LAKELAND BANCORP INC
Form 10-Q
August 08, 2018

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q
(Mark one)
[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2018
OR
[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission file number 000-17820
LAKELAND BANCORP, INC.
(Exact name of registrant as specified in its charter)

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

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

(Former name, former address and former fiscal year, if changed since last report.)

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 (Section 232.405 of this chapter) during the preceding 12 months (or such shorter period that the registrant was required to submit and post such files). Yes [ X ] No [ ]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company” and “emerging growth company” in Rule 12b-2 of the Exchange Act: (Check one):
Large accelerated filer [X] Accelerated filer [] Non-accelerated filer [ ] Smaller reporting company [ ] Emerging growth company [ ]

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

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

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer’s classes of common stock, as of the latest practicable date.
As of July 27, 2018, there were 47,485,283 outstanding shares of Common Stock, no par value.

Table of Contents

LAKELAND BANCORP, INC.
Form 10-Q Index

Table of Contents

# PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements

Table of Contents

Lakeland Bancorp, Inc. and Subsidiaries
CONSOLIDATED BALANCE SHEETS

| | June 30, 2018 (unaudited) | December 31, 2017 |
|---|---|---|
| | (dollars in thousands) | |
| ASSETS | | |
| Cash | $139,438 | $114,138 |
| Interest-bearing deposits due from banks | 3,374 | 28,795 |
| Total cash and cash equivalents | 142,812 | 142,933 |
| Investment securities available for sale, at fair value | 606,231 | 628,046 |
| Equity securities, at fair value | 16,798 | 18,089 |
| Investment securities held to maturity; fair value of $155,316 at June 30, 2018 and $138,688 at December 31, 2017 | 158,832 | 139,685 |
| Federal Home Loan Bank and other membership bank stock, at cost | 16,235 | 12,576 |
| Loans, net of deferred costs (fees) | 4,277,539 | 4,152,720 |
| Less: allowance for loan and lease losses | 36,604 | 35,455 |
| Net loans | 4,240,935 | 4,117,265 |
| Loans held for sale | 1,692 | 456 |
| Premises and equipment, net | 50,409 | 50,313 |
| Accrued interest receivable | 14,612 | 14,416 |
| Goodwill | 136,433 | 136,433 |
| Other identifiable intangible assets | 2,052 | 2,362 |
| Bank owned life insurance | 108,952 | 107,489 |
| Other assets | 38,495 | 35,576 |
| TOTAL ASSETS | $5,534,488 | $5,405,639 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| LIABILITIES | | |
| Deposits: | | |
| Noninterest-bearing | $967,911 | $967,335 |
| Savings and interest-bearing transaction accounts | 2,625,325 | 2,663,985 |
| Time deposits $250 thousand and under | 611,777 | 556,863 |
| Time deposits over $250 thousand | 195,006 | 180,565 |
| Total deposits | 4,400,019 | 4,368,748 |
| Federal funds purchased and securities sold under agreements to repurchase | 197,870 | 124,936 |
| Other borrowings | 196,376 | 192,011 |
| Subordinated debentures | 104,963 | 104,902 |
| Other liabilities | 37,396 | 31,920 |
| TOTAL LIABILITIES | 4,936,624 | 4,822,517 |
| STOCKHOLDERS’ EQUITY | | |
| Common stock, no par value; authorized shares, 100,000,000 at June 30, 2018 and 70,000,000 at December 31, 2017; issued shares, 47,484,057 at June 30, 2018 and 47,353,864 at December 31, 2017 | 513,756 | 512,734 |
| Retained earnings | 95,586 | 72,737 |
| Accumulated other comprehensive income | (11,478) | (2,349) |
| TOTAL STOCKHOLDERS’ EQUITY | 597,864 | 583,122 |
| TOTAL LIABILITIES AND STOCKHOLDERS’ EQUITY | $5,534,488 | $5,405,639 |

The accompanying notes are an integral part of these consolidated financial statements.

4

Table of Contents

Lakeland Bancorp, Inc. and Subsidiaries
CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

| | For the Three Months Ended June 30, | | For the Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| | (in thousands, except per share data) | | (in thousands, except per share data) | |
| INTEREST INCOME | | | | |
| Loans, leases and fees | $ 47,659 | $ 42,740 | $ 93,203 | $ 83,151 |
| Federal funds sold and interest-bearing deposits with banks | 145 | 132 | 311 | 408 |
| Taxable investment securities and other | 4,027 | 3,818 | 8,019 | 7,417 |
| Tax-exempt investment securities | 429 | 522 | 872 | 1,032 |
| TOTAL INTEREST INCOME | 52,260 | 47,212 | 102,405 | 92,008 |
| INTEREST EXPENSE | | | | |
| Deposits | 6,501 | 3,784 | 12,256 | 7,118 |
| Federal funds purchased and securities sold under agreements to repurchase | 233 | 98 | 367 | 108 |
| Other borrowings | 2,033 | 1,909 | 4,053 | 4,038 |
| TOTAL INTEREST EXPENSE | 8,767 | 5,791 | 16,676 | 11,264 |
| NET INTEREST INCOME | 43,493 | 41,421 | 85,729 | 80,744 |
| Provision for loan and lease losses | 1,492 | 1,827 | 2,776 | 3,045 |
| NET INTEREST INCOME AFTER PROVISION FOR LOAN AND LEASE LOSSES | 42,001 | 39,594 | 82,953 | 77,699 |
| NONINTEREST INCOME | | | | |
| Service charges on deposit accounts | 2,545 | 2,674 | 5,156 | 5,129 |
| Commissions and fees | 1,410 | 1,135 | 2,682 | 2,291 |
| Income on bank owned life insurance | 711 | 500 | 1,430 | 926 |
| Gains on sales of loans | 300 | 471 | 546 | 869 |
| Gains on sales of investment securities, net | — | (15) | — | 2,524 |
| Other income | 743 | 1,346 | 1,229 | 2,466 |
| TOTAL NONINTEREST INCOME | 5,709 | 6,111 | 11,043 | 14,205 |
| NONINTEREST EXPENSE | | | | |
| Salaries and employee benefits | 16,708 | 15,096 | 33,569 | 30,513 |
| Net occupancy expense | 2,603 | 2,507 | 5,341 | 5,343 |
| Furniture and equipment | 2,011 | 1,996 | 4,217 | 4,093 |
| FDIC insurance expense | 400 | 425 | 825 | 743 |
| Stationery, supplies and postage | 443 | 572 | 859 | 1,015 |
| Marketing expense | 456 | 508 | 817 | 909 |
| Data processing expense | 976 | 502 | 1,442 | 1,055 |
| Telecommunications expense | 462 | 372 | 883 | 776 |
| ATM and debit card expense | 558 | 517 | 1,068 | 958 |
| Core deposit intangible amortization | 153 | 190 | 310 | 385 |
| Other real estate and repossessed asset expense | 21 | 4 | 67 | 41 |
| Long-term debt prepayment fee | — | — | — | 2,828 |
| Other expenses | 2,783 | 2,677 | 5,313 | 5,177 |
| TOTAL NONINTEREST EXPENSE | 27,574 | 25,366 | 54,711 | 53,836 |
| Income before provision for income taxes | 20,136 | 20,339 | 39,285 | 38,068 |

| | | | | |
|---|---|---|---|---|
| Provision for income taxes | 4,298 | 6,969 | 8,192 | 12,386 |
| NET INCOME | $ 15,838 | $ 13,370 | $ 31,093 | $ 25,682 |
| PER SHARE OF COMMON STOCK | | | | |
| Basic earnings | $ 0.33 | $ 0.28 | $ 0.65 | $ 0.54 |
| Diluted earnings | $ 0.33 | $ 0.28 | $ 0.65 | $ 0.53 |
| Dividends | $ 0.115 | $ 0.100 | $ 0.215 | $ 0.195 |

The accompanying notes are an integral part of these consolidated financial statements.

