 decreased $149,000 compared to the same period last year due primarily to improved assessment rates resulting from a reduction in nonperforming assets. Legal expense at $1.0 million and other real estate and repossessed asset expense at $24,000 decreased $204,000 and $75,000, respectively, due primarily to the reduction in nonperforming assets. Other expenses at $11.6 million in 2013 increased $2.1 million compared to the same period in 2012 primarily due to an increase in data processing expenses reflecting technological improvements, an increase in telecommunications expense and Somerset Hills costs. Also included in other expenses was an additional $600,000 in professional fees related to costs associated with the resignation of the Company s external accountants.

The efficiency ratio, a non-GAAP measure, expresses the relationship between noninterest expense (excluding other real estate and other repossessed asset expense, long-term debt repayment fees, merger related expenses, provision for unfunded lending commitments and core deposit amortization) to total tax-equivalent revenue (excluding gains (losses) on securities and gain on debt extinguishment). In 2014, the Company s efficiency ratio on a tax equivalent basis was 59.35% compared to 59.74% in 2013. The efficiency ratio was 58.33% in 2012.

	For the year ended December 31,				
	2014	2013	2012	2011	2010
	(dollars in thousands)				
Calculation of efficiency ratio (a non-GAAP measure)					
Total non-interest expense	$ 79,135	$ 78,741	$ 67,673	$ 68,151	$ 70,405
Less:					
Amortization of core deposit intangibles	(464)	(288)		(577)	(1,062)
Other real estate owned and other repossessed asset expense	(234)	(24)	(99)	(780)	(483)
Merger related expenses		(2,834)			
Long-term debt prepayment fee		(1,209)	(782)	(800)	(1,835)
Provision for unfunded lending commitments	65	(55)	(93)	(375)	(195)
Non-interest expense, as adjusted	$ 78,502	$ 74,331	$ 66,699	$ 65,619	$ 66,830
Net interest income	$ 113,566	$ 104,542	$ 95,513	$ 97,413	$ 99,754
Noninterest income	17,722	20,961	18,905	18,117	19,268
Total revenue	131,288	125,503	114,418	115,530	119,022
Plus: Tax-equivalent adjustment on municipal securities	972	965	981	1,080	1,082
Less: Gains on sales of investment securities and debt extinguishment	(2)	(2,036)	(1,049)	(1,229)	(1,614)
Total revenue, as adjusted	$ 132,258	$ 124,432	$ 114,350	$ 115,381	$ 118,490
Efficiency ratio (Non-GAAP)	59.35%	59.74%	58.33%	56.87%	56.40%

Income Taxes

The Company s effective income tax rate was 32.7%, 33.3% and 31.7%, in the years ended December 31, 2014, 2013 and 2012, respectively. The effective tax rate decrease in 2014 from 2013 was primarily a result of non-tax deductible merger related expenses included in pre-tax income in 2013, which resulted in a higher effective tax rate in 2013. The increase in the effective tax rate from 2012 to 2013 resulted primarily from the non-tax deductible merger related expenses as well as a reduction of tax advantaged items as a percent of pre-tax income. Tax advantaged items include interest income on tax-exempt securities and income on bank owned life insurance.

Financial Condition

Total assets increased from $3.32 billion on December 31, 2013 to $3.54 billion on December 31, 2014, an increase of $220.5 million, or 7%. Total loans were $2.66 billion, an increase of $185.3 million from $2.47 billion at December 31, 2013. Total deposits were $2.79 billion, an increase of $81.6 million from December 31, 2013. Total assets at year-end 2013 increased $399.1 million, or 14%, from year-end 2012, including Somerset Hills assets, which totaled $356.1 million at the time of acquisition.

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Loans and Leases

Lakeland primarily serves Northern and Central New Jersey and the surrounding areas. Its equipment finance division serves a broader market with a primary focus on the Northeast. All of its borrowers are U.S. residents or entities.

Gross loans and leases at $2.66 billion increased by $185.3 million or 8% from December 31, 2013 primarily in the commercial loans secured by real estate category. Commercial loans secured by real estate increased $139.9 million, or 10%, from December 31, 2013 to December 31, 2014. Commercial, industrial and other loans and real estate construction loans increased $24.4 million, or 11%, and $10.9 million, or 21%, respectively. Leases also increased $13.4 million, or 32%, resulting from increased demand for equipment financing and from broadening our market area. Gross loans and leases at $2.47 billion as of December, 31 2013 increased $323.1 million compared to December 31, 2012. This includes Somerset Hills loans which totaled $243.9 million at the time of acquisition. Excluding Somerset Hills loans, total loans increased 4% from December 31, 2012 to December 31,2013, primarily in the commercial loans secured by real estate category. Excluding the impact of the Somerset Hills loans of $144.6 million, commercial loans secured by real estate increased $120.1 million, or 11%, from December 31, 2012 to December 31, 2013.

The following table sets forth the classification of Lakeland s gross loans and leases by major category as of December 31 for each of the last five years:

			December 31,		
	2014	**2013**	**2012**	**2011**	**2010**
			(in thousands)		
Commercial, secured by real estate	**$ 1,529,761**	$ 1,389,861	$ 1,125,137	$ 1,012,982	$ 970,240
Commercial, industrial and other	**238,252**	213,808	216,129	209,915	194,259
Leases	**54,749**	41,332	26,781	28,879	67,157
Real estate residential mortgage	**431,190**	432,831	423,262	406,222	403,561
Real estate construction	**64,020**	53,119	46,272	79,138	70,775
Home equity and consumer	**337,642**	339,338	309,626	304,190	306,322
	2,655,614	2,470,289	2,147,207	2,041,326	2,012,314
Plus deferred costs (fees)	**(1,788)**	(1,273)	(364)	249	2,303
Loans and leases net of deferred costs (fees)	**$ 2,653,826**	$ 2,469,016	$ 2,146,843	$ 2,041,575	$ 2,014,617

At December 31, 2014, there were no concentrations of loans or leases exceeding 10% of total loans and leases outstanding other than loans that are secured by real estate. Loan concentrations are considered to exist when there are amounts loaned to a multiple number of borrowers engaged in similar activities which would cause them to be similarly impacted by economic or other related conditions.

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The following table sets forth maturities and sensitivity to changes in interest rates in commercial loans in Lakeland s loan portfolio at December 31, 2014:

	Within one year	After one but within five years (in thousands)	After five years	Total
Commercial, secured by real estate	$ 92,448	$ 263,902	$ 1,173,411	$ 1,529,761
Commercial, industrial and other	133,300	61,139	43,813	238,252
Real estate construction	39,420	6,569	18,031	64,020
Total	$ 265,168	$ 331,610	$ 1,235,255	$ 1,832,033
Predetermined rates	$ 33,699	$ 216,983	$ 210,785	$ 461,467
Floating or adjustable rates	231,469	114,627	1,024,470	1,370,566
Total	$ 265,168	$ 331,610	$ 1,235,255	$ 1,832,033

Risk Elements

Commercial loans and leases are placed on a non-accrual status with all accrued interest and unpaid interest reversed if (a) because of the deterioration in the financial position of the borrower they are maintained on a cash basis (which means payments are applied when and as received rather than on a regularly scheduled basis), (b) payment in full of interest or principal is not expected, or (c) principal and interest have been in default for a period of 90 days or more unless the obligation is both well-secured and in process of collection. Residential mortgage loans are placed on non-accrual status at the time principal and interest have been in default for a period of 90 days or more, except where there exists sufficient collateral to cover the defaulted principal and interest payments, and management s knowledge of the specific circumstances warrant continued accrual. Consumer loans are generally placed on non-accrual status and reviewed for charge-off when principal and interest payments are four months in arrears unless the obligations are well-secured and in the process of collection. Interest thereafter on such charged-off consumer loans is taken into income when received only after full recovery of principal. As a general rule, a non-accrual asset may be restored to accrual status when none of its principal or interest is due and unpaid, satisfactory payments have been received for a sustained period (usually six months), or when it otherwise becomes well-secured and in the process of collection.

The following schedule sets forth certain information regarding Lakeland s non-accrual (including troubled debt restructurings that are on non-accrual) and past due loans and leases and other real estate owned and other repossessed assets as of December 31, for each of the last five years:

(dollars in thousands)	2014	2013	At December 31, 2012	2011	2010
Commercial, secured by real estate	**$ 7,424**	$ 7,697	$ 10,511	$ 16,578	$ 12,905
Commercial, industrial, and other	**308**	88	1,476	4,608	1,702
Leases, including leases held for sale	**88**		32	575	6,277
Real estate residential mortgage	**9,246**	6,141	8,733	11,610	12,834
Real estate-construction	**188**	831	4,031	12,393	6,321
Home equity and consumer	**3,415**	2,175	3,197	3,252	2,930
Total non-accrual loans and leases	**20,669**	16,932	27,980	49,016	42,969
Other real estate and other repossessed assets	**1,026**	520	529	1,182	1,592
TOTAL NON-PERFORMING ASSETS	**$ 21,695**	$ 17,452	$ 28,509	$ 50,198	$ 44,561
Non-performing assets as a percent of total assets	**0.61%**	0.53%	0.98%	1.78%	1.60%

Loans and leases past due 90 days or more and still accruing	**$ 66**	$ 1,997	$ 1,437	$ 1,367	$ 1,218
Troubled debt restructurings, still accruing	**$ 10,579**	$ 10,289	$ 7,336	$ 8,856	$ 9,073

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Non-accrual loans and leases increased to $20.7 million on December 31, 2014 from $16.9 million at December 31, 2013. The increase in non-accrual loans was primarily in residential mortgages and home equity and consumer loans, which increased $3.1 million and $1.2 million, respectively.

Non-accruals included five loan relationships between $500,000 and $1.0 million totaling $3.3 million, and two loan relationships exceeding $1.0 million totaling $3.7 million. All non-accrual loans and leases are in various stages of litigation, foreclosure, or workout. Non-accrual loans included $1.3 million and $2.3 million in troubled debt restructurings for the years ended December 31, 2014 and 2013, respectively.

At December 31, 2014, Lakeland had $10.6 million in loans that were restructured and still accruing. Restructured loans are those loans where Lakeland has granted concessions to the borrower in payment terms in rate and/or in maturity as a result of the financial condition of the borrower.

For 2014, the gross interest income that would have been recorded, had the loans and leases classified at year-end as impaired been performing in conformance with their original terms, is approximately $1.8 million. The amount of interest income actually recorded on those loans and leases for 2014 was $711,000. The resultant loss of $1.1 million for 2014 compares with prior year losses of $1.3 million for 2013 and $2.1 million for 2012.

As of December 31, 2014, Lakeland had impaired loans and leases totaling $25.7 million (consisting primarily of non-accrual and restructured loans and leases), compared to $24.6 million at December 31, 2013. The valuation allowance of these loans and leases is based primarily on the fair value of the underlying collateral. Based upon such evaluation, $1.9 million has been allocated to the allowance for loan and lease losses for impairment at December 31, 2014 compared to $910,000 at December 31, 2013. At December 31, 2014, Lakeland also had $46.3 million in loans and leases that were rated substandard that were not classified as non-performing or impaired compared to $62.5 million at December 31, 2013.

There were no additional loans or leases at December 31, 2014, other than those designated non-performing, impaired or substandard, where Lakeland was aware of any credit conditions of any borrowers that would indicate a strong possibility of the borrowers not complying with the present terms and conditions of repayment and which may result in such loans or leases being included as non-accrual, past due or renegotiated at a future date.

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The following table sets forth for each of the five years ended December 31, 2014, the historical relationships among the amount of loans and leases outstanding, the allowance for loan and lease losses, the provision for loan and lease losses, the amount of loans and leases charged off and the amount of loan and lease recoveries:

	December 31,				
	2014	**2013**	**2012**	**2011**	**2010**
	(dollars in thousands)				
Balance of the allowance at the beginning of the year	**$ 29,821**	$ 28,931	$ 28,416	$ 27,331	$ 25,563
Loans and leases charged off:					
Commercial, secured by real estate	**2,282**	2,026	7,287	5,352	7,510
Commercial, industrial and other	**999**	1,324	949	5,249	3,298
Leases	**597**	206	999	2,858	4,307
Real estate residential mortgage	**827**	1,257	1,822	1,772	397
Real estate-construction	**25**	3,854	2,888	3,636	1,756
Home equity and consumer	**2,697**	1,624	2,074	3,010	2,250
Total loans and leases charged off	**7,427**	10,291	16,019	21,877	19,518
Recoveries:					
Commercial, secured by real estate	**999**	1,061	280	2,084	134
Commercial, industrial and other	**1,039**	260	428	439	62
Leases	**19**	121	504	1,206	1,391
Real estate residential mortgage	**42**	99	66	32	7
Real estate-construction	**106**	14	43	67	
Home equity and consumer	**220**	283	306	318	411
Total Recoveries	**2,425**	1,838	1,627	4,146	2,005
Net charge-offs:	**5,002**	8,453	14,392	17,731	17,513
Provision for loan and lease losses charged to operations	**5,865**	9,343	14,907	18,816	19,281
Ending balance	**$ 30,684**	$ 29,821	$ 28,931	$ 28,416	$ 27,331
Ratio of net charge-offs to average loans and leases outstanding:	**0.19%**	0.36%	0.69%	0.89%	0.88%
Ratio of allowance at end of year as a percentage of year-end total loans and leases	**1.16%**	1.21%	1.35%	1.39%	1.36%

The ratio of the allowance for loan and lease losses to loans and leases outstanding reflects management s evaluation of the underlying credit risk inherent in the loan portfolio as discussed above in Critical Accounting Policies, Judgments and Estimates Allowance for Loan and Lease Losses.

While the overall balance of the allowance for loan and lease losses at $30.7 million at December 31, 2014 only increased $863,000, or 3%, from December 31, 2013, the distribution of the allowance changed between segments of the loan portfolio reflecting changes in the non-performing loan and charge-off statistics within each portfolio. Loan reserves are based on a combination of historical charge-off experience (analyzing gross charge-offs over a twelve quarter period for commercial loans, and an eight quarter period for all other portfolios), estimating the appropriate loss emergence period and qualitative factors based on general economic conditions and specific bank portfolio characteristics.

Based on the above analysis, and based on trends in charge-offs and non-performing loans, the allowances for commercial real estate loans and commercial, industrial and other loans have declined as a result of a significant reduction in charge-offs over a three year look-back period. On the other hand, home equity, consumer and residential loan charge-offs have not experienced the same level of decline. The home equity and consumer loan portfolio gross charge-offs increased from $1.6 million in 2013 to $2.7 million in 2014 while its

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non-performing loans have increased from $2.2 million to $3.4 million in the same time period. As a result, the allowance for home equity and consumer loans has increased from $2.7 million on December 31, 2013 to $6.3 million on December 31, 2014. Residential non-performing loans have increased from $6.1 million on December 31, 2013 to $9.2 million on December 31, 2014. Because of the negative trends in the charge-offs and non-performing loans in the home equity, consumer and residential mortgage portfolio, management believed that a higher allowance was required for these portfolios.