5

Table of Contents

Lakeland Bancorp, Inc. and Subsidiaries
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

| | For the Three Months Ended June 30, | | For the Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| | (in thousands) | | (in thousands) | |
| NET INCOME | $15,838 | $13,370 | $31,093 | $25,682 |
| OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX: | | | | |
| Unrealized (losses) gains on securities available for sale | (1,690) | 1,029 | (7,422) | 1,763 |
| Reclassification for securities losses (gains) included in net income | — | 9 | — | (1,640) |
| Unrealized gains (losses) on derivatives | 53 | (121) | 336 | (107) |
| Other comprehensive (loss) income | (1,637) | 917 | (7,086) | 16 |
| TOTAL COMPREHENSIVE INCOME | $14,201 | $14,287 | $24,007 | $25,698 |

The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents

Lakeland Bancorp, Inc. and Subsidiaries
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (UNAUDITED)
For the Six Months Ended June 30, 2018 and 2017

| | Common Stock | Retained Earnings | Accumulated Other Comprehensive Income (Loss) | Total |
|---|---|---|---|---|
| | (in thousands) | | | |
| At January 1, 2017 | $510,861 | $38,590 | $ 593 | $550,044 |
| Net income | — | 25,682 | — | 25,682 |
| Other comprehensive income, net of tax | — | — | 16 | 16 |
| Stock based compensation | 1,566 | — | — | 1,566 |
| Exercise of stock options | 313 | — | — | 313 |
| Retirement of restricted stock | (773) | — | — | (773) |
| Cash dividends, common stock | — | (9,303) | — | (9,303) |
| At June 30, 2017 | $511,967 | $54,969 | $ 609 | $567,545 |
| | | | | |
| At January 1, 2018 | $512,734 | $72,737 | $ (2,349) | $583,122 |
| Cumulative adjustment for adoption of ASU 2016-01 | — | 2,043 | (2,043) | — |
| January 1, 2018, as adjusted | 512,734 | 74,780 | (4,392) | 583,122 |
| Net income | — | 31,093 | — | 31,093 |
| Other comprehensive loss, net of tax | — | — | (7,086) | (7,086) |
| Stock based compensation | 1,459 | — | — | 1,459 |
| Exercise of stock options | 307 | — | — | 307 |
| Retirement of restricted stock | (744) | — | — | (744) |
| Cash dividends, common stock | — | (10,287) | — | (10,287) |
| At June 30, 2018 | $513,756 | $95,586 | $ (11,478) | $597,864 |

The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents

Lakeland Bancorp, Inc. and Subsidiaries
CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

| | For the Six Months Ended June 30, | |
|---|---|---|
| | 2018 | 2017 |
| | (in thousands) | |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net income | $31,093 | $25,682 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Net amortization of premiums, discounts and deferred loan fees and costs | 2,022 | 2,413 |
| Depreciation and amortization | 2,693 | 2,080 |
| Amortization of intangible assets | 310 | 385 |
| Provision for loan and lease losses | 2,776 | 3,045 |
| Loans originated for sale | (22,018) | (27,197) |
| Proceeds from sales of loans held for sale | 21,328 | 28,931 |
| Gains on sales of securities | — | (2,524) |
| Change in market value of equity securities | (33) | — |
| Gains on sales of loans held for sale | (546) | (869) |
| Gains on other real estate and other repossessed assets | (46) | (500) |
| Gains on sales of premises and equipment | — | (672) |
| Long-term debt prepayment penalty | — | 2,828 |
| Stock-based compensation | 1,459 | 1,566 |
| Excess tax benefits | 313 | 582 |
| Increase in other assets | (1,354) | (4,672) |
| Increase in other liabilities | 5,900 | 1,988 |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | 43,897 | 33,066 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Proceeds from repayments and maturities of available for sale securities | 43,026 | 43,726 |
| Proceeds from repayments and maturities of held to maturity securities | 13,720 | 18,624 |
| Proceeds from sales of equity securities | 1,734 | — |
| Proceeds from sales of available for sale securities | — | 4,484 |
| Purchase of available for sale securities | (32,800) | (113,724) |
| Purchase of held to maturity securities | (33,235) | (9,754) |
| Purchase of equity securities | (409) | — |
| Purchase of bank owned life insurance | — | (16,000) |
| Proceeds from redemptions of Federal Home Loan Bank stock | 2,939 | 3,477 |
| Purchases of Federal Home Loan Bank stock | (6,598) | (7,278) |
| Net increase in loans and leases | (128,718) | (186,328) |
| Proceeds from sales of other real estate and repossessed assets | 918 | 3,583 |
| Proceeds from dispositions and sales of premises and equipment | — | 1,262 |
| Purchases of premises and equipment | (2,746) | (1,324) |
| NET CASH USED IN INVESTING ACTIVITIES | (142,169) | (259,252) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Net increase in deposits | 31,504 | 134,719 |
| Increase in federal funds purchased and securities sold under agreements to repurchase | 72,934 | 62,133 |
| Proceeds from other borrowings | 39,437 | 164,036 |
| Repayments of other borrowings | (35,000) | (115,058) |
| Exercise of stock options | 307 | 313 |

| | | |
|---|---|---|
| Retirement of restricted stock | (744 ) | (773 ) |
| Dividends paid | (10,287 ) | (9,303 ) |
| NET CASH PROVIDED BY FINANCING ACTIVITIES | 98,151 | 236,067 |
| Net (decrease) increase in cash and cash equivalents | (121 ) | 9,881 |
| Cash and cash equivalents, beginning of period | 142,933 | 175,801 |
| CASH AND CASH EQUIVALENTS, END OF PERIOD | $142,812 | $185,682 |

Table of Contents

| | For the Six Months Ended June 30, 2018 | 2017 |
|---|---|---|
| | (in thousands) | |
| Supplemental schedule of non-cash investing and financing activities: | | |
| Cash paid during the period for income taxes | $2,909 | $11,703 |
| Cash paid during the period for interest | 16,153 | 11,310 |
| Transfer of loans and leases into other repossessed assets and other real estate owned | 2,214 | 3,425 |

The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents

Lakeland Bancorp, Inc. and Subsidiaries
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES

### Basis of Presentation

This quarterly report presents the consolidated financial statements of Lakeland Bancorp, Inc. and its subsidiaries, including Lakeland Bank ("Lakeland") and the Bank's wholly owned subsidiaries (collectively, the "Company"). The accounting and reporting policies of the Company conform with accounting principles generally accepted in the United States of America ("U.S. GAAP") and predominant practices within the banking industry. The Company's unaudited interim financial statements reflect all adjustments, such as normal recurring accruals that are, in the opinion of management, necessary for the fair presentation of the results of the interim periods. The results of operations for the six months ended June 30, 2018 do not necessarily indicate the results that the Company will achieve for all of 2018.

Certain information and footnote disclosures required under U.S. GAAP have been condensed or omitted, as permitted by rules and regulations of the Securities and Exchange Commission. These unaudited interim financial statements should be read in conjunction with the audited consolidated financial statements and accompanying notes that are presented in the Company's Annual Report on Form 10-K for the year ended December 31, 2017. Certain reclassifications have been made in the consolidated financial statements to conform with current year classifications.

## NOTE 2 – REVENUE RECOGNITION

The Company's primary source of revenue is interest income generated from loans, leases and investment securities. Interest income is recognized according to the terms of the financial instrument agreement over the life of the loan, lease or investment security unless it is determined that the counterparty is unable to continue making interest payments. Interest income also includes prepaid interest fees from commercial customers, which approximates the interest foregone on the balance of the loan prepaid.

The Company's additional source of income, also referred to as noninterest income, is generated from deposit related fees, interchange fees, loan and lease fees, merchant fees, loan sales and other miscellaneous income and is largely based on contracts with customers. In these cases, the Company recognizes revenue when it satisfies a performance obligation by transferring control over a product or service to a customer. The Company considers a customer to be any party to which the Company will provide goods or services that are an output of the Company's ordinary activities in exchange for consideration. There is little seasonality with regards to revenue from contracts with customers and all inter-company revenue is eliminated when the Company's financial statements are consolidated.

Generally, the Company enters into contracts with customers that are short-term in nature where the performance obligations are fulfilled and payment is processed at the same time. Such examples include revenue related to merchant fees, interchange fees and investment services income. In addition, revenue generated from existing customer relationships such as deposit accounts are also considered short-term in nature, because the relationship may be terminated at any time and payment is processed at the time performance obligations are fulfilled. As a result, the Company does not have contract assets, contract liabilities or related receivable accounts for contracts with customers. In cases where collectability is a concern, the Company does not record revenue.

Generally, the pricing of transactions between the Company and each customer is either (i) established within a legally enforceable contract between the two parties, as is the case with the loan sales, or (ii) disclosed to the customer at a specific point in time, as is the case when a deposit account is opened or before a new loan is underwritten. Fees are usually fixed at a specific amount or as a percentage of a transaction amount. No judgment or estimates by management are required to record revenue related to these transactions and pricing is clearly identified within these contracts.

The Company primarily operates in one geographic region, Northern and Central New Jersey and contiguous areas. Therefore, all significant operating decisions are based upon analysis of the Company as one operating segment or unit.