Non-performing loans and leases increased from $16.9 million on December 31, 2013 to $20.7 million on December 31, 2014 and the allowance for loan and lease losses was 1.16% of total loans and leases on December 31, 2014 compared to 1.21% of total loans and leases on December 31, 2013. Excluding the impact of the loans acquired in the Somerset acquisition which are accounted for under acquisition accounting, the allowance for loan and lease losses as a percent of total loans would be 1.25% and 1.34% on December 31, 2014 and 2013, respectively. The decline in the allowance for loan and lease losses as a percent of total loans results primarily from a $3.5 million decline in net charge-offs in 2014 compared to 2013. Management believes, based on appraisals and estimated selling costs that the majority of its non-performing loans are well secured and that the reserves on its non-performing loans are adequate. Based upon the process employed and giving recognition to all accompanying factors related to the loan and lease portfolio, management considers the allowance for loan and lease losses to be adequate at December 31, 2014.

The following table shows how the allowance for loan and lease losses is allocated among the various types of loans and leases that Lakeland has outstanding. This allocation is based on management s specific review of the credit risk of the outstanding loans and leases in each category as well as historical trends.

	At December 31,									
	2014		2013		2012		2011		2010	
	Allowance	% of Loans in Each Category	Allowance	% of Loans in Each Category	Allowance	% of Loans in Each Category	Allowance	% of Loans in Each Category	Allowance	% of Loans in Each Category
	(in thousands)									
Commercial, secured by real estate	**$ 13,577**	**57.6%**	$ 14,463	56.2%	$ 16,258	52.4%	$ 16,618	49.6%	$ 11,366	48.2%
Commercial, industrial and other	**3,196**	**9.0%**	5,331	8.7%	5,103	10.1%	3,477	10.3%	5,113	9.7%
Leases	**582**	**2.1%**	504	1.7%	578	1.2%	688	1.4%	3,477	3.3%
Real estate residential mortgage	**4,020**	**16.2%**	3,214	17.5%	3,568	19.7%	3,077	19.9%	2,628	20.1%
Real estate construction	**553**	**2.4%**	542	2.2%	587	2.2%	1,424	3.9%	2,176	3.5%
Home equity and consumer	**6,333**	**12.7%**	2,737	13.7%	2,837	14.4%	3,132	14.9%	2,571	15.2%
Unallocated	**2,423**		3,030							
	$ 30,684	**100.0%**	$ 29,821	100.0%	$ 28,931	100.0%	$ 28,416	100.0%	$ 27,331	100.0%

Investment Securities

The Company has classified its investment securities into the available for sale and held to maturity categories based on its intent and ability to hold the securities to maturity. The Company has no investment securities classified as trading securities.

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The following table sets forth the carrying value of the Company s investment securities, both available for sale and held to maturity, as of December 31 for each of the last three years. Investment securities available for sale are stated at fair value while securities held for maturity are stated at cost, adjusted for amortization of premiums and accretion of discounts.

	2014	December 31, 2013 (in thousands)	2012
U.S. Treasury and U.S. government agencies	**$ 114,397**	$ 89,897	$ 102,660
Mortgage-backed securities, residential	**352,264**	339,098	278,624
Mortgage-backed securities, multifamily	**7,235**	2,355	1,421
Obligations of states and political subdivisions	**71,920**	80,394	77,421
Equity securities	**17,574**	16,146	15,516
Other debt securities	**2,035**	4,960	14,993
	$ 565,425	$ 532,850	$ 490,635

The Company also does not own any interests in any hedge funds or private equity funds that are designated covered funds under the Volcker Rule issued in December 2013. All of the Company s mortgage-backed securities are issued by U.S. Government or U.S. Government sponsored entities.

The following table sets forth the maturity distribution and weighted average yields (calculated on the basis of the stated yields to maturity, considering applicable premium or discount), on a fully taxable equivalent basis, of investment securities available for sale as of December 31, 2014, at fair value:

Available for sale	**Within one year**	**Over one but within five years**	**Over five but within ten years (dollars in thousands)**	**After ten years**	**Total**
U.S. Treasury and U.S. government agencies					
Amount	$	$ 67,888	$ 26,032	$	$ 93,920
Yield	%	1.36%	1.91%	%	1.51%
Mortgage-backed securities, residential					
Amount		3,069	26,440	280,446	309,955
Yield	%	3.28%	2.14%	2.03%	2.05%
Mortgage-backed securities, multifamily					
Amount			4,976		4,976
Yield	%	%	2.44%	%	2.44%
Obligations of states and political subdivisions					
Amount	975	11,853	16,427	1,264	30,519
Yield	2.94%	3.74%	3.17%	3.09%	3.38%
Other debt securities					
Amount		505			505
Yield	%	2.12%	%	%	2.12%
Other equity securities					
Amount	17,574				17,574
Yield	1.98%	%	%	%	1.98%
Total securities					
Amount	$ 18,549	$ 83,315	$ 73,875	$ 281,710	$ 457,449
Yield	2.03%	1.77%	2.31%	2.03%	2.03%

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The following table sets forth the maturity distribution and weighted average yields (calculated on the basis of the stated yields to maturity, considering applicable premium or discount), on a fully taxable equivalent basis, of investment securities held to maturity as of December 31, 2014, at amortized cost:

Held to maturity	Within one year	Over one but within five years	Over five but within ten years (dollars in thousands)	After ten years	Total
U.S. Treasury and U.S. government agencies					
Amount	$	$ 5,004	$ 15,473	$	$ 20,477
Yield	%	1.98%	2.19%	%	2.14%
Mortgage-backed securities, residential					
Amount		6	449	41,854	42,309
Yield	%	1.88%	4.87%	2.47%	2.50%
Mortgage-backed securities, multifamily					
Amount			1,302	957	2,259
Yield	%	%	1.73%	2.36%	1.99%
Obligations of states and political subdivisions					
Amount	8,344	7,579	19,804	5,674	41,401
Yield	2.33%	3.58%	3.21%	3.38%	3.12%
Other debt securities					
Amount	501	1,029			1,530
Yield	5.05%	5.72%	%	%	5.50%
Total securities					
Amount	$ 8,845	$ 13,618	$ 37,028	$ 48,485	$ 107,976
Yield	2.49%	3.15%	2.75%	2.53%	2.70%

Other Assets

Other assets decreased from $19.8 million at December 31, 2013 to $16.0 million at December 31, 2014 primarily due to a $3.5 million decrease in deferred taxes resulting from a change in the unrealized gain in securities available for sale.

Deposits

Total deposits increased from $2.71 billion on December 31, 2013 to $2.79 billion on December 31 2014, an increase of $81.6 million, or 3%. Noninterest bearing deposits increased $45.4 million, or 8%, to $646.1 million. Savings and interest-bearing transaction accounts increased $52.3 million.

Total deposits increased from $2.37 billion on December 31, 2012 to $2.71 billion on December 31, 2013, an increase of $338.2 million, or 14%. Somerset Hills deposits totaled $311.8 million at the time of acquisition.

The average amount of deposits and the average rates paid on deposits for the years indicated are summarized in the following table:

	Year Ended December 31, 2014		Year Ended December 31, 2013		Year Ended December 31, 2012	
	Average Balance	Average Rate	Average Balance (Dollars in thousands)	Average Rate	Average Balance	Average Rate
Noninterest-bearing demand deposits	**$ 652,685**	**%**	$ 576,421	%	$ 474,579	%
Interest-bearing transaction accounts	**1,454,967**	**0.23%**	1,341,691	0.28%	1,171,318	0.41%
Savings	**384,715**	**0.05%**	370,980	0.06%	347,766	0.11%

Time deposits	**283,905**	**0.53%**	309,384	0.68%	329,355	0.96%
Total	**$ 2,776,272**	**0.18%**	$ 2,598,476	0.23%	$ 2,323,018	0.36%

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As of December 31, 2014, the aggregate amount of outstanding time deposits issued in amounts of $100,000 or more, broken down by time remaining to maturity, was as follows (in thousands):

Maturity	
Within 3 months	$ 24,762
Over 3 through 6 months	18,996
Over 6 through 12 months	36,860
Over 12 months	33,719
Total	$ 114,337

Derivatives

Lakeland enters into interest rate swaps (swaps) with loan customers to provide a facility to mitigate the fluctuations in the variable rate on the respective loans. These swaps are matched in offsetting terms to swaps that Lakeland enters into with an outside third party. The swaps are reported at fair value in other assets or other liabilities. Lakeland s swaps qualify as derivatives, but are not designated as hedging instruments, thus any net gain or loss resulting from changes in the fair value is recognized in other non-interest income. Further discussion of Lakeland s financial derivatives is set forth in Note 18 to the audited Consolidated Financial Statements.

Liquidity

Liquidity measures whether an entity has sufficient cash flow to meet its financial obligations and commitments on a timely basis. The Company is liquid when its subsidiary bank has the cash available to meet the borrowing and cash withdrawal requirements of customers and the Company can pay for current and planned expenditures and satisfy its debt obligations.

Lakeland funds loan demand and operation expenses from several sources:

Net income. Cash provided by operating activities was $45.7 million in 2014 compared to $50.7 million and $48.6 million in 2013 and 2012, respectively.

Deposits. Lakeland can offer new products or change its rate structure in order to increase deposits. In 2014, Lakeland generated $81.6 million in deposit growth compared to $338.2 million in 2013. Excluding the impact of the Somerset Hills deposits, Lakeland generated $26.5 million in deposit growth in 2013.

Sales of securities and overnight funds. At year-end 2014, the Company had $457.4 million in securities designated available for sale. Of these securities, $311.3 million was pledged to secure public deposits and for other purposes required by applicable laws and regulations.

Repayments on loans and leases can also be a source of liquidity to fund further loan growth.

Overnight credit lines. As a member of the Federal Home Loan Bank of New York (FHLB), Lakeland has the ability to borrow overnight based on the market value of collateral pledged. Lakeland had no overnight borrowings from the FHLB on December 31, 2014. Lakeland also has overnight federal funds lines available for it to borrow up to $162.0 million. Lakeland had borrowings against these lines of $81.0 million at December 31, 2014. Lakeland also has the ability to utilize an unsecured line of credit from the FHLB to secure a portion of its public deposits. Lakeland may also borrow from the discount window of the Federal Reserve Bank of New York based on the market value of collateral pledged. Lakeland had no borrowings with the Federal Reserve Bank of New

York as of December 31, 2014.

Other borrowings. Lakeland can also generate funds by utilizing long-term debt or securities sold under agreements to repurchase that would be collateralized by security or mortgage collateral. At times the

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market values of securities collateralizing our securities sold under agreements to repurchase may decline due to changes in interest rates and may necessitate our lenders to issue a margin call which requires the Company to pledge additional collateral to meet that margin call. For more information regarding the Company s borrowings, see Note 7 to the Consolidated Financial Statements.

Management and the Board monitor the Company s liquidity through the asset/liability committee, which monitors the Company s compliance with certain regulatory ratios and other various liquidity guidelines.

The cash flow statements for the periods presented provide an indication of the Company s sources and uses of cash, as well as an indication of the ability of the Company to maintain an adequate level of liquidity. A discussion of the cash flow statement for year ended December 31, 2014 follows.

Cash and cash equivalents totaling $109.3 million on December 31, 2014, increased $6.6 million from December 31, 2013. Operating activities provided $45.7 million in net cash. Investing activities used $220.7 million in net cash, primarily reflecting an increase in loans and leases and investment securities. Financing activities provided $181.5 million in net cash primarily reflecting a net increase in deposits and other borrowings of $81.8 million and $83.5 million, respectively, partially offset by the payment of dividends.

The Company s management believes that its current level of liquidity is sufficient to meet its current and anticipated operational needs, including current loan commitments, deposit maturities and other obligations. This constitutes a forward-looking statement under the Private Securities Litigation Reform Act of 1995. Actual results could differ materially from anticipated results due to a variety of factors, including uncertainties relating to general economic conditions; unanticipated decreases in deposits; changes in or failure to comply with governmental regulations; and uncertainties relating to the analysis of the Company s assessment of rate sensitive assets and rate sensitive liabilities and the extent to which market factors indicate that a financial institution such as Lakeland should match such assets and liabilities.

The following table sets forth contractual obligations and other commitments representing required and potential cash outflows as of December 31, 2014. Interest on subordinated debentures and other borrowings is calculated based on current contractual interest rates.

			Payment due period		
(dollars in thousands)	**Total**	**Within one year**	**After one but within three years**	**After three but within five years**	**After five years**
Minimum annual rentals or noncancellable operating leases	$ 24,277	$ 2,469	$ 3,977	$ 2,935	$ 14,896
Benefit plan commitments	6,595	174	603	793	5,025
Remaining contractual maturities of time deposits	279,962	189,872	78,341	11,620	129
Subordinated debentures	41,238				41,238
Loan commitments	621,305	488,162	87,234	477	45,432
Other borrowings	202,498	30,000	82,498	80,000	10,000
Interest on other borrowings*	31,334	4,516	7,732	3,362	15,724
Standby letters of credit	10,449	10,301	68		80
Total	$ 1,217,658	$ 725,494	$ 260,453	$ 99,187	$ 132,524

* Includes interest on other borrowings and subordinated debentures at a weighted rate of 1.87%.

Interest Rate Risk

Closely related to the concept of liquidity is the concept of interest rate sensitivity (i.e., the extent to which assets and liabilities are sensitive to changes in interest rates). As a financial institution, the Company s potential interest rate volatility is a primary component of its market risk. Fluctuations in interest rates will ultimately impact the level of income and expense recorded on a large portion of the Company s assets and liabilities, and the market value of all interest-earning assets, other than those which possess a short term to maturity. Based upon the Company s nature of operations, the Company is not subject to foreign currency exchange or commodity price risk. The Company does not own any trading assets and does not have any off balance sheet hedging transactions in place, such as interest rate swaps and caps.

The Company s net income is largely dependent on net interest income. Net interest income is susceptible to interest rate risk to the extent that interest-bearing liabilities mature or reprice on a different basis than interest-earning assets. For example, when interest-bearing liabilities mature or reprice more quickly than interest-earning assets, an increase in market rates could adversely affect net interest income. Conversely, when interest-earning assets reprice more quickly than interest-bearing liabilities, an increase in market rates could increase net interest income.

The Company s Board of Directors has adopted an Asset/Liability Policy designed to stabilize net interest income and preserve capital over a broad range of interest rate movements. This policy outlines guidelines and ratios dealing with, among others, liquidity, volatile liability dependence, investment portfolio composition, loan portfolio composition, loan-to-deposit ratio and gap analysis ratio. Key quantitative measurements include the percentage change of net interest income in various interest rate scenarios (net interest income at risk) and changes in the market value of equity in various rate environments (net portfolio value at risk). The Company s performance as compared to the Asset/Liability Policy is monitored by its Board of Directors. In addition, to effectively administer the Asset/Liability Policy and to monitor exposure to fluctuations in interest rates, the Company maintains an Asset/Liability Committee (the ALCO), consisting of the Chief Executive Officer, the Regional Presidents, the Chief Financial Officer, Chief Lending Officer, Chief Retail Officer, Chief Credit Officer, certain other senior officers and certain directors. This committee meets quarterly to review the Company s financial results and to develop strategies to implement the Asset/Liability Policy and to respond to market conditions.

The Company monitors and controls interest rate risk through a variety of techniques, including use of an interest rate risk management model. With the interest rate risk management model, the Company projects future net interest income, and then estimates the effect of various changes in interest rates and balance sheet growth rates on that projected net interest income. The Company also uses the interest rate risk management model to calculate the change in net portfolio value over a range of interest rate change scenarios.

Interest rate sensitivity modeling is done at a specific point in time and involves a variety of significant estimates and assumptions. Interest rate sensitivity modeling requires, among other things, estimates of how much and when yields and costs on individual categories of interest-earning assets and interest-bearing liabilities will respond to general changes in market rates, future cash flows and discount rates.

Net interest income simulation considers the relative sensitivities of the balance sheet including the effects of interest rate caps on adjustable rate mortgages and the relatively stable aspects of core deposits. As such, net interest income simulation is designed to address the probability of interest rate changes and the behavioral response of the balance sheet to those changes. Market Value of Portfolio Equity represents the fair value of the net present value of assets, liabilities and off-balance-sheet items. Changes in estimates and assumptions made for interest rate sensitivity modeling could have a significant impact on projected results and conclusions. These assumptions could include prepayment rates, sensitivity of non-maturity deposits, decay rates and other similar assumptions. Therefore, if our assumptions should change, this technique may not accurately reflect the impact of general interest rate movements on the Company s net interest income or net portfolio value.

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The starting point (or base case) for the following table is an estimate of the following year s net interest income assuming that both interest rates and the Company s interest-sensitive assets and liabilities remain at year-end levels. The net interest income estimated for 2015 (the base case) is $111.6 million. The information provided for net interest income assumes that changes in interest rates change gradually in equal increments (rate ramp) over the twelve month period.

	Changes in interest rates	
Rate Ramp	**+200 bp**	**-200 bp**
Asset/Liability Policy Limit	-5.0%	-5.0%
December 31, 2014	-3.6%	-1.9%
December 31, 2013	-3.9%	-2.0%

The ALCO s policy review of interest rate risk includes policy limits for net interest income changes in various rate shock scenarios. Rate shocks assume that current interest rates change immediately. The information provided for net interest income assumes fluctuations or rate shocks for changes in interest rates as shown in the table below.

	Changes in interest rates					
Rate Shock	**+300 bp**	**+200 bp**	**+100 bp**	**-100 bp**	**-200 bp**	**-300 bp**
Asset/Liability Policy Limit	-15.0%	-10.0%	-5.0%	-5.0%	-10.0%	-15.0%
December 31, 2014	-5.2%	-3.2%	-1.3%	-4.5%	-6.8%	-6.8%
December 31, 2013	-8.2%	-5.1%	-2.1%	-4.8%	-7.1%	-8.2%

The base case for the following table is an estimate of the Company s net portfolio value for the periods presented using current discount rates, and assuming the Company s interest-sensitive assets and liabilities remain at year-end levels. The net portfolio value at December 31, 2014 (the base case) was $491.4 million. The information provided for the net portfolio value assumes fluctuations or rate shocks for changes in interest rates as shown in the table below.

	Changes in interest rates					
Rate Shock	**+300 bp**	**+200 bp**	**+100 bp**	**-100 bp**	**-200 bp**	**-300 bp**
Asset/Liability Policy Limit	-35.0%	-25.0%	-15.0%	-15.0%	-25.0%	-35.0%
December 31, 2014	-13.0%	-8.2%	-3.5%	0.7%	-2.5%	-4.8%
December 31, 2013	-17.8%	-11.3%	-5.0%	1.6%	-1.5%	-6.0%

The information set forth in the above tables is based on significant estimates and assumptions, and constitutes a forward-looking statement under the Private Securities Litigation Reform Act of 1995.

The information in the above tables represent the policy scenario that the ALCO reviews on a quarterly basis. There are also other scenarios run that the ALCO examines that vary depending on the economic environment. These scenarios include a yield curve flattening scenario and scenarios that show more dramatic changes in rates. The committee uses the appropriate scenarios, depending on the economic environment, in its interest rate management decisions.

Certain shortcomings are inherent in the methodologies used in the above interest rate risk measurements. Modeling changes in net interest income requires the making of certain assumptions regarding prepayment and deposit decay rates, which may or may not reflect the manner in which actual yields and costs respond to changes in market interest rates. While management believes such assumptions are reasonable, there can be no assurance that assumed prepayment rates and decay rates will approximate actual future loan prepayment and deposit withdrawal activity. Moreover, the net interest income table presented assumes that the composition of interest sensitive assets and liabilities existing at the beginning of a period remains constant over the period being measured and also assumes that a particular change in interest rates is reflected uniformly across the yield curve

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regardless of the duration to maturity or repricing of specific assets and liabilities. Accordingly, although the net interest income table provides an indication of the Company s interest rate risk exposure at a particular point in time, such measurement is not intended to and does not provide a precise forecast of the effect of changes in market interest rates on net interest income and will differ from actual results.

Capital Resources

Stockholders equity increased from $351.4 million on December 31, 2013 to $379.4 million on December 31, 2014. The increase in stockholders equity from December 31, 2013 to December 31, 2014 was primarily due to $31.1 million in net income and $6.2 million in other comprehensive income on the Company s available for sale securities portfolio, partially offset by payment of dividends on common stock of $10.8 million.

Book value per common share (total common stockholders equity divided by the number of shares outstanding) increased from $9.28 on December 31, 2013 to $10.01 on December 31, 2014 primarily as a result of net income. Book value per common share was $9.00 on December 31, 2012. Tangible book value per share increased from $6.31 on December 31, 2013 to $7.06 on December 31, 2014. For more information see Non-GAAP Financial Measures.

The FDIC s risk-based capital policy statement imposes a minimum capital standard on insured banks. The minimum ratio of risk-based capital to risk-weighted assets (including certain off-balance sheet items, such as standby letters of credit) is 8%. At least half of the total capital is to be comprised of common stock equity and qualifying perpetual preferred stock, less goodwill (Tier I capital). The remainder (Tier II capital) may consist of mandatory convertible debt securities, qualifying subordinated debt, other preferred stock and a portion of the allowance for loan and lease losses. The Federal Reserve Board has adopted a similar risk-based capital guideline for the Company which is computed on a consolidated basis.

In addition, the bank regulators have adopted minimum leverage ratio guidelines (Tier I capital to average quarterly assets, less goodwill) for financial institutions. These guidelines provide for a minimum leverage ratio of 3% for financial institutions that meet certain specified criteria, including that they have the highest regulatory rating. All other holding companies are required to maintain a leverage ratio of 3% plus an additional cushion of at least 100 to 200 basis points.

The following table reflects capital ratios of the Company and Lakeland as of December 31, 2014 and 2013:

	Tier 1 Capital to Total Average Assets Ratio December 31,		Tier 1 Capital to Risk-Weighted Assets Ratio December 31,		Total Capital to Risk-Weighted Assets Ratio December 31,	
	2014	**2013**	**2014**	**2013**	**2014**	**2013**
Capital Ratios:						
The Company	**9.08%**	8.90%	**11.76%**	11.73%	**12.98%**	12.98%
Lakeland Bank	**8.39%**	8.38%	**10.87%**	11.04%	**12.10%**	12.29%
Well capitalized institution under FDIC Regulations	**5.00%**	5.00%	**6.00%**	6.00%	**10.00%**	10.00%

Basel III

On July 2, 2013, the FRB approved the final rules implementing the Basel Committee on Banking Supervision s (BCBS) capital guidelines for U.S. banks. Under the final rules, minimum requirements will increase for both the quantity and quality of capital held by the Company. The rules include a new common equity Tier 1 capital to risk-weighted assets ratio of 4.5% and a common equity Tier 1 capital conservation buffer of 2.5% of risk-weighted assets. The final rules also raise the minimum ratio of Tier 1 capital to risk-weighted assets from 4.0% to 6.0% and require a minimum leverage ratio of 4.0%. The final rules also implement strict

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eligibility criteria for regulatory capital instruments. On July 9, 2013, the FDIC also approved, as an interim final rule, the regulatory capital requirements for U.S. banks, following the actions of the FRB. The FDIC s rule is identical in substance to the final rules issued by the FRB. The phase-in period for the final rules will begin for the Company on January 1, 2015, with full compliance with all of the final rule s requirements phased in over a multi-year schedule through January 1, 2019. The Company believes that as of December 31, 2014, Lakeland Bancorp and Lakeland Bank would meet all the requirements under the new rules on a fully phased-in basis, if such requirements were fully in effect.

Non-GAAP Financial Measures

	December 31,				
	2014	**2013**	**2012**	**2011**	**2010**
	(In thousands, except per share amounts)				
Calculation of tangible book value per common share					
Total common stockholders equity at end of period GAAP	$ 379,438	$ 351,424	$ 280,867	$ 241,303	$ 223,235
Less:					
Goodwill	109,974	109,974	87,111	87,111	87,111
Other identifiable intangible assets, net	1,960	2,424			578
Total tangible common stockholders equity at end of period Non-GAAP	$ 267,504	$ 239,026	$ 193,756	$ 154,192	$ 135,546
Shares outstanding at end of period(1)	37,911	37,874	31,212	28,178	27,918
Book value per share GAAP(1)	$ 10.01	$ 9.28	$ 9.00	$ 8.56	$ 8.00
Tangible book value per share Non-GAAP(1)	$ 7.06	$ 6.31	$ 6.21	$ 5.47	$ 4.86
Calculation of tangible common equity to tangible assets					
Total tangible common stockholders equity at end of period Non-GAAP	$ 267,504	$ 239,026	$ 193,756	$ 154,192	$ 135,546
Total assets at end of period GAAP	$ 3,538,325	$ 3,317,791	$ 2,918,703	$ 2,825,950	$ 2,792,674
Less:					
Goodwill	109,974	109,974	87,111	87,111	87,111
Other identifiable intangible assets, net	1,960	2,424			578
Total tangible assets at end of period Non-GAAP	$ 3,426,391	$ 3,205,393	$ 2,831,592	$ 2,738,839	$ 2,704,985
Common equity to assets GAAP	10.72%	10.59%	9.62%	8.54%	7.99%
Tangible common equity to tangible assets Non-GAAP	7.81%	7.46%	6.84%	5.63%	5.01%

(1) Adjusted for 5% stock dividends in 2014, 2012 and 2011.

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	For the years ended December 31,				
	2014	2013	2012	2011	2010
	(dollars in thousands)				
Calculation of return on average tangible common equity					
Net income GAAP	$ 31,129	$ 24,969	$ 21,742	$ 19,851	$ 19,211
Total average common stockholders equity GAAP	$ 367,210	$ 320,923	$ 256,364	$ 232,711	$ 220,796
Less:					
Average goodwill	109,972	100,753	87,111	87,111	87,111
Average other identifiable intangible assets, net	2,200	1,513		166	1,120
Total average tangible common stockholders equity Non GAAP	$ 255,038	$ 218,657	$ 169,253	$ 145,434	$ 132,565
Return on average common stockholders equity GAAP	8.48%	7.78%	8.48%	8.53%	8.70%
Return on average tangible common stockholders equity Non-GAAP	12.21%	11.42%	12.85%	13.65%	14.49%

(dollars in thousands, except per share amounts)	Including Merger Related Expenses	Excluding Merger Related Expenses
Reconciliation of Earnings Per Share December 31, 2013	$ 24,969	$ 24,969
Merger Related Expenses:		
Tax Deductible $1,652,000 net of tax		978
Non Tax Deductible $1,182,000		1,182
Net Effect of Merger Related Expenses	$	$ 2,160
Net Income Available to Common Shareholders ex-Merger Related Expenses	$ 24,969	27,129
Less: Earnings Allocated to Participating Securities	(178)	(178)
	$ 24,791	$ 26,951
Weighted Average Shares Basic	34,742	34,742
Weighted Average Shares Diluted	34,902	34,902
Basic Earnings Per Common Share	$ 0.71	$ 0.78
Diluted Earnings Per Common Share	$ 0.71	$ 0.77

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Quarterly financial data (unaudited)

The following represents summarized quarterly financial data of the Company, which in the opinion of management reflected all adjustments, consisting only of nonrecurring adjustments, necessary for a fair presentation of the Company s results of operations.

	Quarter ended			
	March 31, 2014	**June 30, 2014**	**September 30, 2014**	**December 31, 2014**
	(in thousands, except per share amounts)			
Total interest income	$ 29,930	$ 30,549	$ 30,796	$ 31,228
Total interest expense	2,085	2,130	2,344	2,378
Net interest income	27,845	28,419	28,452	28,850
Provision for loan and lease losses	1,489	1,593	1,194	1,589
Noninterest income (excluding investment securities gains)	4,071	4,371	4,809	4,469
Gains on investment securities, net	2			
Core deposit intangible amortization	123	119	111	111
Noninterest expense	19,619	19,411	19,574	20,067
Income before taxes	10,687	11,667	12,382	11,552
Income taxes	3,524	3,886	4,136	3,613
Net Income Available to Common Stockholders	$ 7,163	$ 7,781	$ 8,246	$ 7,939
Earnings per share of common stock(1)				
Basic	$ 0.19	$ 0.20	$ 0.22	$ 0.21
Diluted	$ 0.19	$ 0.20	$ 0.22	$ 0.21

(1) Adjusted for 5% stock dividend payable on June 17, 2014 to shareholders of record June 3, 2014.

	Quarter ended			
	March 31, 2013	**June 30, 2013**	**September 30, 2013**	**December 31, 2013**
	(in thousands, except per share amounts)			
Total interest income	$ 26,569	$ 27,630	$ 29,855	$ 30,145
Total interest expense	2,633	2,484	2,368	2,172
Net interest income	23,936	25,146	27,487	27,973
Provision for loan and lease losses	3,183	2,594	1,879	1,687
Noninterest income (excluding investment securities gains and gain on debt extinguishment)	4,546	4,595	4,645	5,139
Gains on investment securities, net	505	1		333
Gain on debt extinguishment		1,197		
Long term debt prepayment fee	526			683
Merger related expenses	631	1,452	744	7
Core deposit intangible amortization		41	123	124
Noninterest expense	17,070	17,900	19,540	19,900
Income before taxes	7,577	8,952	9,846	11,044
Income taxes	2,469	3,049	3,229	3,703
Net Income Available to Common Stockholders	$ 5,108	$ 5,903	$ 6,617	$ 7,341

Earnings per share of common stock(1)				
Basic	$ 0.16	$ 0.18	$ 0.18	$ 0.19
Diluted	$ 0.16	$ 0.18	$ 0.18	$ 0.19

(1) Adjusted for 5% stock dividend payable on June 17, 2014 to shareholders of record June 3, 2014.

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Recent Accounting Pronouncements

In January 2015, the Financial Accounting Standards Board (FASB) issued an accounting standards update regarding the elimination of the concept of the extraordinary items from the statement of operations. The purpose of this update is to simplify the statement of operations presentation and to align the US GAAP income statement more closely with international accounting standards. This update is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. The adoption of this update is not expected to have a material impact on the Company s financial statements.

In June 2014, the FASB issued an accounting standards update regarding share-based payments that requires that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. This update is effective for interim and annual periods beginning after December 15, 2015. The amendments can be applied prospectively to all awards granted or modified after the effective date or retrospectively to all awards with performance targets that are outstanding as of the beginning of the earliest annual period presented and to all new or modified awards thereafter. Early adoption is permitted. The Company has determined that adoption of this update is not expected to have a material impact on its accounting and disclosures.