We disaggregate our revenue from contracts with customers by contract-type and timing of revenue recognition, as we believe it best depicts how the nature, amount, timing and uncertainty of our revenue and cash flows are affected by economic factors. Noninterest income not generated from customers during the Company's ordinary activities primarily relates to mortgage servicing rights, gains/losses on the sale of investment securities, gains/losses on the sale of other real estate owned, gains/losses on the sale of property, plant and equipment, and income from bank owned life insurance. The following table sets forth the components of noninterest income for the three and six months ended June 30, 2018 and 2017:

| | For the Three Months Ended June 30, | | For the Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| | (in thousands) | | | |
| Deposit Related Fees and Charges | | | | |
| Debit card interchange income | $1,277 | $1,146 | $2,395 | $2,136 |
| Overdraft charges | 900 | 1,145 | 2,009 | 2,298 |
| ATM service charges | 217 | 199 | 407 | 361 |
| Demand deposit fees and charges | 121 | 158 | 279 | 294 |
| Savings service charges | 30 | 26 | 66 | 40 |
| Total | 2,545 | 2,674 | 5,156 | 5,129 |
| Commissions and Fees | | | | |
| Loan and lease fees | 363 | 199 | 685 | 435 |
| Wire transfer charges | 274 | 246 | 522 | 473 |
| Investment services income | 311 | 296 | 539 | 537 |
| Merchant fees | 174 | 163 | 390 | 405 |
| Commissions from sales of checks | 112 | 116 | 220 | 233 |
| Safe deposit income | 104 | 63 | 188 | 127 |
| Other income | 65 | 44 | 128 | 67 |
| Total | 1,403 | 1,127 | 2,672 | 2,277 |
| Gains on Sale of Loans | 300 | 471 | 546 | 869 |
| Other Income | | | | |
| Gains on customer swap transactions | 527 | 455 | 859 | 814 |
| Title insurance income | 73 | 75 | 122 | 103 |
| Other income | 58 | 377 | 155 | 415 |
| Total | 658 | 907 | 1,136 | 1,332 |
| Revenue not from contracts with customers | 803 | 932 | 1,533 | 4,598 |
| Total Noninterest Income | 5,709 | 6,111 | 11,043 | 14,205 |
| Timing of Revenue Recognition | | | | |
| Products and services transferred at a point in time | 4,888 | 5,164 | 9,473 | 9,577 |
| Products and services transferred over time | 18 | 15 | 37 | 30 |
| Revenue not from contracts with customers | 803 | 932 | 1,533 | 4,598 |
| Total Noninterest Income | $5,709 | $6,111 | $11,043 | $14,205 |

NOTE 3 – EARNINGS PER SHARE

The following schedule shows the Company’s earnings per share calculations for the periods presented:

Table of Contents

| | For the Three Months Ended June 30, | | For the Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| | (in thousands, except per share data) | | (in thousands, except per share data) | |
| Net income available to common shareholders | $ 15,838 | $ 13,370 | $ 31,093 | $ 25,682 |
| Less: earnings allocated to participating securities | 146 | 119 | 287 | 239 |
| Net income allocated to common shareholders | $ 15,692 | $ 13,251 | $ 30,806 | $ 25,443 |
| Weighted average number of common shares outstanding - basic | 47,600 | 47,465 | 47,552 | 47,410 |
| Share-based plans | 170 | 209 | 201 | 236 |
| Weighted average number of common shares outstanding - diluted | 47,770 | 47,674 | 47,753 | 47,646 |
| Basic earnings per share | $ 0.33 | $ 0.28 | $ 0.65 | $ 0.54 |
| Diluted earnings per share | $ 0.33 | $ 0.28 | $ 0.65 | $ 0.53 |

There were no antidilutive options to purchase common stock excluded from the computation for the three and six months ended June 30, 2018 and 2017.

NOTE 4 – INVESTMENT SECURITIES

| | June 30, 2018 | | | | December 31, 2017 | | | |
|---|---|---|---|---|---|---|---|---|
| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
| | (in thousands) | | | | (in thousands) | | | |
| AVAILABLE FOR SALE | | | | | | | | |
| U.S. Treasury and U.S. government agencies | $149,859 | $ — | $(3,514 ) | $146,345 | $148,968 | $ 78 | $(1,791 ) | $147,255 |
| Mortgage-backed securities, residential | 404,880 | 105 | (12,270 ) | 392,715 | 419,538 | 479 | (5,763 ) | 414,254 |
| Mortgage-backed securities, multifamily | 13,181 | — | (307 ) | 12,874 | 10,133 | 7 | (63 ) | 10,077 |
| Obligations of states and political subdivisions | 49,898 | 167 | (843 ) | 49,222 | 51,289 | 448 | (417 ) | 51,320 |
| Debt securities | 5,000 | 75 | — | 5,075 | 5,000 | 140 | — | 5,140 |
| | $622,818 | $ 347 | $(16,934 ) | $606,231 | $634,928 | $ 1,152 | $(8,034 ) | $628,046 |

| | June 30, 2018 | | | | December 31, 2017 | | | |
|---|---|---|---|---|---|---|---|---|
| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
| | (in thousands) | | | | (in thousands) | | | |
| HELD TO MATURITY | | | | | | | | |
| U.S. government agencies | $38,437 | $ — | $(943 ) | $37,494 | $33,415 | $ 24 | $(402 ) | $33,037 |
| Mortgage-backed securities, residential | 73,538 | 127 | (2,355 ) | 71,310 | 54,991 | 249 | (978 ) | 54,262 |
| Mortgage-backed securities, multifamily | 1,905 | — | (56 ) | 1,849 | 1,957 | — | (22 ) | 1,935 |
| Obligations of states and political subdivisions | 39,452 | 133 | (421 ) | 39,164 | 43,318 | 306 | (188 ) | 43,436 |
| Debt securities | 5,500 | — | (1 ) | 5,499 | 6,004 | 14 | — | 6,018 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| $158,832 | $ 260 | $ (3,776 ) | $155,316 | $139,685 | $ 593 | $ (1,590 ) | $138,688 |

12

Table of Contents

The following table shows investment securities by stated maturity. Securities backed by mortgages have expected maturities that differ from contractual maturities because borrowers have the right to call or prepay, and are, therefore, classified separately with no specific maturity date (in thousands):

| June 30, 2018 | Available for Sale Amortized Cost | Available for Sale Fair Value | Held to Maturity Amortized Cost | Held to Maturity Fair Value |
|---|---|---|---|---|
| Due in one year or less | $21,258 | $21,170 | $13,063 | $13,074 |
| Due after one year through five years | 114,026 | 111,549 | 41,523 | 40,979 |
| Due after five years through ten years | 41,818 | 40,686 | 25,533 | 24,926 |
| Due after ten years | 27,655 | 27,237 | 3,270 | 3,178 |
| | 204,757 | 200,642 | 83,389 | 82,157 |
| Mortgage-backed securities | 418,061 | 405,589 | 75,443 | 73,159 |
| Total securities | $622,818 | $606,231 | $158,832 | $155,316 |

The following table shows proceeds from sales of securities and gross gains and losses on sales of securities for the periods indicated (in thousands):

| | For the Three Months Ended June 30, 2018 | For the Three Months Ended June 30, 2017 | For the Six Months Ended June 30, 2018 | For the Six Months Ended June 30, 2017 |
|---|---|---|---|---|
| Sale proceeds | $ — | $ — | $ — | $4,499 |
| Gross gains | — | — | — | 2,539 |
| Gross losses | — | (15) | — | (15) |

There were no other-than-temporary impairments during the six months ended June 30, 2018 or 2017.

Gains or losses on sales of investment 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 $363.9 million and $400.4 million at June 30, 2018 and December 31, 2017, respectively, were pledged to secure public deposits and for other purposes required by applicable laws and regulations.

Table of Contents

The following table indicates the length of time individual securities have been in a continuous unrealized loss position for the periods presented:

| | Less Than 12 Months | | 12 Months or Longer | | Total | | |
|---|---|---|---|---|---|---|---|
| June 30, 2018 | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses | Number of Securities | Fair Value | Unrealized Losses |
| | (dollars in thousands) | | | | | | |
| AVAILABLE FOR SALE | | | | | | | |
| U.S. Treasury and U.S. government agencies | $92,272 | $ 1,781 | $54,073 | $ 1,733 | 28 | $146,345 | $ 3,514 |
| Mortgage-backed securities, residential | 213,396 | 5,296 | 161,111 | 6,974 | 142 | 374,507 | 12,270 |
| Mortgage-backed securities, multifamily | 7,872 | 189 | 5,002 | 118 | 3 | 12,874 | 307 |
| Obligations of states and political subdivisions | 20,367 | 265 | 12,656 | 578 | 60 | 33,023 | 843 |
| | $333,907 | $ 7,531 | $232,842 | $ 9,403 | 233 | $566,749 | $ 16,934 |
| HELD TO MATURITY | | | | | | | |
| U.S. government agencies | $30,948 | $ 464 | $6,546 | $ 479 | 7 | $37,494 | $ 943 |
| Mortgage-backed securities, residential | 45,533 | 1,302 | 19,894 | 1,053 | 35 | 65,427 | 2,355 |
| Mortgage-backed securities, multifamily | 1,849 | 56 | — | — | 2 | 1,849 | 56 |
| Obligations of states and political subdivisions | 15,394 | 199 | 5,894 | 222 | 33 | 21,288 | 421 |
| Debt securities | 4,000 | 1 | — | — | 1 | 4,000 | 1 |
| | $97,724 | $ 2,022 | $32,334 | $ 1,754 | 78 | $130,058 | $ 3,776 |

| | Less Than 12 Months | | 12 Months or Longer | | Total | | |
|---|---|---|---|---|---|---|---|
| December 31, 2017 | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses | Number of Securities | Fair Value | Unrealized Losses |
| | (dollars in thousands) | | | | | | |
| AVAILABLE FOR SALE | | | | | | | |
| U.S. Treasury and U.S. government agencies | $80,391 | $ 646 | $54,769 | $ 1,145 | 27 | $135,160 | $ 1,791 |
| Mortgage-backed securities, residential | 199,387 | 1,723 | 157,739 | 4,040 | 118 | 357,126 | 5,763 |
| Mortgage-backed securities, multifamily | — | — | 5,088 | 63 | 1 | 5,088 | 63 |
| Obligations of states and political subdivisions | 9,612 | 77 | 12,970 | 340 | 39 | 22,582 | 417 |
| | $289,390 | $ 2,446 | $230,566 | $ 5,588 | 185 | $519,956 | $ 8,034 |
| HELD TO MATURITY | | | | | | | |
| U.S. government agencies | $15,371 | $ 95 | $6,720 | $ 307 | 4 | $22,091 | $ 402 |
| Mortgage-backed securities, residential | 26,090 | 426 | 19,203 | 552 | 25 | 45,293 | 978 |
| Mortgage-backed securities, multifamily | 1,935 | 22 | — | — | 2 | 1,935 | 22 |
| Obligations of states and political subdivisions | 15,353 | 56 | 6,028 | 132 | 23 | 21,381 | 188 |
| | $58,749 | $ 599 | $31,951 | $ 991 | 54 | $90,700 | $ 1,590 |

Management has evaluated the securities in the above table and has concluded that none of the securities are other-than-temporarily impaired. The fair values being below cost is due to interest rate movements and is deemed temporary. All investment securities are evaluated on a periodic basis to identify any factors that would require a 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;

Table of Contents

- 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 that an additional analysis is required, management will perform and consider the results of a discounted cash flow analysis.

Equity securities at fair value

The Company has an equity securities portfolio which consists of investments in other financial institutions for market appreciation purposes, and investments in Community Reinvestment funds. The market value of these investments was $16.8 million and $18.1 million as of June 30, 2018 and December 31, 2017, respectively. Upon implementation of Accounting Standards Update 2016-01 - Financial Instruments ("ASU 2016-01"), the Company made a cumulative adjustment of $2.0 million from other comprehensive income to retained earnings as of January 1, 2018. In the first six months of 2018, the Company recorded $33,000 in market value gain on equity securities in other income.

As of June 30, 2018, the equity investments in other financial institutions and Community Reinvestment funds had a market value of $3.7 million and $13.1 million, respectively.

The Community Reinvestment funds include $9.5 million 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. 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 these investments.

The investment funds also include $3.5 million 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 with 60 days notice at the net asset value less unpaid management fees with the approval of the fund manager. As of June 30, 2018, the net amortized cost equaled the market value of the investment. There are no unfunded commitments related to these investments.

NOTE 5 – LOANS, LEASES AND OTHER REAL ESTATE

The following sets forth the composition of the Company's loan and lease portfolio:

| | June 30, 2018 | December 31, 2017 |
|---|---|---|
| | (in thousands) | |
| Commercial, secured by real estate | $2,925,104 | $2,831,184 |
| Commercial, industrial and other | 339,974 | 340,400 |
| Leases | 82,006 | 75,039 |
| Real estate - residential mortgage | 321,717 | 322,880 |
| Real estate - construction | 297,357 | 264,908 |
| Home equity and consumer | 315,144 | 322,269 |
| Total loans and leases | 4,281,302 | 4,156,680 |
| Less: deferred fees | (3,763) | (3,960) |
| Loans and leases, net of deferred fees | $4,277,539 | $4,152,720 |

At June 30, 2018 and December 31, 2017, home equity and consumer loans included overdraft deposit balances of $356,000 and $966,000, respectively. At June 30, 2018 and December 31, 2017, the Company had $1.2 billion and $1.1 billion, respectively, in loans pledged for actual and potential borrowings at the Federal Home Loan Bank of New York ("FHLB").

Purchased Credit Impaired Loans

The carrying value of loans acquired in the Pascack Community Bank ("Pascack") acquisition and accounted for in accordance with ASC Subtopic 310-30, "Loans and Debt Securities Acquired with Deteriorated Credit Quality," was

$175,000 at

15

Table of Contents

June 30, 2018, which was $642,000 less than the balance at the time of acquisition on January 7, 2016. In first quarter 2017, one of the Pascack purchased credit impaired (“PCI”) loans totaling $127,000 experienced further credit deterioration and was fully charged off. In the second quarter of 2017, a loan with a net value of $218,000 was fully paid off. The carrying value of loans acquired in the Harmony Bank ("Harmony") acquisition was $511,000 at June 30, 2018 which was $258,000 less than the balance at acquisition date on July 1, 2016. In the second quarter of 2017, a loan with a net value of $247,000 was fully paid off.

The following table presents changes in the accretable yield for PCI loans:

| | For the Three Months Ended | | For the Six Months Ended | |
|---|---|---|---|---|
| | June 30, 2018 | June 30, 2017 | June 30, 2018 | June 30, 2017 |
| | (in thousands) | | (in thousands) | |
| Balance, beginning of period | $113 | $180 | $129 | $145 |
| Acquisitions | — | — | — | — |
| Accretion | (43) | (47) | (87) | (98) |
| Net reclassification non-accretable difference | 30 | — | 58 | 86 |
| Balance, end of period | $100 | $133 | $100 | $133 |

Non-Performing Assets and Past Due Loans

The following schedule sets forth certain information regarding the Company’s non-performing assets and its accruing troubled debt restructurings, excluding PCI loans:

| | June 30, 2018 | December 31, 2017 |
|---|---|---|
| | (in thousands) | |
| Commercial, secured by real estate | $7,353 | $ 5,890 |
| Commercial, industrial and other | 1,171 | 184 |
| Leases | 834 | 144 |
| Real estate - residential mortgage | 2,992 | 3,860 |
| Real estate - construction | — | 1,472 |
| Home equity and consumer | 1,917 | 2,105 |
| Total non-accrual loans and leases | $14,267 | $ 13,655 |
| Other real estate and other repossessed assets | 2,184 | 843 |
| TOTAL NON-PERFORMING ASSETS | $16,451 | $ 14,498 |
| Troubled debt restructurings, still accruing | $7,926 | $ 11,462 |

Non-accrual loans included $4.9 million and $2.7 million of troubled debt restructurings for the periods ended June 30, 2018 and December 31, 2017, respectively. Non-accrual real estate-construction loans declined from December 31, 2017 to June 30, 2018 due to a foreclosure in a property which resulted in the property moving into other real estate at the end of June 2018. At June 30, 2018 and December 31, 2017, the Company had $2.3 million and $2.7 million, respectively, in residential mortgages and consumer home equity loans that were in the process of foreclosure.

Table of Contents

An age analysis of past due loans, segregated by class of loans as of June 30, 2018 and December 31, 2017, is as follows:

| | 30-59 Days Past Due | 60-89 Days Past Due | Greater Than 89 Days Past Due | Total Past Due | Current | Total Loans and Leases | Recorded Investment Greater than 89 Days and Still Accruing |
|---|---|---|---|---|---|---|---|
| | (in thousands) | | | | | | |
| June 30, 2018 | | | | | | | |
| Commercial, secured by real estate | $3,727 | $ 826 | $3,124 | $7,677 | $2,917,427 | $2,925,104 | $ — |
| Commercial, industrial and other | 119 | — | 1,100 | 1,219 | 338,755 | 339,974 | — |
| Leases | 129 | 77 | 834 | 1,040 | 80,966 | 82,006 | — |
| Real estate - residential mortgage | 1,506 | 311 | 2,992 | 4,809 | 316,908 | 321,717 | — |
| Real estate - construction | — | — | — | — | 297,357 | 297,357 | — |
| Home equity and consumer | 1,202 | 3 | 1,918 | 3,123 | 312,021 | 315,144 | — |
| | $6,683 | $ 1,217 | $9,968 | $17,868 | $4,263,434 | $4,281,302 | $ — |
| December 31, 2017 | | | | | | | |
| Commercial, secured by real estate | $3,663 | $ 1,082 | $3,817 | $8,562 | $2,822,622 | $2,831,184 | $ — |
| Commercial, industrial and other | 80 | 121 | 56 | 257 | 340,143 | 340,400 | — |
| Leases | 496 | 139 | 144 | 779 | 74,260 | 75,039 | — |
| Real estate - residential mortgage | 939 | 908 | 3,137 | 4,984 | 317,896 | 322,880 | — |
| Real estate - construction | — | — | 1,472 | 1,472 | 263,436 | 264,908 | — |
| Home equity and consumer | 1,258 | 310 | 1,386 | 2,954 | 319,315 | 322,269 | 200 |
| | $6,436 | $ 2,560 | $10,012 | $19,008 | $4,137,672 | $4,156,680 | $ 200 |