In June 2014, the FASB issued an accounting standards update that aligns the accounting for repurchase to maturity transactions and repurchase agreements executed as a repurchase financing with the accounting for other typical repurchase agreements. Going forward, these transactions would all be accounted for as secured borrowings. This update is effective for the first interim or annual period beginning after December 15, 2014. In addition the disclosure of certain transactions accounted for as a sale is effective for the first interim or annual period beginning on or after December 15, 2014, and the disclosure for transactions accounted for as secured borrowings is required for annual periods beginning after December 15, 2014, and interim periods after March 15, 2015. Early adoption is prohibited. The Company does not engage in repurchase to maturity transactions, and therefore has determined that the adoption of this update is not expected to have a material impact on the Company s financial results.

In May 2014, the FASB issued an accounting standards update that clarifies the principles for recognizing revenue. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to a customer in an amount that reflects the consideration to which the entity expects to be entitled in exchange for these goods or services. This guidance is effective for the Company beginning January 1, 2017. The Company is still evaluating the potential impact on the Company s financial statements.

In January 2014, the FASB issued an accounting standards update to clarify when a creditor should be considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan such that the loan should be derecognized and the real estate recognized. These amendments clarify that an in substance repossession or foreclosure occurs, and a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, upon either: (a) the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure; or (b) the borrower conveying all interest in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. This update is effective for annual periods and interim periods within those annual periods beginning after December 15, 2014. The adoption of this update is not expected to have a material impact on the Company s financial statements.

Effects of Inflation

The impact of inflation, as it affects banks, differs substantially from the impact on non-financial institutions. Banks have assets which are primarily monetary in nature and which tend to move with inflation. This is especially true for banks with a high percentage of rate sensitive interest-earning assets and interest-bearing liabilities. A bank can further reduce the impact of inflation with proper management of its rate

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sensitivity gap. This gap represents the difference between interest rate sensitive assets and interest rate sensitive liabilities. Lakeland attempts to structure its assets and liabilities and manages its gap to protect against substantial changes in interest rate scenarios, in order to minimize the potential effects of inflation.

Item 7A Quantitative and Qualitative Disclosures About Market Risk.

See Management s Discussion and Analysis of Financial Condition and Results of Operations.

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Item 8 Financial Statements and Supplementary Data

Lakeland Bancorp, Inc. and Subsidiaries

CONSOLIDATED BALANCE SHEETS

	December 31, 2014	December 31, 2013
	(dollars in thousands)	
ASSETS		
Cash	**$ 102,549**	$ 94,205
Interest-bearing deposits due from banks	**6,767**	8,516
Total cash and cash equivalents	**109,316**	102,721
Investment securities, available for sale, at fair value	**457,449**	431,106
Investment securities, held to maturity, at amortized cost with fair value of $109,030 in 2014 and $100,394 in 2013	**107,976**	101,744
Federal Home Loan Bank and other membership stock, at cost	**9,846**	7,938
Loans held for sale	**592**	1,206
Loans, net of deferred costs (fees)	**2,653,826**	2,469,016
Less: allowance for loan and lease losses	**30,684**	29,821
Net loans	**2,623,142**	2,439,195
Premises and equipment net	**35,675**	37,148
Accrued interest receivable	**8,896**	8,603
Goodwill	**109,974**	109,974
Other identifiable intangible assets	**1,960**	2,424
Bank owned life insurance	**57,476**	55,968
Other assets	**16,023**	19,764
TOTAL ASSETS	**$ 3,538,325**	$ 3,317,791
LIABILITIES AND STOCKHOLDERS EQUITY		
LIABILITIES:		
Deposits:		
Noninterest bearing	**$ 646,052**	$ 600,652
Savings and interest-bearing transaction accounts	**1,864,805**	1,812,467
Time deposits under $100 thousand	**165,625**	180,859
Time deposits $100 thousand and over	**114,337**	115,227
Total deposits	**2,790,819**	2,709,205
Federal funds purchased and securities sold under agreements to repurchase	**108,935**	81,991
Other borrowings	**202,498**	119,000
Subordinated debentures	**41,238**	41,238
Other liabilities	**15,397**	14,933
TOTAL LIABILITIES	**3,158,887**	2,966,367
STOCKHOLDERS EQUITY		
Common stock, no par value; authorized 70,000,000 shares; issued shares, 37,910,840 at December 31, 2014 and 37,873,800 at December 31, 2013	**384,731**	364,637
Accumulated Deficit	**(6,816)**	(8,538)
Accumulated other comprehensive gain (loss)	**1,523**	(4,675)

TOTAL STOCKHOLDERS EQUITY	**379,438**	351,424
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	**$ 3,538,325**	$ 3,317,791

The accompanying notes are an integral part of these statements.

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Lakeland Bancorp, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF INCOME

	Years Ended December 31,		
	2014	**2013**	**2012**
	(dollars in thousands, except per share data)		
INTEREST INCOME			
Loans, leases and fees	**$ 110,587**	$ 104,329	$ 100,513
Federal funds sold and interest-bearing deposits with banks	**71**	93	51
Taxable investment securities and other	**10,040**	7,985	8,574
Tax-exempt investment securities	**1,805**	1,792	1,821
TOTAL INTEREST INCOME	**122,503**	114,199	110,959
INTEREST EXPENSE			
Deposits	**5,064**	6,089	8,344
Federal funds purchased and securities sold under agreements to repurchase	**78**	39	79
Other borrowings	**3,795**	3,529	7,023
TOTAL INTEREST EXPENSE	**8,937**	9,657	15,446
NET INTEREST INCOME	**113,566**	104,542	95,513
Provision for loan and lease losses	**5,865**	9,343	14,907
NET INTEREST INCOME AFTER PROVISION FOR LOAN AND LEASE LOSSES	**107,701**	95,199	80,606
NONINTEREST INCOME			
Service charges on deposit accounts	**10,523**	10,837	10,504
Commissions and fees	**4,634**	4,585	4,491
Gain on sales and calls of investment securities, net	**2**	839	1,049
Gain on debt extinguishment		1,197	
Income on bank owned life insurance	**1,453**	1,410	1,344
Other income	**1,110**	2,093	1,517
TOTAL NONINTEREST INCOME	**17,722**	20,961	18,905
NONINTEREST EXPENSE			
Salaries and employee benefits	**45,167**	41,871	38,586
Net occupancy expense	**8,865**	8,074	7,089
Furniture and equipment	**6,605**	6,181	4,751
Stationery, supplies and postage	**1,403**	1,482	1,415
Marketing expense	**2,025**	2,088	2,034
Core deposit intangible amortization	**464**	288	
FDIC insurance expense	**2,019**	2,014	2,163
Legal expense	**945**	1,032	1,236
Other real estate and repossessed asset expense	**234**	24	99
Long-term debt prepayment fee		1,209	782
Merger related expenses		2,834	
Other expenses	**11,408**	11,644	9,518
TOTAL NONINTEREST EXPENSE	**79,135**	78,741	67,673
Income before provision for income taxes	**46,288**	37,419	31,838

Provision for income taxes	**15,159**	12,450	10,096
NET INCOME	**$ 31,129**	$ 24,969	$ 21,742
Dividends on Preferred Stock and Accretion	**$**	$	$ 620
Net Income Available to Common Stockholders	**$ 31,129**	$ 24,969	$ 21,122
PER SHARE OF COMMON STOCK:			
Basic earnings	**$ 0.82**	$ 0.71	$ 0.72
Diluted earnings	**$ 0.82**	$ 0.71	$ 0.72
Cash dividends	**$ 0.29**	$ 0.27	$ 0.24

The accompanying notes are an integral part of these statements.

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Lakeland Bancorp, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	For the Years Ended December 31, 2014	2013	2012
		(in thousands)	
NET INCOME	**$ 31,129**	$ 24,969	$ 21,742
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX:			
Unrealized securities gains (losses) during period	**6,180**	(8,690)	1,728
Less: reclassification for gains included in net income	**2**	509	682
Change in pension liability, net	**20**	588	19
Other Comprehensive Income (Loss)	**6,198**	(8,611)	1,065
TOTAL COMPREHENSIVE INCOME	**$ 37,327**	$ 16,358	$ 22,807

The accompanying notes are an integral part of these statements.

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Lakeland Bancorp, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY

For the years ended December 31, 2014, 2013 and 2012

	Common stock	Series A Preferred Stock	Accumulated Deficit	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total
			(dollars in thousands)			
BALANCE DECEMBER 31, 2011	$ 270,044	$ 18,480	($ 26,061)	($ 5,551)	$ 2,871	$ 259,783
Net Income			21,742			21,742
Other comprehensive income, net of tax					1,065	1,065
Preferred dividends			(100)			(100)
Accretion of discount		520	(520)			
Stock based compensation	746					746
Redemption of preferred stock		(19,000)				(19,000)
Warrant repurchase	(2,800)					(2,800)
Stock dividend	12,345		(12,345)			
Stock issuance, net of expenses	25,040					25,040
Issuance of restricted stock awards	(1,153)			1,153		
Issuance of stock to dividend reinvestment and stock purchase plan	(432)		(1,088)	1,680		160
Exercise of stock options, net of excess tax benefits	4					4
Cash dividends, common stock			(5,773)			(5,773)
BALANCE December 31, 2012	303,794		(24,145)	(2,718)	3,936	280,867
Net Income			24,969			24,969
Other comprehensive loss, net of tax					(8,611)	(8,611)
Stock based compensation	895					895
Issuance of restricted stock awards	(1,301)			1,301		
Issuance of stock for acquisition	57,419					57,419
Issuance of stock options for acquisition	1,500					1,500
Issuance of stock to dividend reinvestment and stock purchase plan	458		(1,210)	938		186
Exercise of stock options, net of excess tax benefits	1,872			479		2,351
Cash dividends, common stock			(8,152)			(8,152)
BALANCE December 31, 2013	$ 364,637	$	($ 8,538)	$	($ 4,675)	$ 351,424
Net Income			31,129			31,129
Other comprehensive income, net of tax					6,198	6,198
Stock based compensation	1,390					1,390
Stock dividend	18,266		(18,266)			
Issuance of stock to dividend reinvestment and stock purchase plan	382		(305)			77
Retirement of restricted stock	(104)					(104)
Exercise of stock options, net of excess tax benefits	160					160
Cash dividends, common stock			(10,836)			(10,836)
BALANCE December 31, 2014	$ 384,731		$ (6,816)		$ 1,523	$ 379,438

The accompanying notes are an integral part of these statements.

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Lakeland Bancorp, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31,		
	2014	**2013**	**2012**
		(in thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	**$ 31,129**	$ 24,969	$ 21,742
Adjustments to reconcile net income to net cash provided by operating activities:			
Net amortization of premiums, discounts and deferred loan fees and costs	**3,456**	4,787	6,125
Depreciation and amortization	**3,454**	3,625	3,067
Amortization of intangible assets	**464**	288	
Provision for loan and lease losses	**5,865**	9,343	14,907
Stock based compensation	**1,390**	895	746
Loans originated for sale	**(23,386)**	(34,718)	
Proceeds from sales of loans	**24,573**	36,804	
Gains on securities	**(2)**	(839)	(1,049)
Gains on sales of loans held for sale	**(573)**	(760)	
Gains on debt extinguishment		(1,197)	
Gains on leases			(471)
Gains on other real estate and other repossessed assets	**(258)**	(934)	(47)
Gain on sale of premises and equipment	**(65)**	(60)	(201)
Deferred tax provision	**(34)**	164	576
(Increase) decrease in other assets	**(879)**	7,366	2,107
Increase in other liabilities	**495**	995	1,089
NET CASH PROVIDED BY OPERATING ACTIVITIES	**45,629**	50,728	48,591
CASH FLOWS FROM INVESTING ACTIVITIES			
Net cash acquired in acquisition		74,316	
Proceeds from repayments on and maturity of securities:			
Available for sale	**55,810**	70,779	117,130
Held to maturity	**22,508**	22,952	26,070
Proceeds from sales of securities:			
Available for sale	**15,719**	64,020	97,824
Held to maturity	**1,301**		
Purchase of securities:			
Available for sale	**(90,630)**	(187,452)	(144,652)
Held to maturity	**(30,556)**	(19,603)	(54,510)
Net (increase) decrease in Federal Home Loan Bank and other membership bank stock	**(1,908)**	(2,063)	2,951
Net increase in loans and leases	**(191,910)**	(91,201)	(120,870)
Proceeds from sales of bank premises and equipment	**118**	463	749
Capital expenditures	**(2,492)**	(2,786)	(8,978)
Proceeds from sales of other real estate and other repossessed assets	**1,484**	4,509	1,768
NET CASH USED IN INVESTING ACTIVITIES	**(220,556)**	(66,066)	(82,518)
CASH FLOWS FROM FINANCING ACTIVITIES			
Net increase in deposits	**81,783**	26,540	121,344
Increase (decrease) in federal funds purchased and securities sold under agreements to repurchase	**26,944**	(35,298)	45,158
Proceeds from other borrowings	**168,498**	50,000	280,000
Repayments of other borrowings	**(85,000)**	(16,000)	(350,000)
Issuance of stock to Dividend Reinvestment and Stock Purchase Plan	**77**	186	160
Proceeds on issuance of stock, net			25,040
Redemption of subordinated debentures, net		(9,113)	(25,000)
Redemption of preferred stock and common stock warrant			(21,800)
Exercise of stock options	**90**	2,209	
Retirement of Restricted stock	**(104)**		
Excess tax benefits	**70**	142	4

Dividends paid on preferred stock			(219)
Dividends paid on common stock	**(10,836)**	(8,152)	(5,773)
NET CASH PROVIDED BY FINANCING ACTIVITIES	**181,522**	10,514	68,914
Net increase (decrease) in cash and cash equivalents	**6,595**	(4,824)	34,987
Cash and cash equivalents, beginning of year	**102,721**	107,545	72,558
CASH AND CASH EQUIVALENTS, END OF YEAR	**$ 109,316**	$ 102,721	$ 107,545

The accompanying notes are an integral part of these statements.

Lakeland Bancorp, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF ACCOUNTING POLICIES

Lakeland Bancorp, Inc. (the Company) is a bank holding company whose principal activity is the ownership and management of its wholly owned subsidiary, Lakeland Bank (Lakeland). Lakeland operates under a state bank charter and provides full banking services and, as a state bank, is subject to regulation by the New Jersey Department of Banking and Insurance. Lakeland generates commercial, mortgage and consumer loans and receives deposits from customers located primarily in Northern and Central New Jersey. Lakeland also provides non-deposit products, such as securities brokerage services, including mutual funds and variable annuities.

Lakeland operates as a commercial bank offering a wide variety of commercial loans and leases and, to a lesser degree, consumer credits. Its primary strategic aim is to establish a reputation and market presence as the small and middle market business bank in its principal markets. Lakeland funds its loans primarily by offering time, savings and money market, and demand deposit accounts to both commercial enterprises and individuals. Additionally, it originates residential mortgage loans, and services such loans which are owned by other investors. Lakeland also has an equipment finance division which provides equipment lease financing primarily to small and medium sized business clients and an asset based lending department which specializes in utilizing particular assets to fund the working capital needs of borrowers.

The Company and Lakeland are subject to regulations of certain state and federal agencies and, accordingly, are periodically examined by those regulatory authorities. As a consequence of the extensive regulation of commercial banking activities, Lakeland s business is particularly susceptible to being affected by state and federal legislation and regulations.

Basis of Financial Statement Presentation

The accounting and reporting policies of the Company and its subsidiaries conform with accounting principles generally accepted in the United States of America (U.S. GAAP) and predominant practices within the banking industry. The consolidated financial statements include the accounts of the Company, Lakeland, Lakeland NJ Investment Corp., Lakeland Investment Corp., Lakeland Equity, Inc., Lakeland Preferred Equity, Inc. and Sullivan Financial Services, Inc. All intercompany balances and transactions have been eliminated.

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. These estimates and assumptions also affect reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates. Significant estimates implicit in these financial statements are as follows.

The principal estimates that are particularly susceptible to significant change in the near term relate to the allowance for loan and lease losses, the valuation of the Company s investment securities portfolio, the realizability of the Company s deferred tax asset and the analysis of goodwill and intangible impairment. The policies regarding these estimates are discussed below.

The Company s operating segments are components of its enterprise for which separate financial information is available and is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and assess performance. The Company s chief operating decision maker is its Chief Executive Officer. All of the Company s financial services activities are interrelated, and each activity is dependent and assessed based on how each of the activities of the Company supports the others. For example, commercial lending is dependent upon the ability of Lakeland to fund itself with retail deposits and other borrowings and to manage interest rate and credit risk. The situation is also similar for consumer and residential mortgage lending.

Moreover, the Company primarily operates in one market area, Northern and Central New Jersey. Therefore, all significant operating decisions are based upon analysis of the Company as one operating segment or unit. Accordingly, the Company has determined that it has one operating segment and thus one reporting segment.

Investment Securities

Investment securities are classified in one of three categories: held to maturity, trading, or available for sale. Investments in debt securities, for which management has both the ability and intent to hold to maturity, are carried at cost, adjusted for the amortization of premiums and accretion of discounts computed by the effective interest method. Investments in debt and equity securities, which management believes may be sold prior to maturity due to changes in interest rates, prepayment risk, liquidity requirements, or other factors, are classified as available for sale. Net unrealized gains and losses for such securities, net of tax effect, are reported as other comprehensive income (loss) and excluded from the determination of net income. The Company does not engage in securities trading. Gains or losses on disposition of investment securities are based on the net proceeds and the adjusted carrying amount of the securities sold using the specific identification method. Losses are recorded through the statement of income when the impairment is considered other-than-temporary, even if a decision to sell has not been made.

The Company evaluates its portfolio for impairment each quarter. In estimating other-than-temporary losses, the Company considers the length of time and the extent to which the fair value has been less than cost, the financial condition and near-term prospects of the issuer, and whether the Company is more likely than not to sell the security before recovery of its cost basis. If a security has been impaired for more than twelve months, and the impairment is deemed other-than-temporary, a write down will occur in that quarter. If a loss is deemed to be other-than-temporary, it is recognized as a realized loss in the income statement with the security assigned a new cost basis.

If the Company intends to sell an impaired security, the Company records an other-than-temporary loss in an amount equal to the entire difference between the fair value and amortized cost. If a security is determined to be other-than-temporarily impaired, but the Company does not intend to sell the security, only the credit portion of the estimated loss is recognized in earnings in gain (loss) on securities, with the other portion of the loss recognized in other comprehensive income. If a determination is made that an equity security is other-than-temporarily impaired, the unrealized loss will be recognized as an other-than-temporary impairment charge in non-interest income as a component of gain (loss) on investment securities.

Loans and Leases and Allowance for Loan and Lease Losses

Loans and leases that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are stated at the amount of unpaid principal and are net of unearned discount, unearned loan fees and an allowance for loan and lease losses.

Interest income is accrued as earned on a simple interest basis. All unamortized fees and costs related to the loan are amortized over the life of the loan using the interest method. Accrual of interest is discontinued on a loan or lease when management believes, after considering economic and business conditions and collection efforts, that the borrower s financial condition is such that full collection of interest and principal is doubtful. When a loan or lease is placed on such non-accrual status, all accumulated accrued interest receivable is reversed out of current period income.

Commercial loans and leases are placed on a non-accrual status with all accrued interest and unpaid interest reversed if (a) because of the deterioration in the financial position of the borrower they are maintained on a cash basis (which means payments are applied when and as received rather than on a regularly scheduled basis), (b) payment in full of interest or principal is not expected, or (c) principal and interest have been in default for a period of 90 days or more unless the obligation is both well-secured and in process of collection. Residential mortgage loans are placed on non-accrual status at the time principal and interest have been in default for a period of 90 days or more, except where there exists sufficient collateral to cover the defaulted principal and interest payments, and management s knowledge of the specific circumstances warrant continued accrual. Consumer loans are generally placed on non-accrual and reviewed for charge-off when principal and interest payments are four months in arrears unless the obligations are well-secured and in the process of collection. Interest thereafter on such charged-off consumer loans is taken into income when received only after full recovery of principal. As a general rule, a non-accrual asset may be restored to accrual status when none of its principal or interest is due and unpaid, satisfactory payments have been received for a sustained period (usually six months), or when it otherwise becomes well-secured and in the process of collection.

Loans and leases are considered impaired when, based on current information and events, it is probable that Lakeland will be unable to collect all amounts due in accordance with the original contractual terms of the loan agreement, including scheduled principal and interest payments. Impairment is measured based on the present value of expected cash flows discounted at the loan s effective interest rate, or as a practical expedient, Lakeland may measure impairment based on a loan s observable market price, or the fair value of the collateral, less estimated costs to sell, if the loan is collateral-dependent. Regardless of the measurement method, Lakeland measures impairment based on the fair value of the collateral when it is determined that foreclosure is probable. Most of Lakeland s impaired loans are collateral-dependent. Lakeland groups impaired commercial loans under $500,000 into a homogeneous pool and collectively evaluates them. Interest received on impaired loans and leases may be recorded as interest income. However, if management is not reasonably certain that an impaired loan and lease will be repaid in full, or if a specific time frame to resolve full collection cannot yet be reasonably determined, all payments received are recorded as reductions of principal.

Loans are classified as troubled debt restructured loans in cases where borrowers experience financial difficulties and Lakeland makes certain concessionary modifications to contractual terms. Restructured loans typically involve a modification of terms such as a reduction of the stated interest rate, an extended moratorium of principal payments and/or an extension of the maturity date at a stated interest rate lower than the current market rate for a new loan with similar risk. Nonetheless, restructured loans are classified as impaired loans.

Once an obligation has been restructured because of credit problems, it continues to be considered restructured until paid in full or if all of the following conditions are met: (1) the financial problems of the borrower have been cured; (2) the obligation is returned to a market rate and term; and (3) there has been performance for the longer of the next annual reporting period or six consecutive months. If an obligation has been restructured, it will continue to be classified as impaired until the obligation is fully repaid or until it meets all of the following criteria: 1) the borrower is no longer experiencing financial difficulties, 2) the rate is not less than the rate provided for similar credit risk, 3) other terms are no less favorable than similar new debt and 4) no concessions were granted (any prior principal forgiveness is deemed to be an ongoing concession).

The allowance for loan and lease losses is established through a provision for loan and lease losses charged to expense. Loan principal considered to be uncollectible by management is charged against the allowance for loan and lease losses. The allowance is an amount that management believes will be adequate to absorb losses on existing loans and leases that may become uncollectible based upon an evaluation of known and inherent risks in the loan and lease portfolio. The evaluation takes into consideration such factors as changes in the nature and size of the loan and lease portfolio, overall portfolio quality, specific problem loans and leases, and current economic conditions which may affect the borrowers ability to pay. The evaluation also analyzes historical losses by loan and lease category, and considers the resulting loss rates when determining the reserves on current loan and lease total amounts. Additionally, management assesses the loss emergence period for the expected losses of each loan segment and adjusts each historical loss factor accordingly. The loss emergence period is the estimated time from the date of a loss event (such as a personal bankruptcy) to the actual recognition of the loss (typically via the first full or partial loan charge-off), and is determined based upon a study of our past loss experience by loan segment. Loss reserves for specified problem loans and leases are also detailed. All of the factors considered in the analysis of the adequacy of the allowance for loan and lease losses may be subject to change. To the extent actual outcomes differ from management estimates, additional provisions for loan and lease losses may be required that would adversely impact earnings in future periods.

The determination of the adequacy of the allowance for loan and lease losses and the periodic provisioning for estimated losses included in the consolidated financial statements is the responsibility of management and the Board of Directors. The evaluation process is undertaken on a quarterly basis.

Methodology employed for assessing the adequacy of the allowance consists of the following criteria:

- The establishment of reserve amounts for all specifically identified classified loans and leases that have been designated as requiring attention by Lakeland.

- The establishment of reserves for pools of homogeneous types of loans and leases not subject to specific review, including impaired loans under $500,000, leases, 1 4 family residential mortgages, and consumer loans.

- The establishment of reserve amounts for the non-classified loans and leases in each portfolio based upon the historical average loss experience as modified by management s assessment of the loss emergence period for these portfolios and management s evaluation of key factors.

- Lakeland also maintains an unallocated component in its allowance for loan and lease losses. Management believes that the unallocated component is warranted for inherent factors that cannot be practically assigned to individual loss categories, such as the periodic updating of appraisals on impaired loans, as well as periodic updating of commercial loan credit risk ratings by loan officers and Lakeland s internal credit review process.

Consideration is given to the results of ongoing credit quality monitoring processes, the adequacy and expertise of Lakeland s lending staff, underwriting policies, loss histories, delinquency trends, and the cyclical nature of economic and business conditions. Since many of Lakeland s loans depend on the sufficiency of collateral as a secondary source of repayment, any adverse trend in the real estate markets could affect underlying values available to protect Lakeland from loss.

A loan that management designates as impaired is reviewed for charge-off when it is placed on non-accrual status with a resulting charge-off if the loan is not secured by collateral having sufficient liquidation value to repay the loan and all outstanding interest owed, and the loan is not in the process of collection. Charge-offs are recommended by the Chief Credit Officer and approved by the Board on a monthly basis.

Mortgage loans originated and intended for sale in the secondary market are carried at the lower of aggregate cost or estimated fair value. Gains and losses on sales of loans are specifically identified and accounted for in accordance with U.S. GAAP which requires that an entity engaged in mortgage banking activities classify the retained mortgage-backed security or other interest, which resulted from the securitization of a mortgage loan held for sale, based upon its ability and intent to sell or hold these investments. As of December 31, 2014 and 2013, Lakeland had mortgages classified as held for sale totaling $592,000 and $1.2 million, respectively.

Bank Premises and Equipment

Bank premises and equipment, including leasehold improvements, are stated at cost less accumulated depreciation. Depreciation expense is computed on the straight-line method over the estimated useful lives of the assets. Leasehold improvements are depreciated over the shorter of the estimated useful lives of the improvements or the terms of the related leases.

Other Real Estate Owned and Other Repossessed Assets

Other real estate owned (OREO) and other repossessed assets, representing property acquired through foreclosure (or deed-in-lieu-of-foreclosure), are carried at fair value less estimated disposal costs of the acquired property. Costs relating to holding the assets are charged to expense. An allowance for OREO or other repossessed assets is established, through charges to expense, to maintain properties at fair value less estimated costs to sell. Operating results of OREO and other repossessed assets, including rental income and operating expenses, are included in other expenses.

Mortgage Servicing

Lakeland performs various servicing functions on loans owned by others. A fee, usually based on a percentage of the outstanding principal balance of the loan, is received for these services. At December 31, 2014 and 2013, Lakeland was servicing approximately $33.9 million and $37.8 million, respectively, of loans for others.

Lakeland originates certain mortgages under a definitive plan to sell or securitize those loans and service the loans owned by the investor. Upon the transfer of the mortgage loans in a sale or a securitization, Lakeland records the servicing assets retained. Lakeland records mortgage servicing rights and the loans based on relative fair values at the date of origination and evaluates the mortgage servicing rights for impairment at each reporting period. Lakeland also originates loans that it sells to other banks and investors and does not retain the servicing rights.

Mortgage Servicing Rights

When mortgage loans are sold with servicing retained, servicing rights are initially recorded at fair value with the income statement effect recorded in gains on sales of loans. Fair value is based on market prices for comparable mortgage servicing contracts, when available, or alternatively, is based on a valuation model that calculates the present value of estimated future net servicing income. All classes of servicing assets are subsequently measured using the amortization method which requires servicing rights to be amortized into non-interest income in proportion to, and over the period of, the estimated future net servicing income of the underlying loans. As of December 31, 2014 and 2013, Lakeland had originated mortgage servicing rights of $217,000 and $274,000, respectively.

Under the amortization measurement method, Lakeland subsequently measures servicing rights at fair value at each reporting date and records any impairment in value of servicing assets in earnings in the period in which the impairment occurs. The fair values of servicing rights are subject to significant fluctuations as a result of changes in estimated and actual prepayment speeds and default rates and losses. Servicing fee income, which is reported on the income statement as commissions and fees, is recorded for fees earned for servicing loans. The fees are based on a contractual percentage of the outstanding principal or a fixed amount per loan, and are recorded as income when earned.

Transfers of Financial Assets

Transfers of financial assets are accounted for as sales, when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Company-put presumptively beyond the reach of the transferor and its creditors even in bankruptcy or other receivership, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets and (3) the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity or the ability to unilaterally cause the holder to return specific assets.

Customer Derivatives

Lakeland enters into interest rate swaps (swaps) with loan customers to provide a facility to mitigate the fluctuations in the variable rate on the respective loans. These swaps are matched in offsetting terms to swaps that Lakeland enters into with an outside third party. The swaps are reported at fair value in other assets or other liabilities. Lakeland s swaps qualify as derivatives, but are not designated as hedging instruments, thus any net gain or loss resulting from changes in the fair value is recognized in other non-interest income. Further discussion of Lakeland s financial derivatives is set forth in Note 18 to the Consolidated Financial Statements.

The credit risk associated with derivatives executed with customers is similar as that involved in extending loans and is subject to normal credit policies. Collateral may be obtained based on management s assessment of the customer. The positions of customer derivatives are recorded at fair value and changes in value are included in non-interest income on the consolidated statement of income.

Restrictions On Cash And Due From Banks

A portion of Lakeland s cash on hand and on deposit with the Federal Reserve Bank was required to meet regulatory reserve and clearing requirements.

Earnings Per Share

Earnings per share is calculated on the basis of the weighted average number of common shares outstanding during the year. Basic earnings per share excludes dilution and is computed by dividing income available to common shareholders by the weighted average common shares outstanding during the period. Diluted earnings per share takes into account the potential dilution that could occur if securities or other contracts to issue common stock were exercised and converted into common stock. Unless otherwise indicated, all weighted average, actual shares or per share information in the financial statements have been adjusted retroactively for the effect of stock dividends.

Employee Benefit Plans

The Company has certain employee benefit plans covering substantially all employees. The Company accrues such costs as incurred.