Table of Contents

Impaired Loans

The Company defines impaired loans as all non-accrual loans and leases with recorded investments of $500,000 or greater. Impaired loans also include all loans that have been modified in troubled debt restructurings. Impaired loans as of June 30, 2018 and December 31, 2017 are as follows:

| June 30, 2018 | Recorded Investment in Impaired Loans | Contractual Unpaid Principal Balance | Specific Allowance | Average Investment in Impaired Loans | Interest Income Recognized |
|---|---|---|---|---|---|
| | (in thousands) | | | | |
| Loans without specific allowance: | | | | | |
| Commercial, secured by real estate | $7,398 | $ 7,715 | $ — | $ 6,730 | $ 89 |
| Commercial, industrial and other | 1,525 | 1,526 | — | 1,381 | 10 |
| Leases | — | — | — | — | — |
| Real estate - residential mortgage | — | — | — | 478 | 4 |
| Real estate - construction | — | — | — | 1,463 | — |
| Home equity and consumer | — | — | — | — | — |
| Loans with specific allowance: | | | | | |
| Commercial, secured by real estate | 7,787 | 8,129 | 452 | 8,178 | 172 |
| Commercial, industrial and other | 228 | 228 | 8 | 228 | 6 |
| Leases | 663 | 663 | 393 | 279 | — |
| Real estate - residential mortgage | 757 | 902 | 4 | 557 | 10 |
| Real estate - construction | — | — | — | — | — |
| Home equity and consumer | 946 | 977 | 8 | 951 | 17 |
| Total: | | | | | |
| Commercial, secured by real estate | $15,185 | $ 15,844 | $ 452 | $ 14,908 | $ 261 |
| Commercial, industrial and other | 1,753 | 1,754 | 8 | 1,609 | 16 |
| Leases | 663 | 663 | 393 | 279 | — |
| Real estate - residential mortgage | 757 | 902 | 4 | 1,035 | 14 |
| Real estate - construction | — | — | — | 1,463 | — |
| Home equity and consumer | 946 | 977 | 8 | 951 | 17 |
| | $19,304 | $ 20,140 | $ 865 | $ 20,245 | $ 308 |

Table of Contents

| December 31, 2017 | Recorded Investment in Impaired Loans | Contractual Unpaid Principal Balance | Specific Allowance | Average Investment in Impaired Loans | Interest Income Recognized |
|---|---|---|---|---|---|
| | (in thousands) | | | | |
| Loans without specific allowance: | | | | | |
| Commercial, secured by real estate | $12,155 | $ 12,497 | — | $ 12,774 | $ 366 |
| Commercial, industrial and other | 618 | 618 | — | 618 | 25 |
| Leases | — | — | — | — | — |
| Real estate - residential mortgage | 963 | 980 | — | 996 | 15 |
| Real estate - construction | 1,471 | 1,471 | — | 1,471 | — |
| Home equity and consumer | — | — | — | 6 | — |
| Loans with specific allowance: | | | | | |
| Commercial, secured by real estate | 5,381 | 5,721 | 454 | 5,029 | 206 |
| Commercial, industrial and other | 164 | 164 | 9 | 283 | 14 |
| Leases | 65 | 65 | 30 | 29 | — |
| Real estate - residential mortgage | 781 | 919 | 4 | 940 | 27 |
| Real estate - construction | — | — | — | — | — |
| Home equity and consumer | 993 | 1,026 | 8 | 1,090 | 52 |
| Total: | | | | | |
| Commercial, secured by real estate | $17,536 | $ 18,218 | $ 454 | $ 17,803 | $ 572 |
| Commercial, industrial and other | 782 | 782 | 9 | 901 | 39 |
| Leases | 65 | 65 | 30 | 29 | — |
| Real estate - residential mortgage | 1,744 | 1,899 | 4 | 1,936 | 42 |
| Real estate - construction | 1,471 | 1,471 | — | 1,471 | — |
| Home equity and consumer | 993 | 1,026 | 8 | 1,096 | 52 |
| | $22,591 | $ 23,461 | $ 505 | $ 23,236 | $ 705 |

Interest income recognized on impaired loans was $308,000 and $336,000 for the six months ended June 30, 2018 and 2017, respectively. Interest that would have been accrued on impaired loans during the first six months of 2018 and 2017 had the loans been performing under original terms would have been $566,000 and $813,000, respectively.

Credit Quality Indicators

The class of loans is 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. Lakeland assigns a credit risk rating 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 commercial loan portfolios. The risk rating system assists senior management in evaluating Lakeland’s commercial 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 commercial 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.

Table of Contents

The following table shows the Company’s commercial loan portfolio as of June 30, 2018 and December 31, 2017, by the risk ratings discussed above (in thousands):

| June 30, 2018 | Commercial, Secured by Real Estate | Commercial, Industrial and Other | Real Estate - Construction |
|---|---|---|---|
| RISK RATING | | | |
| 1 | $ — | $ 331 | $ — |
| 2 | — | 16,766 | — |
| 3 | 67,445 | 44,690 | — |
| 4 | 907,615 | 99,290 | 23,012 |
| 5 | 1,841,406 | 149,975 | 262,623 |
| 5W - Watch | 43,375 | 14,796 | 10,632 |
| 6 - Other assets especially mentioned | 40,607 | 5,509 | — |
| 7 - Substandard | 24,656 | 8,617 | 1,090 |
| 8 - Doubtful | — | — | — |
| 9 - Loss | — | — | — |
| Total | $ 2,925,104 | $ 339,974 | $ 297,357 |

| December 31, 2017 | Commercial, Secured by Real Estate | Commercial, Industrial and Other | Real Estate - Construction |
|---|---|---|---|
| RISK RATING | | | |
| 1 | $ — | $ 392 | $ — |
| 2 | — | 26,968 | — |
| 3 | 76,824 | 35,950 | — |
| 4 | 862,537 | 96,426 | 15,502 |
| 5 | 1,779,908 | 150,928 | 246,806 |
| 5W - Watch | 47,178 | 8,779 | — |
| 6 - Other assets especially mentioned | 40,245 | 8,670 | — |
| 7 - Substandard | 24,492 | 12,287 | 2,600 |
| 8 - Doubtful | — | — | — |
| 9 - Loss | — | — | — |
| Total | $ 2,831,184 | $ 340,400 | $ 264,908 |

The risk rating tables above do not include residential mortgage loans, consumer loans, or leases because they are evaluated on their payment status.

Table of Contents

Allowance for Loan and Lease Losses

The following table details activity in the allowance for loan and lease losses by portfolio segment for the three and six months ended June 30, 2018 and 2017:

| Three Months Ended June 30, 2018 | Commercial, Secured by Real Estate | Commercial, Industrial and Other | Leases | Real Estate-Residential Mortgage | Real Estate-Construction | Home Equity and Consumer | Total |
|---|---|---|---|---|---|---|---|
| | (in thousands) | | | | | | |
| Beginning Balance | $25,817 | $ 1,768 | $1,042 | $ 1,589 | $ 2,932 | $ 2,496 | $35,644 |
| Charge-offs | (210 ) | (289 ) | (72 ) | — | (248 ) | (144 ) | (963 ) |
| Recoveries | 274 | 76 | 3 | 3 | 3 | 72 | 431 |
| Provision | 293 | 457 | 291 | (7 ) | 376 | 82 | 1,492 |
| Ending Balance | $26,174 | $ 2,012 | $1,264 | $ 1,585 | $ 3,063 | $ 2,506 | $36,604 |

| Three Months Ended June 30, 2017 | Commercial, Secured by Real Estate | Commercial, Industrial and Other | Leases | Real Estate-Residential Mortgage | Real Estate-Construction | Home Equity and Consumer | Total |
|---|---|---|---|---|---|---|---|
| | (in thousands) | | | | | | |
| Beginning Balance | $22,083 | $ 1,792 | $502 | $ 1,825 | $ 2,378 | $ 3,010 | $31,590 |
| Charge-offs | (83 ) | (71 ) | (120 ) | (169 ) | — | (427 ) | (870 ) |
| Recoveries | 145 | 27 | 28 | — | 5 | 71 | 276 |
| Provision | 1,199 | (60 ) | 119 | 98 | 213 | 258 | 1,827 |
| Ending Balance | $23,344 | $ 1,688 | $529 | $ 1,754 | $ 2,596 | $ 2,912 | $32,823 |

| Six Months Ended June 30, 2018 | Commercial, Secured by Real Estate | Commercial, Industrial and Other | Leases | Real Estate-Residential Mortgage | Real Estate-Construction | Home Equity and Consumer | Total |
|---|---|---|---|---|---|---|---|
| | (in thousands) | | | | | | |
| Beginning Balance | $25,704 | $ 2,313 | $630 | $ 1,557 | $ 2,731 | $ 2,520 | $35,455 |
| Charge-offs | (232 ) | (1,301 ) | (95 ) | (93 ) | (248 ) | (244 ) | (2,213 ) |
| Recoveries | 305 | 96 | 5 | 5 | 8 | 167 | 586 |
| Provision | 397 | 904 | 724 | 116 | 572 | 63 | 2,776 |
| Ending Balance | $26,174 | $ 2,012 | $1,264 | $ 1,585 | $ 3,063 | $ 2,506 | $36,604 |

| Six Months Ended June 30, 2017 | Commercial, Secured by Real Estate | Commercial, Industrial and Other | Leases | Real Estate-Residential Mortgage | Real Estate-Construction | Home Equity and Consumer | Total |
|---|---|---|---|---|---|---|---|
| | (in thousands) | | | | | | |
| Beginning Balance | $21,223 | $ 1,723 | $548 | $ 1,964 | $ 2,352 | $ 3,435 | $31,245 |
| Charge-offs | (303 ) | (234 ) | (163 ) | (310 ) | (609 ) | (611 ) | (2,230 ) |
| Recoveries | 364 | 122 | 32 | — | 20 | 225 | 763 |
| Provision | 2,060 | 77 | 112 | 100 | 833 | (137 ) | 3,045 |
| Ending Balance | $23,344 | $ 1,688 | $529 | $ 1,754 | $ 2,596 | $ 2,912 | $32,823 |

21

Table of Contents

Loans receivable summarized by portfolio segment and impairment method are as follows:

| June 30, 2018 | Commercial, Secured by Real Estate | Commercial, Industrial and Other | Leases | Real Estate-Residential Mortgage | Real Estate-Construction | Home Equity and Consumer | Total |
|---|---|---|---|---|---|---|---|
| | (in thousands) | | | | | | |
| Ending Balance: Individually evaluated for impairment | $15,185 | $ 1,753 | $663 | $757 | $ — | $946 | $19,304 |
| Ending Balance: Collectively evaluated for impairment | 2,909,234 | 338,221 | 81,343 | 320,960 | 297,357 | 314,197 | 4,261,312 |
| Ending Balance: Loans acquired with deteriorated credit quality | 685 | — | — | — | — | 1 | 686 |
| Ending Balance (1) | $2,925,104 | $ 339,974 | $82,006 | $321,717 | $ 297,357 | $315,144 | $4,281,302 |
| December 31, 2017 | Commercial, Secured by Real Estate | Commercial, Industrial and Other | Leases | Real Estate-Residential Mortgage | Real Estate-Construction | Home Equity and Consumer | Total |
| | (in thousands) | | | | | | |
| Ending Balance: Individually evaluated for impairment | $17,536 | $ 782 | $65 | $1,744 | $ 1,471 | $993 | $22,591 |
| Ending Balance: Collectively evaluated for impairment | 2,812,941 | 339,618 | 74,974 | 321,136 | 263,437 | 321,273 | 4,133,379 |
| Ending balance: Loans acquired with deteriorated credit quality | 707 | — | — | — | — | 3 | 710 |
| Ending Balance (1) | $2,831,184 | $ 340,400 | $75,039 | $322,880 | $ 264,908 | $322,269 | $4,156,680 |

(1) Excludes deferred fees

The allowance for loan and lease losses is summarized by portfolio segment and impairment classification as follows:

| June 30, 2018 | Commercial, Secured by Real Estate | Commercial, Industrial and Other | Leases | Real Estate-Residential Mortgage | Real Estate-Construction | Home Equity and Consumer | Total |
|---|---|---|---|---|---|---|---|
| | (in thousands) | | | | | | |
| Ending Balance: Individually evaluated for impairment | $452 | $ 8 | $393 | $ 4 | $ — | $ 8 | $865 |
| Ending Balance: Collectively evaluated for impairment | 25,722 | 2,004 | 871 | 1,581 | 3,063 | 2,498 | 35,739 |
| Ending Balance | $26,174 | $ 2,012 | $1,264 | $ 1,585 | $ 3,063 | $ 2,506 | $36,604 |
| December 31, 2017 | Commercial, Secured by Real Estate | Commercial, Industrial and Other | Leases | Real Estate-Residential Mortgage | Real Estate-Construction | Home Equity and Consumer | Total |
| | (in thousands) | | | | | | |
| Ending Balance: Individually evaluated for impairment | $454 | $ 9 | $ 30 | $ 4 | $ — | $ 8 | $505 |
| Ending Balance: Collectively evaluated for impairment | 25,250 | 2,304 | 600 | 1,553 | 2,731 | 2,512 | 34,950 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Ending Balance | $25,704 | $ 2,313 | $ 630 | $ 1,557 | $ 2,731 | $ 2,520 | $35,455 |

Lakeland also maintains a reserve for unfunded lending commitments which is included in other liabilities. This reserve was $2.5 million for each of the periods ended June 30, 2018 and December 31, 2017. The Company analyzes the adequacy of the reserve for unfunded lending commitments quarterly.

Troubled Debt Restructurings

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, a moratorium of principal payments and/or an extension of the maturity date

Table of Contents

at a stated interest rate lower than the current market rate of a new loan with similar risk. The Company considers the potential losses on these loans as well as the remainder of its impaired loans while considering the adequacy of the allowance for loan and lease losses.

The following table summarizes loans that have been restructured during the three and six months ended June 30, 2018 and 2017:

| | For the Three Months Ended June 30, 2018 | | | For the Three Months Ended June 30, 2017 | | |
|---|---|---|---|---|---|---|
| | 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) | | | | | |
| Commercial, secured by real estate | 1 | $ 170 | $ 170 | 2 | $ 159 | $ 159 |
| Commercial, industrial and other | 1 | 950 | 950 | 2 | 124 | 124 |
| | 2 | $ 1,120 | $ 1,120 | 4 | $ 283 | $ 283 |

| | For the Six Months Ended June 30, 2018 | | | For the Six Months Ended June 30, 2017 | | |
|---|---|---|---|---|---|---|
| | 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) | | | | | |
| Commercial, secured by real estate | 3 | $ 1,827 | $ 1,827 | 4 | $ 3,038 | $ 3,038 |
| Commercial, industrial and other | 1 | 950 | 950 | 2 | 124 | 124 |
| | 4 | $ 2,777 | $ 2,777 | 6 | $ 3,162 | $ 3,162 |

The following table summarizes as of June 30, 2018 and 2017, loans that were restructured within the previous twelve months that have subsequently defaulted:

| | June 30, 2018 | | June 30, 2017 | |
|---|---|---|---|---|
| | Number of Contracts | Recorded Investment | Number of Contracts | Recorded Investment |
| | (dollars in thousands) | | | |
| Commercial, secured by real estate | 2 | $ 1,234 | — | $ — |
| Commercial, industrial and other | 1 | 950 | — | — |
| Leases | 1 | 11 | — | — |
| Real estate - residential mortgage | — | $ — | 1 | $ 254 |
| | 4 | $ 2,195 | 1 | $ 254 |

Other Real Estate and Other Repossessed Assets

At June 30, 2018, the Company had other real estate owned and other repossessed assets of $2.2 million and $0, respectively. At December 31, 2017, the Company had other real estate owned and other repossessed assets of $843,000 and $0, respectively. Included in other real estate owned was residential property acquired as a result of foreclosure proceedings totaling $1.9 million and $843,000 that the Company held at the periods ended June 30, 2018 and December 31, 2017, respectively.

NOTE 6 – DERIVATIVES

Lakeland is a party to interest rate derivatives that are not designated as hedging instruments. Under a program, Lakeland executes interest rate swaps with commercial lending customers to facilitate their respective risk management strategies. These interest rate swaps with customers are simultaneously offset by interest rate swaps that Lakeland executes with a third party, such that Lakeland minimizes its net risk exposure resulting from such transactions. Because the interest rate swaps associated with this program do not meet the strict hedge accounting requirements, changes in the fair value of both the customer swaps and the

Table of Contents

offsetting swaps are recognized directly in earnings. The changes in the fair value of the swaps offset each other, except for the credit risk of the counterparties, which is determined by taking into consideration the risk rating, probability of default and loss given default for all counterparties. Lakeland had $487,000 and $492,000, respectively, in available for sale securities pledged for collateral on its interest rate swaps with the financial institution for June 30, 2018 and December 31, 2017.

In June 2016, the Company entered into two cash flow hedges in order to hedge the variable cash outflows associated with its subordinated debentures. The notional value of these hedges was $30.0 million. The Company's objectives in using the cash flow hedge are to add stability to interest expense and to manage its exposure to interest rate movements. The Company used interest rate swaps designated as cash flow hedges which involved the receipt of variable amounts from a counterparty in exchange for the Company making fixed-rate payments over the life of the agreements without exchange of the underlying notional amount. In these particular hedges the Company is paying a third party an average of 1.10% in exchange for a payment at 3 month LIBOR. The effective portion of changes in the fair value of derivatives designated and that qualify as cash flow hedges are recorded in accumulated other comprehensive income and are subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings. During the six months ended June 30, 2018, the Company did not record any hedge ineffectiveness. The Company recognized $132,000 and $(4,000) of accumulated other comprehensive income (loss) that was reclassified into interest expense for the first six months of 2018 and 2017, respectively.