We recognize the overfunded or underfunded status of pension and postretirement benefit plans in accordance with U.S. GAAP. Actuarial gains and losses, prior service costs or credits, and any remaining transition assets or obligations are recognized as a component of Accumulated Other Comprehensive Income, net of tax effects, until they are amortized as a component of net periodic benefit cost.

Stock-Based Compensation

The Company s shareholders approved the 2009 Equity Compensation Program, which authorizes the granting of incentive stock options, supplemental stock options, restricted shares and restricted stock units to employees of the Company, including those employees serving as officers and directors of the Company. The plan authorizes the issuance of up to 2.3 million shares in connection with options and awards granted under the 2009 program. The Company s stock option grants under this plan expire 10 years from the date of grant, ninety days after termination of service other than for cause, or one year after death or disability of the grantee. In 2014, the Company began issuing restricted stock units (RSUs), some of which have performance conditions attached to them. The Company generally issues shares for option exercises from its treasury stock using the cost method or issues new shares if no treasury shares are available.

The Company established the 2000 Equity Compensation Program which authorizes the granting of incentive stock options, supplemental stock options and restricted stock to employees of the Company, which includes those employees serving as officers and directors of the Company. The plan authorized 2,613,185 shares of common stock of the Company. All of the Company s stock option grants expire 10 years from the date of grant, thirty days after termination of service other than for cause, or one year after death or disability of the grantee. The Company has no option or restricted stock awards with market or performance conditions attached to them under the 2000 Equity Compensation Program. No further awards will be granted from the 2000 program.

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Statement Of Cash Flows

Cash and cash equivalents are defined as cash on hand, cash items in the process of collection, amounts due from banks and federal funds sold with an original maturity of three months or less. The following shows supplemental non-cash investing and financing activities for the periods presented:

	2014	2013	2012
		(in thousands)	
Transfer of loans and leases receivable to other real estate owned and other repossessed assets	**$ 1,867**	$ 3,565	$ 1,068
Cash paid for income taxes	**15,067**	12,051	9,382
Cash paid for interest	**8,882**	10,804	16,334
Acquisition of Somerset Hills Bancorp:			
Non-cash assets acquired:			
Investment securities available for sale		1,777	
Investment securities held for maturity		8,686	
Loans, including loans held for sale		246,459	
Goodwill and other intangible assets, net		25,574	
Other assets		15,653	
Total non-cash assets acquired		298,149	
Liabilities assumed:			
Deposits		311,801	
Other liabilities		1,745	
Total liabilities assumed		313,546	
Common stock issued and fair value of stock options converted to Lakeland Bancorp stock options		58,919	

Comprehensive Income (Loss)

The Company reports comprehensive income (loss) in addition to net income (loss) from operations. Comprehensive income (loss) is a more inclusive financial reporting methodology that includes disclosure of certain financial information that historically has not been recognized in the calculation of net income.

Goodwill and Other Identifiable Intangible Assets

The Company has goodwill of $110.0 million at December 31, 2014 and December 31, 2013, which includes $22.9 million from the Somerset Hills acquisition and $87.1 million from prior acquisitions. The Company recorded $2.7 million in Core Deposit Intangible from the Somerset Hills Acquisition in 2013. Core deposit intangible was $2.0 million on December 31, 2014 compared to $2.4 million on December 31, 2013. The Company recorded $464,000 in core deposit amortization in 2014 compared to $288,000 in 2013.

The Company reviews goodwill for impairment annually as of November 30 or when circumstances indicate a potential for impairment at the reporting unit level. U.S. GAAP requires at least an annual review of the fair value of a Reporting Unit that has goodwill in order to determine if it is more likely than not (that is, a likelihood of more than 50%) that the fair value of a reporting unit is less than its carrying amount, including goodwill. If this qualitative test determines it is unlikely (less than 50% probability) the carrying value of the Reporting Unit is less than its fair value, then the company does not have to perform a Step One impairment test. If the probability is greater than 50%, a Step One goodwill impairment test is required. The Step One test compares the fair value of each reporting unit to the carrying value of its net assets, including goodwill. If the fair value is less than carrying value, the Step Two test is required. The Company has determined that it has one reporting unit, Community Banking.

The Company performed a qualitative analysis to determine whether the weight of evidence, the significance of all identified events and circumstances indicated a greater than 50% likelihood existed that the

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carrying value of the Reporting Unit exceeded its fair value and if a Step One Test would be required. The Company identified nine qualitative assessments that are relative to the banking industry and to the Company. These factors included macroeconomic factors, banking industry conditions, banking merger and acquisition trends, Lakeland s historical performance, the Company s stock price, the expected performance of Lakeland, the change of control premium of the Company versus its peers and other miscellaneous factors. After reviewing and weighting these factors, the Company, as well as a third party adviser, determined as of November 30, 2014 that there was a less than 50% probability that the fair value of the Company was less than its carrying amount. Therefore, no Step One test was required.

Bank Owned Life Insurance

Lakeland invests in bank owned life insurance (BOLI). BOLI involves the purchasing of life insurance by Lakeland on a chosen group of employees. Lakeland is owner and beneficiary of the policies. At December 31, 2014 and 2013, Lakeland had $57.5 million and $56.0 million, respectively, in BOLI. Income earned on BOLI was $1.5 million, $1.4 million and $1.3 million for the years ended December 31, 2014, 2013 and 2012, respectively. BOLI is accounted for using the cash surrender value method and is recorded at its realizable value.

Income Taxes

The Company accounts for income taxes under the asset and liability method of accounting for income taxes. Deferred tax assets and liabilities are determined based on the difference between the financial statement and tax bases of assets and liabilities as measured by the enacted tax rates that will be in effect when these differences reverse. Deferred tax expense is the result of changes in deferred tax assets and liabilities. The principal types of differences between assets and liabilities for financial statement and tax return purposes are allowance for loan and lease losses, core deposit intangibles, deferred loan fees and deferred compensation.

The Company evaluates tax positions that may be uncertain using a recognition threshold of more-likely-than-not, and a measurement attribute for all tax positions taken or expected to be taken on a tax return, in order for those tax positions to be recognized in the financial statements. Additional information regarding the Company s uncertain tax positions is set forth in Note 9 below.

Variable Interest Entities

Management has determined that Lakeland Bancorp Capital Trust II and Lakeland Bancorp Capital Trust IV (collectively, the Trusts) qualify as variable interest entities. The Trusts issued mandatorily redeemable preferred stock to investors and loaned the proceeds to the Company. The Trusts hold, as their sole asset, subordinated debentures issued by the Company. The Company is not considered the primary beneficiary of the Trusts, therefore the Trusts are not consolidated in the Company s financial statements.

The Company s maximum exposure to the Trusts is $40 million at December 31, 2014 which is the Company s liability to the Trusts and includes the Company s investment in the Trusts.

The Federal Reserve has issued guidance on the regulatory capital treatment for the trust preferred securities issued by the Trusts. The rule retains the current maximum percentage of total capital permitted for trust preferred securities at 25%, but enacts other changes to the rules governing trust preferred securities that affect their use as part of the collection of entities known as restricted core capital elements. The rule allows bank holding companies to continue to count trust preferred securities as Tier 1 Capital. The Company s capital ratios continue to be categorized as well-capitalized under the regulatory framework for prompt corrective action. Under the Collins Amendment to the Dodd-Frank Wall Street Reform and Consumer Protection Act, any new issuance of trust preferred securities by the Company would not be eligible as regulatory capital.

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New Accounting Pronouncements

In January 2015, the Financial Accounting Standards Board (FASB) issued an accounting standards update regarding the elimination of the concept of the extraordinary items from the statement of operations. The purpose of this update is to simplify the statement of operations presentation and to align the US GAAP income statement more closely with international accounting standards. This update is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. The adoption of this update is not expected to have a material impact on the Company s financial statements.

In June 2014, the FASB issued an accounting standards update regarding share based payments that requires that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. This update is effective for interim and annual periods beginning after December 15, 2015. The amendments can be applied prospectively to all awards granted or modified after the effective date or retrospectively to all awards with performance targets that are outstanding as of the beginning of the earliest annual period presented and to all new or modified awards thereafter. Early adoption is permitted. The Company has determined that adoption of this update is not expected to have a material impact on its accounting and disclosures.

In June 2014, the FASB issued an accounting standards update that aligns the accounting for repurchase to maturity transactions and repurchase agreements executed as a repurchase financing with the accounting for other typical repurchase agreements. Going forward, these transactions would all be accounted for as secured borrowings. This update is effective for the first interim or annual period beginning after December 15, 2014. In addition the disclosure of certain transactions accounted for as a sale is effective for the first interim or annual period beginning on or after December 15, 2014, and the disclosure for transactions accounted for as secured borrowings is required for annual periods beginning after December 15, 2014, and interim periods after March 15, 2015. Early adoption is prohibited. The Company does not engage in repurchase to maturity transactions, and therefore has determined that the adoption of this update is not expected to have a material impact on the Company s financial results.

In May 2014, the FASB issued an accounting standards update that clarifies the principles for recognizing revenue. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to a customer in an amount that reflects the consideration to which the entity expects to be entitled in exchange for these goods or services. This guidance is effective for the Company beginning January 1, 2017. The Company is still evaluating the potential impact on the Company s financial statements.

In January 2014, the FASB issued an accounting standards update to clarify when a creditor should be considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan such that the loan should be derecognized and the real estate recognized. These amendments clarify that an in substance repossession or foreclosure occurs, and a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, upon either: (a) the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure; or (b) the borrower conveying all interest in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. This update is effective for annual periods and interim periods within those annual periods beginning after December 15, 2014. The adoption of this update is not expected to have a material impact on the Company s financial statements.

NOTE 2 ACQUISITIONS

On May 31, 2013, the Company completed its acquisition of Somerset Hills Bancorp (Somerset Hills), a bank holding company headquartered in Bernardsville, New Jersey. Somerset Hills was the parent of Somerset Hills Bank, Sullivan Financial Services, Inc., and Somerset Hills Investment Holdings, Inc. This acquisition enables the Company to expand into Somerset and Union counties, and broaden its presence in Morris County. Effective as of the close of business on May 31, 2013, Somerset Hills Bancorp merged into the Company, and

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Somerset Hills Bank merged into Lakeland Bank. The Merger Agreement provided that the shareholders of Somerset Hills Bancorp would receive, at their election, for each outstanding share of Somerset Hills Bancorp common stock that they own at the effective time of the merger, either 1.256 shares (adjusted for the 2014 stock dividend) of Lakeland Bancorp common stock or $12.00 in cash, subject to proration as described in the Merger Agreement, so that 90% of the aggregate merger consideration was shares of Lakeland Bancorp common stock and 10% was cash. Lakeland Bancorp issued an aggregate of 6,083,783 shares (adjusted for the 2014 stock dividend) of its common stock in the merger, and also assumed outstanding Somerset Hills Bancorp stock options (which were converted into options to purchase Lakeland Bancorp common stock). Lakeland Bancorp paid $6.5 million in cash in the transaction.

The acquisition was accounted for under the acquisition method of accounting and accordingly, assets acquired, liabilities assumed and consideration exchanged were recorded at their estimated fair values as of the acquisition date. Somerset Hills assets were recorded at their preliminary estimated fair values as of May 31, 2013 and Somerset Hills results of operations have been included in the Company s Consolidated Statements of Income since that date.

The assets acquired and liabilities assumed in the acquisition were recorded at their estimated fair values based on management s best estimates using information available at the date of the acquisition, including the use of a third party valuation specialist. The fair values are preliminary estimates and subject to adjustment for up to one year after the closing date of the acquisition. The following table summarizes the estimated fair value of the acquired assets and liabilities (in thousands).

Consideration Paid

Lakeland Bancorp stock issued	$ 57,419
Cash Payment	6,460
Fair value of Somerset Hills stock options converted to Lakeland Bancorp stock options	1,500
Total Consideration Paid	$ 65,379
Recognized amounts of identifiable assets and liabilities assumed at fair value	
Cash and cash equivalents	$ 80,776
Securities available for sale	1,777
Securities held to maturity	8,686
Federal Home Loan Bank stock	493
Loans and leases	243,927
Loans held for sale	2,532
Premises and equipment	5,214
Identifiable intangible assets	2,712
Accrued interest receivable and other assets	9,946
Deposits	(311,801)
Other liabilities	(1,745)
Total identifiable assets	$ 42,517
Goodwill	$ 22,862

Loans acquired in the Somerset Hills acquisition were recorded at fair value and subsequently accounted for in accordance with ASC Topic 310, and there was no carryover related allowance for loan and lease losses. The fair values of loans acquired from Somerset Hills were estimated using cash flow projections based on the remaining maturity and repricing terms. Cash flows were adjusted for estimated future credit losses and the rate of prepayments. Projected cash flows were then discounted to present value using a risk-adjusted market rate for similar loans.

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The following is a summary of the loans acquired in the Somerset Hills acquisition as of the closing date.

(in thousands)	Acquired Credit Impaired Loans	Acquired Non-Credit Impaired Loans	Total Acquired Loans
Contractually required principal and interest at acquisition	$ 4,507	$ 352,148	$ 356,655
Contractual cash flows not expected to be collected (non-accretable difference)	2,541		2,541
Expected cash flows at acquisition	$ 1,966	$ 352,148	$ 354,114
Interest component of expected cash flows (accretable difference)	322	107,333	107,655
Fair value of acquired loans, including mortgages held for sale	$ 1,644	$ 244,815	$ 246,459

The core deposit intangible totaled $2.7 million and is being estimated over its estimated useful life of approximately 10 years using an accelerated method. The goodwill will be evaluated annually for impairment. The goodwill is not deductible for tax purposes.

The fair values of deposit liabilities with no stated maturities such as checking, money market and savings accounts, were assumed to equal the carrying amounts since these deposits are payable on demand. The fair values of certificates of deposits and IRAs represent the present value of contractual cash flows discounted at market rates for similar certificates of deposit.

Direct costs related to the acquisition were expensed as incurred. During 2013, the Company incurred $2.8 million, of merger and acquisition integration-related expenses, which have been separately reflected in the Company s Consolidated Statements of Income.