Amounts reported in accumulated other comprehensive income related to derivatives will be reclassified to interest expense as interest payments are made on the Company's debt. During the next twelve months, the Company estimates that $371,000 will be reclassified as a decrease to interest expense should the rate environment remain the same.

The following table presents summary information regarding these derivatives for the periods presented (dollars in thousands):

| June 30, 2018 | Notional Amount | Average Maturity (Years) | Weighted Average Fixed Rate | Weighted Average Variable Rate | Fair Value |
|---|---|---|---|---|---|
| Classified in Other Assets: | | | | | |
| 3rd Party interest rate swaps | $190,679 | 9.4 | 4.25 % | 1 Mo. LIBOR + 2.15% | $8,675 |
| Customer interest rate swaps | 58,754 | 10.8 | 5.15 % | 1 Mo. LIBOR + 2.12% | 996 |
| Interest rate swap (cash flow hedge) | 30,000 | 3.0 | 1.10 % | 3 Mo. LIBOR | 1,516 |
| Classified in Other Liabilities: | | | | | |
| Customer interest rate swaps | $190,679 | 9.4 | 4.25 % | 1 Mo. LIBOR + 2.15% | $(8,675) |
| 3rd Party interest rate swaps | 58,754 | 10.8 | 5.15 % | 1 Mo. LIBOR + 2.12% | (996) |

| December 31, 2017 | Notional Amount | Average Maturity (Years) | Weighted Average Fixed Rate | Weighted Average Variable Rate | Fair Value |
|---|---|---|---|---|---|
| Classified in Other Assets: | | | | | |
| 3rd Party interest rate swaps | $110,076 | 8.8 | 3.87 % | 1 Mo. LIBOR + 2.11% | $3,634 |
| Customer interest rate swaps | 82,760 | 11.5 | 4.74 % | 1 Mo. LIBOR + 2.21% | 1,831 |
| Interest rate swap (cash flow hedge) | 30,000 | 3.5 | 1.10 % | 3 Mo. LIBOR | 1,090 |
| Classified in Other Liabilities: | | | | | |
| Customer interest rate swaps | $110,076 | 8.8 | 3.87 % | 1 Mo. LIBOR + 2.11% | $(3,634) |
| 3rd party interest rate swaps | 82,760 | 11.5 | 4.74 % | 1 Mo. LIBOR + 2.21% | (1,831) |

NOTE 7 – GOODWILL AND INTANGIBLE ASSETS

The Company had goodwill of $136.4 million for both of the periods ended June 30, 2018 and December 31, 2017. The Company reviews its goodwill and intangible assets annually, on November 30, or more frequently if conditions warrant, for impairment. In testing goodwill for impairment, the Company compares the estimated fair value of its reporting unit to its carrying amount, including goodwill. The Company has determined that it has one reporting unit, Community Banking.

The Company had core deposit intangible of $2.1 million and $2.4 million for the periods ended June 30, 2018 and December 31, 2017, respectively. The estimated future amortization expense for the remainder of 2018 and for each of the succeeding five years ended December 31 is as follows (dollars in thousands):

Table of Contents

| For the Year Ended | |
|---|---|
| 2018 | $284 |
| 2019 | 505 |
| 2020 | 415 |
| 2021 | 326 |
| 2022 | 236 |
| 2023 | 147 |

NOTE 8 – BORROWINGS

Repurchase Agreements

At June 30, 2018, the Company had federal funds purchased and securities sold under agreements to repurchase of $166.3 million and $31.6 million, respectively. The securities sold under agreements to repurchase are overnight sweep arrangement accounts with our customers. As of June 30, 2018, the Company had $35.0 million in mortgage backed securities pledged for its securities sold under agreements to repurchase.

At times the 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 Lakeland to pledge additional collateral to meet that margin call.

Repayment of Borrowings

In the second quarter of 2018, the Company repaid all of its $20.0 million in maturing long-term securities sold under agreements to repurchase.

In the first quarter of 2017, the Company prepaid an aggregate of $20.0 million in long-term securities sold under agreements to repurchase and recorded $2.2 million in long-term debt prepayment fees. The Company also prepaid an aggregate of $34.0 million in borrowings from the Federal Home Loan Bank of New York and recorded $638,000 in long-term debt prepayment fees.

NOTE 9 – SHARE-BASED COMPENSATION

The Company grants restricted stock, restricted stock units (“RSUs”) and stock options under the 2018 Omnibus Equity Incentive Plan and previously granted such awards under the 2009 Equity Compensation Program. The Company recognized share based compensation expense on its restricted stock of $118,000 and $165,000 for the six months ended June 30, 2018 and 2017, respectively. As of June 30, 2018, there was unrecognized compensation cost of $113,000 related to unvested restricted stock that is expected to be recognized over a weighted average period of approximately 0.55 years. The Company recognized share based compensation expense of $1.3 million and $1.4 million on RSU's for the six months ended June 30, 2018 and 2017, respectively. Unrecognized compensation expense related to RSUs was approximately $3.2 million as of June 30, 2018, and that cost is expected to be recognized over a period of 1.63 years. There was no unrecognized compensation expense related to unvested stock options as of June 30, 2018.

In the first six months of 2018, the Company granted 10,945 shares of restricted stock to non-employee directors at a grant date fair value of $20.55 per share under the 2009 Equity Compensation Program. The restricted stock vests one year from the date it was granted. Compensation expense on this restricted stock is expected to be $225,000 over a one year period. In the first six months of 2017, the Company granted 13,176 shares of restricted stock to non-employee directors at a grant date fair value of $18.20 per share under the 2009 Equity Compensation Program. The restricted stock vested one year from the date it was granted. Compensation expense on this restricted stock was $240,000 over a one year period.

The following is a summary of the Company’s restricted stock activity during the six months ended June 30, 2018:

Table of Contents

| | Number of Shares | Weighted Average Price |
|---|---|---|
| Outstanding, January 1, 2018 | 22,982 | $ 14.44 |
| Granted | 10,945 | 20.55 |
| Vested | (22,856 ) | 14.46 |
| Forfeited | — | — |
| Outstanding, June 30, 2018 | 11,071 | $ 20.44 |

In the first six months of 2018, the Company granted 151,733 RSUs to certain officers at a weighted average grant date fair value of $19.13 per share under the Company's 2009 Equity Compensation Program. These units vest within a range of two to three years. A portion of these RSUs will vest subject to certain performance conditions in the restricted stock unit agreement. There are also certain provisions in the compensation program which state that if a recipient of the RSUs reaches a certain age and years of service, the person has effectively earned a portion of the RSUs at that time. Compensation expense on the restricted stock units issued in the first six months of 2018 is expected to average approximately $968,000 per year over a three year period. In the first six months of 2017, the Company granted 117,673 RSUs at a weighted average grant date fair value of $19.96 per share under the Company's 2009 Equity Compensation Program. Compensation expense on these restricted stock units is expected to average approximately $783,000 per year over a three year period.

The following is a summary of the Company's RSU activity during the six months ended June 30, 2018:

| | Number of Shares | Weighted Average Price |
|---|---|---|
| Outstanding, January 1, 2018 | 267,732 | $ 13.93 |
| Granted | 151,733 | 19.13 |
| Vested | (116,921 ) | 13.80 |
| Forfeited | (4,650 ) | 18.61 |
| Outstanding, June 30, 2018 | 297,894 | $ 16.56 |

There were no grants of stock options in the first six months of 2018 or 2017. Option activity under the Company's stock option plans is as follows:

| | Number of Shares | Weighted Average Exercise Price | Weighted Average Remaining Contractual Term (in years) | Aggregate Intrinsic Value |
|---|---|---|---|---|
| Outstanding, January 1, 2018 | 102,216 | $ 8.49 | 4.27 | $1,101,806 |
| Granted | — | — | | |
| Exercised | (34,728 ) | 8.84 | | |
| Forfeited | — | — | | |
| Expired | — | — | | |
| Outstanding, June 30, 2018 | 67,488 | $ 8.31 | 3.36 | $780,627 |
| Options exercisable at June 30, 2018 | 67,488 | $ 8.31 | 3.36 | $780,627 |

The aggregate intrinsic value in the table above represents the total pre-tax intrinsic value (the difference between the Company's closing stock price on the last trading day of the period and the exercise price, multiplied by the number of in-the-money options).

There were 34,728 and 31,769 stock options exercised during the first six months of 2018 and 2017, respectively. The aggregate intrinsic value of stock options exercised during the six months ended June 30, 2018 and 2017 was $406,000 and $318,000, respectively. Exercise of stock options during the first six months of 2018 and 2017, resulted in cash receipts of $307,000 and $313,000, respectively.