Core Deposit Intangible

As stated above, the Company recorded $2.7 million in core deposit intangible for the Somerset Hills acquisition. The Company has amortized $464,000 and $288,000 in core deposit intangible for the years ended December 31, 2014 and 2013, respectively. The estimated future amortization expense for each of the succeeding five years ended December 31 is as follows (dollars in thousands):

For the year ended:	
2015	415
2016	366
2017	316
2018	267
2019	218

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NOTE 3 INVESTMENT SECURITIES

The amortized cost, gross unrealized gains and losses, and the fair value of the Company s available for sale and held to maturity securities are as follows:

AVAILABLE FOR SALE	December 31, 2014 Amortized Cost	December 31, 2014 Gross Unrealized Gains	December 31, 2014 Gross Unrealized Losses	December 31, 2014 Fair Value	December 31, 2013 Amortized Cost	December 31, 2013 Gross Unrealized Gains	December 31, 2013 Gross Unrealized Losses	December 31, 2013 Fair Value
	(in thousands)				(in thousands)			
U.S. treasury and U.S. government agencies	**$ 94,466**	**$ 261**	**$ (807)**	**$ 93,920**	$ 72,828	$	$ (2,663)	$ 70,165
Mortgage-backed securities, residential	**309,162**	**2,868**	**(2,075)**	**309,955**	310,088	1,752	(7,338)	304,502
Mortgage-backed securities, multifamily	**4,973**	**3**		**4,976**				
Obligations of states and political subdivisions	**29,764**	**888**	**(133)**	**30,519**	36,482	914	(523)	36,873
Other debt securities	**494**	**11**		**505**	3,541	37	(158)	3,420
Equity securities	**16,196**	**1,589**	**(211)**	**17,574**	15,433	1,097	(384)	16,146
	$ 455,055	**$ 5,620**	**$ (3,226)**	**$ 457,449**	$ 438,372	$ 3,800	$ (11,066)	$ 431,106

HELD TO MATURITY	December 31, 2014 Amortized Cost	December 31, 2014 Gross Unrealized Gains	December 31, 2014 Gross Unrealized Losses	December 31, 2014 Fair Value	December 31, 2013 Amortized Cost	December 31, 2013 Gross Unrealized Gains	December 31, 2013 Gross Unrealized Losses	December 31, 2013 Fair Value
	(in thousands)				(in thousands)			
U.S. government agencies	**$ 20,477**	**$ 232**	**$ (84)**	**$ 20,625**	$ 19,732	$ 3	$ (576)	$ 19,159
Mortgage-backed securities, residential	**42,309**	**645**	**(385)**	**42,569**	34,596	524	(1,025)	34,095
Mortgage-backed securities, multifamily	**2,259**		**(60)**	**2,199**	2,355		(166)	2,189
Obligations of states and political subdivisions	**41,401**	**658**	**(90)**	**41,969**	43,521	495	(770)	43,246
Other debt securities	**1,530**	**138**		**1,668**	1,540	165		1,705
	$ 107,976	**$ 1,673**	**$ (619)**	**$ 109,030**	$ 101,744	$ 1,187	$ (2,537)	$ 100,394

The following table lists contractual maturities of investment securities classified as available for sale and held to maturity. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	December 31, 2014 Available for Sale Amortized Cost	December 31, 2014 Available for Sale Fair Value	December 31, 2014 Held to Maturity Amortized Cost	December 31, 2014 Held to Maturity Fair Value
	(in thousands)			
Due in one year or less	$ 967	$ 975	$ 8,845	$ 8,897
Due after one year through five years	80,286	80,246	13,612	13,951
Due after five years through ten years	42,185	42,459	35,277	35,701
Due after ten years	1,286	1,264	5,674	5,713

	124,724	124,944	63,408	64,262
Mortgage-backed securities	314,135	314,931	44,568	44,768
Equity securities	16,196	17,574		
Total securities	$ 455,055	$ 457,449	$ 107,976	$ 109,030

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The following table shows proceeds from sales of securities, gross gains and gross losses on sales and calls of securities for the periods indicated:

	Years ended December 31,		
	2014	2013	2012
		(in thousands)	
Sale proceeds	**$ 17,020**	$ 64,020	$ 97,824
Gross gains	**346**	893	1,364
Gross losses	**(344)**	(54)	(315)

The above sales in 2014 include sales of $1.4 million in held to maturity mortgage-backed securities of which the Company had already collected over 90% of the principal outstanding. The Company realized $73,000 in gains on sales of these securities.

Gains or losses on sales of securities are based on the net proceeds and the adjusted carrying amount of the securities sold using the specific identification method.

Securities with a carrying value of approximately $356.1 million and $324.8 million at December 31, 2014 and 2013, respectively, were pledged to secure public deposits and for other purposes required by applicable laws and regulations.

The following table indicates the length of time individual securities have been in a continuous unrealized loss position at December 31, 2014 and 2013:

December 31, 2014	**Less than 12 months**		**12 months or longer**			**Total**	
AVAILABLE FOR SALE	**Fair value**	**Unrealized Losses**	**Fair value**	**Unrealized Losses**	**Number of securities**	**Fair value**	**Unrealized Losses**
			(dollars in thousands)				
U.S. treasury and U.S. government agencies	**$5,057**	**$28**	**$ 46,135**	**$ 779**	**11**	**$ 51,192**	**$ 807**
Mortgage-backed securities, residential	**34,832**	**177**	**74,414**	**1,898**	**28**	**109,246**	**2,075**
Obligations of states and political subdivisions	**1,266**	**29**	**5,033**	**104**	**12**	**6,299**	**133**
Equity securities			**4,819**	**211**	**2**	**4,819**	**211**
	$ 41,155	**$ 234**	**$ 130,401**	**$ 2,992**	**53**	**$ 171,556**	**$ 3,226**
HELD TO MATURITY							
U.S. government agencies	**$**	**$**	**$ 5,736**	**$ 84**	**1**	**$ 5,736**	**$ 84**
Mortgage-backed securities, residential	**6,236**	**50**	**17,557**	**335**	**8**	**23,793**	**385**
Mortgage-backed securities, multifamily			**2,199**	**60**	**2**	**2,199**	**60**
Obligations of states and political subdivisions	**1,290**	**7**	**4,206**	**83**	**13**	**5,496**	**90**
	$ 7,526	**$ 57**	**$ 29,698**	**$ 562**	**24**	**$ 37,224**	**$ 619**

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December 31, 2013	Less than 12 months		12 months or longer			Total	
AVAILABLE FOR SALE	Fair value	Unrealized Losses	Fair value	Unrealized Losses	Number of securities	Fair value	Unrealized Losses
			(dollars in thousands)				
U.S. treasury and U.S. government agencies	$ 70,165	$ 2,663	$	$	16	$ 70,165	$ 2,663
Mortgage-backed securities, residential	177,262	6,730	10,724	608	51	187,986	7,338
Obligations of states and political subdivisions	8,500	328	2,087	195	21	10,587	523
Other debt securities			805	158	1	805	158
Equity securities			10,215	384	3	10,215	384
	$ 255,927	$ 9,721	$ 23,831	$ 1,345	92	$ 279,758	$ 11,066
HELD TO MATURITY							
U.S. government agencies	$ 14,153	$ 576	$	$	5	$ 14,153	$ 576
Mortgage-backed securities, residential	22,939	889	1,097	136	11	24,036	1,025
Mortgage-backed securities, multifamily	895	99	1,294	67	2	2,189	166
Obligations of states and political subdivisions	17,826	607	1,456	163	51	19,282	770
	$ 55,813	$ 2,171	$ 3,847	$ 366	$ 69	$ 59,660	$ 2,537

Management has evaluated the securities in the above table and has concluded that none of the securities with unrealized losses has impairments that are other-than-temporary. Fair value below cost is solely due to interest rate movements and is deemed temporary.

Investment securities, including the mortgage backed securities and corporate securities, are evaluated on a periodic basis to determine if factors are identified that would require further analysis. In evaluating the Company s securities, management considers the following items:

- The Company s ability and intent to hold the securities, including an evaluation of the need to sell the security to meet certain liquidity measures, or whether the Company has sufficient levels of cash to hold the identified security in order to recover the entire amortized cost of the security;

- The financial condition of the underlying issuer;

- The credit ratings of the underlying issuer and if any changes in the credit rating have occurred;

- The length of time the security s fair value has been less than amortized cost; and

- Adverse conditions related to the security or its issuer if the issuer has failed to make scheduled payments or other factors.

If the above factors indicate the additional analysis is required, management will consider the results of discounted cash flow analysis.

As of December 31, 2014, the equity securities include investments in other financial institutions for market appreciation purposes. These equities had a purchase price of $2.6 million and market value of $4.2 million as of December 31, 2014.

As of December 31, 2014, equity securities also included $13.4 million in investment funds that do not have a quoted market price but use net asset value per share or its equivalent to measure fair value.

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The funds include $2.9 million in funds that are primarily invested in community development loans that are guaranteed by the Small Business Administration (SBA). Because the funds are primarily guaranteed by the federal government there are minimal changes in market value between accounting periods. These funds can be redeemed within 60 days notice at the net asset value less unpaid management fees with the approval of the fund manager. As of December 31, 2014, the net amortized cost equaled the market value of the investment. There are no unfunded commitments related to this investment.

The funds also include $10.5 million in funds that are invested in government guaranteed loans, mortgage-backed securities, small business loans and other instruments supporting affordable housing and economic development. The Company may redeem these funds at the net asset value calculated at the end of the current business day less any unpaid management fees. As of December 31, 2014, the amortized cost of these securities was $10.6 million and the fair value was $10.5 million. There are no restrictions on redemptions for the holdings in these investments other than the notice required by the fund manager. There are no unfunded commitments related to this investment.

NOTE 4 LOANS AND LEASES AND OTHER REAL ESTATE

The following sets forth the composition of Lakeland s loan and lease portfolio for the years ended December 31, 2014 and 2013:

	December 31,	
	2014	**2013**
	(in thousands)	
Commercial, secured by real estate	**$ 1,529,761**	$ 1,389,861
Commercial, industrial and other	**238,252**	213,808
Leases	**54,749**	41,332
Real estate-residential mortgage	**431,190**	432,831
Real estate-construction	**64,020**	53,119
Home equity and consumer	**337,642**	339,338
Total loans and leases	**2,655,614**	2,470,289
Less deferred fees	**(1,788)**	(1,273)
Loans and leases, net of deferred fees	**$ 2,653,826**	$ 2,469,016

As of December 31, 2014 and 2013, Home Equity and Consumer loans included overdraft deposit balances of $791,000 and $590,000, respectively. At December 31, 2014 and December 31, 2013, Lakeland had $338.5 million and $263.1 million in residential loans pledged for potential borrowings at the Federal Home Loan Bank of New York (FHLB).

Purchased Credit-Impaired (PCI) loans, are loans acquired at a discount that is due, in part, to credit quality. In conjunction with the Somerset Hills acquisition, three loan relationships totaling $1.6 million were deemed to be PCI loans at May 31, 2013 (the acquisition date). PCI loans are accounted for in accordance with ASC Subtopic 310-30 and are initially recorded at fair value (as determined by the present value of expected future cash flows) with no valuation allowance (i.e., allowance for loan losses). For more information, see Note 2 Acquisitions.

Subsequent to the acquisition date, one PCI loan for $149,000 was paid in full in the first quarter of 2014. There was credit deterioration in the remaining two loans. One loan totaling $250,000 was charged off in the third quarter of 2014. The remaining loan relationship at a balance of $1.3 million is being evaluated for impairment with the remainder of the Company s impaired loans. Lakeland recognized $109,000 and $46,000 of interest income on credit impaired loans for the years ended December 31, 2014 and 2013, respectively.

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Portfolio Segments

Lakeland currently manages its credit products and the respective exposure to credit losses (credit risk) by the following specific portfolio segments which are levels at which Lakeland develops and documents its systematic methodology to determine the allowance for loan and lease losses attributable to each respective portfolio segment. These segments are:

Commercial, secured by real estate consists of commercial mortgage loans secured by owner occupied properties and non-owner occupied properties. The loans secured by owner occupied properties involve a variety of property types to conduct the borrower s operations. The primary source of repayment for this type of loan is the cash flow from the business and is based upon the borrower s financial health and the ability of the borrower and the business to repay. The loans secured by non-owner occupied properties involve investment properties for warehouse, retail, office space, etc., with a history of occupancy and cash flow. This commercial real estate category contains mortgage loans to the developers and owners of commercial real estate where the borrower intends to operate or sell the property at a profit and use the income stream or proceeds from the sale(s) to repay the loan.

Commercial, industrial and other are loans made to provide funds for equipment and general corporate needs. Repayment of a loan primarily uses the funds obtained from the operation of the borrower s business. Commercial loans also include lines of credit that are utilized to finance a borrower s short-term credit needs and/or to finance a percentage of eligible receivables and inventory.

Leases includes a small portfolio of equipment leases, which consists of leases primarily for essential equipment used by small to medium sized businesses.

Real estate residential mortgage contains permanent mortgage loans principally to consumers secured by residential real estate. Residential real estate loans are evaluated for the adequacy of repayment sources at the time of approval, based upon measures including credit scores, debt-to-income ratios, and collateral values. Loans may be either conforming or non-conforming.

Real estate construction construction loans, as defined, are intended to finance the construction of commercial properties and include loans for the acquisition and development of land. Construction loans represent a higher degree of risk than permanent real estate loans and may be affected by a variety of factors such as the borrower s ability to control costs and adhere to time schedules and the risk that constructed units may not be absorbed by the market within the anticipated time frame or at the anticipated price. The loan commitment on these loans often includes an interest reserve that allows the lender to periodically advance loan funds to pay interest charges on the outstanding balance of the loan.

Home Equity and consumer includes primarily home equity loans and lines, installment loans, personal lines of credit and automobile loans. The home equity category consists mainly of loans and revolving lines of credit to consumers which are secured by residential real estate. These loans are typically secured with second mortgages on the homes, although many are secured with first mortgages. Other consumer loans include installment loans used by customers to purchase automobiles, boats and recreational vehicles.

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Non-accrual and Past Due Loans

The following schedule sets forth certain information regarding Lakeland s non-accrual loans and leases, its other real estate owned and other repossessed assets, and accruing troubled debt restructurings (TDRs):

(in thousands)	At December 31, 2014	2013
Commercial, secured by real estate	**$ 7,424**	$ 7,697
Commercial, industrial and other	**308**	88
Leases	**88**	
Real estate residential mortgage	**9,246**	6,141
Real estate construction	**188**	831
Home equity and consumer	**3,415**	2,175
Total non-accrual loans and leases	**20,669**	16,932
Other real estate and other repossessed assets	**1,026**	520
TOTAL NON-PERFORMING ASSETS	**$ 21,695**	$ 17,452
Troubled debt restructurings, still accruing	**$ 10,579**	$ 10,289

Non-accrual loans included $1.3 million and $2.3 million of troubled debt restructurings for the years ended December 31, 2014 and 2013, respectively.

An age analysis of past due loans, segregated by class of loans as of December 31, 2014 and 2013 is as follows:

December 31, 2014	30-59 Days Past Due	60-89 Days Past Due	Greater Than 89 Days	Total Past Due	Current	Total Loans and Leases	Recorded Investment greater than 89 Days and still accruing
				(in thousands)			
Commercial, secured by real estate	**$ 2,714**	**$ 2,999**	**$ 5,972**	**$ 11,685**	**$ 1,518,076**	**$ 1,529,761**	**$**
Commercial, industrial and other	**944**	**2**	**308**	**1,254**	**236,998**	**238,252**	
Leases	**108**	**24**	**88**	**220**	**54,529**	**54,749**	
Real estate residential mortgage	**3,325**	**354**	**6,710**	**10,389**	**420,801**	**431,190**	
Real estate construction	**224**		**188**	**412**	**63,608**	**64,020**	
Home equity and consumer	**1,583**	**598**	**2,951**	**5,132**	**332,510**	**337,642**	**66**
	$ 8,898	**$ 3,977**	**$ 16,217**	**$ 29,092**	**$ 2,626,522**	**$ 2,655,614**	**$ 66**

December 31, 2013	30-59 Days Past Due	60-89 Days Past Due	Greater Than 89 Days	Total Past Due	Current	Total Loans and Leases	Recorded Investment greater than 89 Days and still accruing
				(in thousands)			
Commercial, secured by real estate	$ 7,355	$ 5,438	$ 6,059	$ 18,852	$ 1,371,009	$ 1,389,861	$ 697
Commercial, industrial and other	482	159	20	661	213,147	213,808	
Leases	77	179		256	41,076	41,332	

Real estate residential mortgage	5,792	1,306	5,365	12,463	420,368	432,831	414
Real estate construction			831	831	52,288	53,119	
Home equity and consumer	1,776	533	2,884	5,193	334,145	339,338	886
	$ 15,482	$ 7,615	$ 15,159	$ 38,256	$ 2,432,033	$ 2,470,289	$ 1,997

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Impaired Loans

Lakeland s policy regarding impaired loans is discussed in Note 1 Summary of Accounting Policies Loans and Leases and Allowance for Loan and Lease Losses. The Company defines impaired loans as all non-accrual loans with recorded investments of $500,000 or greater. Impaired loans also includes all loans modified in troubled debt restructurings.

December 31, 2014	Recorded Investment in Impaired loans	Contractual Unpaid Principal Balance	Related Allowance (in thousands)	Interest Income Recognized	Average Investment in Impaired loans
Loans without related allowance:					
Commercial, secured by real estate	$ 14,172	$ 15,520	$	$ 436	$ 16,092
Commercial, industrial and other	327	1,697		43	1,513
Leases					
Real estate-residential mortgage	1,681	1,681			308
Real estate-construction	188	552			464
Home equity and consumer	741	741		7	153
Loans with related allowance:					
Commercial, secured by real estate	5,666	5,818	634	156	3,858
Commercial, industrial and other	425	425	10	9	342
Leases					
Real estate-residential mortgage	1,238	1,238	217	19	438
Real estate-construction					
Home equity and consumer	1,255	1,255	1,031	41	975
Total:					
Commercial, secured by real estate	$ 19,838	$ 21,338	$ 634	$ 592	$ 19,950
Commercial, industrial and other	752	2,122	10	52	1,855
Leases					
Real estate residential mortgage	2,919	2,919	217	19	746
Real estate-construction	188	552			464
Home equity and consumer	1,996	1,996	1,031	48	1,128
	$ 25,693	$ 28,927	$ 1,892	$ 711	$ 24,143

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December 31, 2013	Recorded Investment in Impaired loans	Contractual Unpaid Principal Balance	Related Allowance (in thousands)	Interest Income Recognized	Average Investment in Impaired loans
Loans without related allowance:					
Commercial, secured by real estate	$ 8,223	$ 9,656	$	$ 198	$ 8,853
Commercial, industrial and other	4,020	4,118		189	4,333
Leases					
Real estate-residential mortgage	617	672			622
Real estate-construction	501	2,411			2,111
Home equity and consumer	17	17		1	17
Loans with related allowance:					
Commercial, secured by real estate	10,152	10,217	739	442	9,727
Commercial, industrial and other	155	155	31	5	396
Leases					
Real estate-residential mortgage					
Real estate-construction					
Home equity and consumer	934	936	140	42	907
Total:					
Commercial, secured by real estate	$ 18,375	$ 19,873	$ 739	$ 640	$ 18,580
Commercial, industrial and other	4,175	4,273	31	194	4,729
Leases					
Real estate residential mortgage	617	672			622
Real estate-construction	501	2,411			2,111
Home equity and consumer	951	953	140	43	924
	$ 24,619	$ 28,182	$ 910	$ 877	$ 26,966

December 31, 2012	Recorded Investment in Impaired loans	Contractual Unpaid Principal Balance	Related Allowance (in thousands)	Interest Income Recognized	Average Investment in Impaired loans
Loans without related allowance:					
Commercial, secured by real estate	$ 16,458	$ 21,665	$	$ 495	$ 18,301
Commercial, industrial and other	4,896	4,932		116	3,838
Leases, including leases held for sale					
Real estate-residential mortgage	360	360		6	385
Real estate-construction	3,332	4,433			5,533
Home equity and consumer	369	369		1	360
Loans with related allowance:					
Commercial, secured by real estate	3,346	4,088	368	46	3,825
Commercial, industrial and other	808	871	219	1	769
Leases, including leases held for sale					
Real estate-residential mortgage	288	288	43	4	374
Real estate-construction	698	1,085	97		1,445
Home equity and consumer	976	976	146	55	934
Total:					
Commercial, secured by real estate	$ 19,804	$ 25,753	$ 368	$ 541	$ 22,126
Commercial, industrial and other	5,704	5,803	219	117	4,607
Leases, including leases held for sale					
Real estate residential mortgage	648	648	43	10	759
Real estate-construction	4,030	5,518	97		6,978

Home equity and consumer	1,345	1,345	146	56	1,294
	$ 31,531	$ 39,067	$ 873	$ 724	$ 35,764

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Interest which would have been accrued on impaired loans and leases during 2014, 2013 and 2012 was $1.8 million, $2.2 million and $2.8 million, respectively.

Credit Quality Indicators

The class of loans are determined by internal risk rating. Management closely and continually monitors the quality of its loans and leases and assesses the quantitative and qualitative risks arising from the credit quality of its loans and leases. It is the policy of Lakeland to require that a Credit Risk Rating be assigned to all commercial loans and loan commitments. The Credit Risk Rating System has been developed by management to provide a methodology to be used by Loan Officers, Department Heads and Senior Management in identifying various levels of credit risk that exist within Lakeland s loan portfolios. The risk rating system assists Senior Management in evaluating Lakeland s loan portfolio, analyzing trends, and determining the proper level of required reserves to be recommended to the Board. In assigning risk ratings, management considers, among other things, a borrower s debt service coverage, earnings strength, loan to value ratios, industry conditions and economic conditions. Management categorizes loans and commitments into a one (1) to nine (9) numerical structure with rating 1 being the strongest rating and rating 9 being the weakest. Ratings 1 through 5W are considered Pass ratings.

The following table shows Lakeland s commercial loan portfolio as of December 31, 2014 and 2013, by the risk ratings discussed above (in thousands):

December 31, 2014 Risk Rating	Commercial, secured by real estate	Commercial, Industrial and other	Real estate-construction
1	**$**	**$ 1,040**	**$**
2		**8,755**	
3	**69,243**	**30,386**	
4	**479,667**	**91,836**	**7,527**
5	**867,023**	**69,723**	**51,833**
5W Watch	**40,991**	**15,572**	**225**
6 Other Assets Especially Mentioned	**27,764**	**8,057**	**2,710**
7 Substandard	**45,073**	**12,883**	**1,725**
8 Doubtful			
9 Loss			
Total	**$ 1,529,761**	**$ 238,252**	**$ 64,020**

December 31, 2013 Risk Rating	Commercial, secured by real estate	Commercial, Industrial and other	Real estate-construction
1	$	$ 952	$
2		12,964	
3	70,811	9,263	
4	442,933	60,002	1,178
5	754,275	85,939	48,243
5W Watch	38,893	12,278	
6 Other Assets Especially Mentioned	27,640	9,596	1,245
7 Substandard	55,309	22,814	2,453
8 Doubtful			
9 Loss			
Total	$ 1,389,861	$ 213,808	$ 53,119

This table does not include consumer or residential loans or leases because they are evaluated on their payment status.

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Allowance for Loan and Lease Losses

The following table details activity in the allowance for loan and lease losses by portfolio segment and the related recorded investment in loans and leases for the years ended December 31, 2014, 2013 and 2012:

12/31/2014	Commercial, secured by real estate	Commercial, industrial and other	Leases	Real estate-residential mortgage (in thousands)	Real estate-Construction	Home equity and consumer	Unallocated	Total
Allowance for Loan and Lease Losses:								
Beginning Balance	$ 14,463	$ 5,331	$ 504	$ 3,214	$ 542	$ 2,737	$ 3,030	$ 29,821
Charge-offs	(2,282)	(999)	(597)	(827)	(25)	(2,697)		(7,427)
Recoveries	999	1,039	19	42	106	220		2,425
Provision	397	(2,175)	656	1,591	(70)	6,073	(607)	5,865
Ending Balance	$ 13,577	$ 3,196	$ 582	$ 4,020	$ 553	$ 6,333	$ 2,423	$ 30,684
Ending Balance: Individually evaluated for impairment	$ 634	$ 10	$	$ 217	$	$ 1,031	$	$ 1,892
Ending Balance: Collectively evaluated for impairment	12,943	3,186	582	3,803	553	5,302	2,423	$ 28,792
Ending Balance: Loans acquired with deteriorated credit quality								
Ending Balance	$ 13,577	$ 3,196	$ 582	$ 4,020	$ 553	$ 6,333	$ 2,423	$ 30,684
Loans and Leases:								
Ending Balance: Individually evaluated for impairment	$ 19,838	$ 752	$	$ 2,919	$ 188	$ 1,996	$	$ 25,693
Ending Balance: Collectively evaluated for impairment	1,509,923	237,500	54,749	428,271	63,832	335,646		$ 2,629,921
Ending Balance: Loans acquired with deteriorated credit quality								
Ending Balance(1)	$ 1,529,761	$ 238,252	$ 54,749	$ 431,190	$ 64,020	$ 337,642	$	$ 2,655,614

(1) Excludes deferred fees

12/31/2013	Commercial, secured by real estate	Commercial, industrial and other	Leases	Real estate-residential mortgage (in thousands)	Real estate-Construction	Home equity and consumer	Unallocated	Total
Allowance for Loan and Lease Losses:								
Beginning Balance	$ 16,258	$ 5,103	$ 578	$ 3,568	$ 587	$ 2,837	$	$ 28,931
Charge-offs	(2,026)	(1,324)	(206)	(1,257)	(3,854)	(1,624)		(10,291)
Recoveries	1,061	260	121	99	14	283		1,838
Provision	(830)	1,292	11	804	3,795	1,241	3,030	9,343
Ending Balance	$ 14,463	$ 5,331	$ 504	$ 3,214	$ 542	$ 2,737	$ 3,030	$ 29,821
Ending Balance: Individually evaluated for impairment	$ 739	$ 31	$			$ 140	$	$ 910

Ending Balance: Collectively evaluated for impairment	13,724	5,300	504	3,214	542	2,597	3,030	$ 28,911
Ending Balance: Loans acquired with deteriorated credit quality								
Ending Balance	$ 14,463	$ 5,331	$ 504	$ 3,214	$ 542	$ 2,737	$ 3,030	$ 29,821
Loans and Leases:								
Ending Balance: Individually evaluated for impairment	$ 18,375	$ 4,175	$	$ 617	$ 501	$ 951	$	$ 24,619
Ending Balance: Collectively evaluated for impairment	1,371,486	209,633	41,332	432,214	52,618	337,976		$ 2,445,259
Ending Balance: Loans acquired with deteriorated credit quality						411		$ 411
Ending Balance(1)	$ 1,389,861	$ 213,808	$ 41,332	$ 432,831	$ 53,119	$ 339,338	$	$ 2,470,289

(1) Excludes deferred costs

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12/31/2012	Commercial, secured by real estate	Commercial, industrial and other	Leases	Real estate-residential mortgage (in thousands)	Real estate-Construction	Home equity and consumer	Total
Allowance for Loan and Lease Losses:							
Beginning Balance	$ 16,618	$ 3,477	$ 688	$ 3,077	$ 1,424	$ 3,132	$ 28,416
Charge-offs	(7,287)	(949)	(999)	(1,822)	(2,888)	(2,074)	(16,019)
Recoveries	280	428	504	66	43	306	1,627
Provision	6,647	2,147	385	2,247	2,008	1,473	14,907
Ending Balance	$ 16,258	$ 5,103	$ 578	$ 3,568	$ 587	$ 2,837	$ 28,931
Ending Balance: Individually evaluated for impairment	$ 368	$ 219	$	$ 43	$ 97	$ 146	$ 873
Ending Balance: Collectively evaluated for impairment	15,890	4,884	578	3,525	490	2,691	$ 28,058
Ending Balance	$ 16,258	$ 5,103	$ 578	$ 3,568	$ 587	$ 2,837	$ 28,931
Loans and Leases:							
Ending Balance: Individually evaluated for impairment	$ 19,804	$ 5,704	$	$ 648	$ 4,030	$ 1,345	$ 31,531
Ending Balance: Collectively evaluated for impairment	1,105,333	210,425	26,781	422,614	42,242	308,281	$ 2,115,676
Ending Balance(1)	$ 1,125,137	$ 216,129	$ 26,781	$ 423,262	$ 46,272	$ 309,626	$ 2,147,207

(1) Excludes deferred costs

Lakeland also maintains a reserve for unfunded lending commitments which are included in other liabilities. This reserve was $1.1 million and $1.2 million at December 31, 2014 and December 31, 2013, respectively. Lakeland analyzes the adequacy of the reserve for unfunded lending commitments in conjunction with its analysis of the adequacy of the allowance for loan and lease losses. For more information on this analysis, see Risk Elements in Management s Discussion and Analysis.

Troubled Debt Restructurings

Troubled debt restructurings (TDRs) are those loans where significant concessions have been made due to borrowers financial difficulties. Restructured loans typically involve a modification of terms such as a reduction of the stated interest rate, an extended moratorium of principal payments and/or an extension of the maturity date at a stated interest rate lower than the current market rate of a new loan with similar risk. Lakeland considers the potential losses on these loans as well as the remainder of its impaired loans when considering the adequacy of the allowance for loan losses.

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The following table summarizes loans that have been restructured during the periods presented:

	For the year ended December 31, 2014			For the year ended December 31, 2013		
	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
		(Dollars in thousands)			(Dollars in thousands)	
Troubled Debt Restructurings:						
Commercial, secured by real estate	5	$ 4,146	$ 4,146	8	$ 3,637	$ 2,988
Commercial, industrial and other	2	285	285	1	127	121
Leases						
Real estate residential mortgage	5	1,238	1,238	1	179	179
Real estate construction						
Home equity and consumer	9	840	840	2	158	157
	21	$ 6,509	$ 6,509	12	$ 4,101	$ 3,445

The following table presents loans modified as TDRs within the previous 12 months from December 31, 2014 and 2013 for which there have been payment defaults during the subsequent twelve months:

	For the year ended December 31, 2014		For the year ended December 31, 2013	
	Number of Contracts	Recorded Investment	Number of Contracts	Recorded Investment
	(Dollars in thousands)		(Dollars in thousands)	
Defaulted Troubled Debt Restructurings:				
Commercial, secured by real estate	1	$ 32		$
Commercial, industrial and other				
Leases				
Real estate residential mortgage	1	354		
Real estate construction				
Home equity and consumer	2	238	1	147
	4	$ 624	1	$ 147

Related Party Loans

Lakeland has entered into lending transactions in the ordinary course of business with directors, executive officers, principal stockholders and affiliates of such persons on similar terms, including interest rates and collateral, as those prevailing for comparable transactions with other borrowers not related to Lakeland. At December 31, 2014, loans to these related parties amounted to $27.6 million. There were new loans of $18.3 million to related parties and repayments of $15.8 million from related parties in 2014.

Mortgages Held for Sale

Residential mortgages originated by the bank and held for sale in the secondary market are carried at the lower of cost or fair market value. Fair value is generally determined by