Table of Contents

NOTE 10 – COMPREHENSIVE INCOME

The components of other comprehensive income (loss) are as follows:

| For the three months ended: | June 30, 2018 Before Tax Amount (in thousands) | Tax Benefit (Expense) | Net of Tax Amount | June 30, 2017 Before Tax Amount (in thousands) | Tax Benefit (Expense) | Net of Tax Amount |
|---|---|---|---|---|---|---|
| Net unrealized gains (losses) on available for sale securities | | | | | | |
| Net unrealized holding (losses) gains arising during period | $(2,203) | $ 513 | $(1,690) | $1,661 | $ (632) | $1,029 |
| Reclassification adjustment for net gains arising during the period | — | — | — | 15 | (6) | 9 |
| Net unrealized losses (income) | (2,203) | 513 | (1,690) | 1,676 | (638) | 1,038 |
| Unrealized gains (losses) on derivatives | 67 | (14) | 53 | (186) | 65 | (121) |
| Other comprehensive (loss) income, net | $(2,136) | $ 499 | $(1,637) | $1,490 | $ (573) | $917 |

| For the six months ended: | June 30, 2018 Before Tax Amount (in thousands) | Tax Benefit (Expense) | Net of Tax Amount | June 30, 2017 Before Tax Amount (in thousands) | Tax Benefit (Expense) | Net of Tax Amount |
|---|---|---|---|---|---|---|
| Net unrealized gains (losses) on available for sale securities | | | | | | |
| Net unrealized holding (losses) gains arising during period | $(9,705) | $ 2,283 | $(7,422) | $2,845 | $ (1,082) | $1,763 |
| Reclassification adjustment for net gains arising during the period | — | — | — | (2,524) | 884 | (1,640) |
| Net unrealized losses (gains) | (9,705) | 2,283 | (7,422) | 321 | (198) | 123 |
| Unrealized gains (losses) on derivatives | 425 | (89) | 336 | (165) | 58 | (107) |
| Other comprehensive (loss) income, net | $(9,280) | $ 2,194 | $(7,086) | $156 | $ (140) | $16 |

The following table shows the changes in the balances of each of the components of other comprehensive income for the periods presented, net of tax (in thousands):

| | For the Three Months Ended June 30, 2018 | | | | For the Three Months Ended June 30, 2017 | | | |
|---|---|---|---|---|---|---|---|---|
| | Unrealized Losses on Available for Sale Securities | Unrealized Gains on Derivatives | Pension Items | Total | Unrealized Gains (Losses) on Available for Sale Securities | Unrealized Gains on Derivatives | Pension Items | Total |
| Beginning balance | $(11,007) | $ 1,145 | $ 21 | $(9,841) | $(1,032) | $ 686 | $ 38 | $(308) |
| Other comprehensive (loss) income before classifications | (1,690) | 53 | — | (1,637) | 1,029 | (121) | — | 908 |
| Amounts reclassified from accumulated other comprehensive income | — | — | — | — | 9 | — | — | 9 |
| Net current period other comprehensive (loss) income | (1,690) | 53 | — | (1,637) | 1,038 | (121) | — | 917 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Ending balance | $(12,697) | $ 1,198 | $ 21 | $(11,478) | $6 | 565 | $ 38 | $609 |

27

Table of Contents

| | For the Six Months Ended June 30, 2018 | | | | For the Six Months Ended June 30, 2017 | | | |
|---|---|---|---|---|---|---|---|---|
| | Unrealized Losses on Available for Sale Securities | Unrealized Gains on Derivatives | Pension Items | Total | Unrealized Gains (Losses) on Available for Sale Securities | Unrealized Gains on Derivatives | Pension Items | Total |
| Beginning balance | $(3,232) | $ 862 | $ 21 | $(2,349) | $(117) | $ 672 | $ 38 | $593 |
| Adjustment for implementation of ASU 2016-01 | (2,043) | — | — | (2,043) | — | — | — | — |
| Adjusted beginning balance | (5,275) | 862 | 21 | (4,392) | (117) | 672 | 38 | 593 |
| Other comprehensive (loss) income before classifications | (7,422) | 336 | — | (7,086) | 1,763 | (107) | — | 1,656 |
| Amounts reclassified from accumulated other comprehensive income | — | — | — | — | (1,640) | — | — | (1,640) |
| Net current period other comprehensive (loss) income | (7,422) | 336 | — | (7,086) | 123 | (107) | — | 16 |
| Ending balance | $(12,697) | $ 1,198 | $ 21 | $(11,478) | $6 | 565 | $ 38 | $609 |

NOTE 11 – ESTIMATED FAIR VALUE OF FINANCIAL INSTRUMENTS AND FAIR VALUE MEASUREMENT

Fair Value Measurement

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in the principal or most advantageous market for an asset or liability in an orderly transaction between market participants at the measurement date. U.S. GAAP establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels giving the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest level priority to unobservable inputs (level 3 measurements). The following describes the three levels of fair value hierarchy:

Level 1 – unadjusted quoted prices in active markets for identical assets or liabilities; includes U.S. Treasury Notes, and other U.S. Government Agency securities that actively trade in over-the-counter markets; equity securities and mutual funds that actively trade in over-the-counter markets.

Level 2 – quoted prices for similar assets or liabilities in active markets; or quoted prices for identical or similar assets or liabilities in markets that are not active; or inputs other than quoted prices that are observable for the asset or liability including yield curves, volatilities, and prepayment speeds.

Level 3 – unobservable inputs for the asset or liability that reflect the Company’s own assumptions about assumptions that market participants would use in the pricing of the asset or liability and that are consequently not based on market activity but upon particular valuation techniques.

The Company’s assets that are measured at fair value on a recurring basis are it’s available for sale investment securities and its equity securities. The Company obtains fair values on its securities using information from a third party servicer. If quoted prices for securities are available in an active market, those securities are classified as Level 1 securities. The Company has U.S. Treasury Notes and certain equity securities that are classified as Level 1 securities. Level 2 securities were primarily comprised of U.S. Agency bonds, residential mortgage-backed securities, obligations of state and political subdivisions and corporate securities. Fair values were estimated primarily by obtaining quoted prices for similar assets in active markets or through the use of pricing models supported with market data information. Standard inputs include benchmark yields, reported trades, issuer spreads, bids and offers.

On a quarterly basis, the Company reviews the pricing information received from the Company’s third party pricing service. This review includes a comparison to non-binding third-party quotes.

28

Table of Contents

The fair values of derivatives are based on valuation models from a third party using current market terms (including interest rates and fees), the remaining terms of the agreements and the credit worthiness of the counter party as of the measurement date (Level 2).

The following table sets forth the Company's financial assets that were accounted for at fair value on a recurring basis as of the periods presented by level within the fair value hierarchy. During the six months ended June 30, 2018, the Company did not make any transfers between any levels within the fair value hierarchy. Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement:

| | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Total Fair Value |
|---|---|---|---|---|
| | (in thousands) | | | |
| June 30, 2018 | | | | |
| Assets: | | | | |
| Investment securities, available for sale | | | | |
| U.S. Treasury and government agencies | $4,885 | $ 141,460 | $ — | $146,345 |
| Mortgage-backed securities | — | 405,589 | — | 405,589 |
| Obligations of states and political subdivisions | — | 49,222 | — | 49,222 |
| Other debt securities | — | 5,075 | — | 5,075 |
| Total securities available for sale | 4,885 | 601,346 | — | 606,231 |
| Equity securities, at fair value | 3,735 | 13,063 | — | 16,798 |
| Derivative assets | — | 11,187 | — | 11,187 |
| Total Assets | $8,620 | $ 625,596 | $ — | $634,216 |
| Liabilities: | | | | |
| Derivative liabilities | $— | $ 9,671 | $ — | $9,671 |
| Total Liabilities | $— | $ 9,671 | $ — | $9,671 |
| | | | | |
| December 31, 2017 | | | | |
| Assets: | | | | |
| Investment securities, available for sale | | | | |
| U.S. Treasury and government agencies | $5,415 | $ 141,840 | $ — | $147,255 |
| Mortgage-backed securities | — | 424,331 | — | 424,331 |
| Obligations of states and political subdivisions | — | 51,320 | — | 51,320 |
| Other debt securities | — | 5,140 | — | 5,140 |
| Total securities available for sale | 5,415 | 622,631 | — | 628,046 |
| Equity securities, at fair value | 5,147 | 12,942 | — | 18,089 |
| Derivative assets | — | 6,555 | — | 6,555 |
| Total Assets | $10,562 | $ 642,128 | $ — | $652,690 |
| Liabilities: | | | | |
| Derivative liabilities | $— | $ 5,465 | $ — | $5,465 |
| Total Liabilities | $— | $ 5,465 | $ — | $5,465 |

Table of Contents

The following table sets forth the Company’s assets subject to fair value adjustments (impairment) on a non-recurring basis. Assets are classified in their entirety based on the lowest level of input that is significant to the fair value measurement:

| | (Level 1) | (Level 2) | (Level 3) | Total Fair Value |
|---|---|---|---|---|
| | | (in thousands) | | |
| June 30, 2018 | | | | |
| Assets: | | | | |
| Impaired loans and leases | $ — | $ — | $ 19,304 | $ 19,304 |
| Loans held for sale | — | 1,692 | — | 1,692 |
| Other real estate owned and other repossessed assets | — | — | 2,184 | 2,184 |