LAKELAND BANCORP INC
Form 10-K
March 15, 2016
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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, 2015.

¨ **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)**

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. ¨

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, 2015, the aggregate market value of the registrant s common stock held by non-affiliates of the registrant was approximately $417,000,000, 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, 2016, was 41,234,664.

DOCUMENTS INCORPORATED BY REFERENCE:

Lakeland Bancorp, Inc s. Proxy Statement for its 2016 Annual Meeting of Shareholders (Part III).

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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 operates 53 banking offices, located in Bergen, Essex, Morris, Passaic, Somerset, Sussex, Union and Warren counties in New Jersey; five New Jersey regional commercial lending centers in Bernardsville, Montville, Newton, Teaneck and Wyckoff/Waldwick; and two commercial loan production offices serving Middlesex and Monmouth counties in New Jersey and the Hudson Valley region of New York. Lakeland offers an extensive suite of financial products and services for businesses and consumers.

The Company has shown substantial growth through a combination of organic growth and acquisitions. Since 1998, Lakeland has opened (including acquired branches) a net total of 32 branch offices, and currently maintains 53 branch offices. The Company has acquired six community banks with an aggregate asset total of approximately $1.5 billion, including the acquisition of Pascack Community Bank and its parent, Pascack Bancorp, Inc. (Pascack Bancorp), which closed on January 7, 2016. All of the acquired banks have been merged into Lakeland and their holding companies, if applicable, have been merged into the Company.

Lakeland Bancorp, Lakeland Bank and Harmony Bank signed a merger agreement on February 17, 2016, pursuant to which Harmony Bank will be merged with and into Lakeland Bank, with Lakeland Bank as the surviving bank. The merger agreement provides that shareholders of Harmony Bank will receive 1.25 shares of Lakeland Bancorp common stock for each share of Harmony Bank common stock that they own at the effective time of the merger. Lakeland Bancorp expects to issue an aggregate of approximately 3.0 million shares of its common stock in the merger and will cash out Harmony Bank options that remain outstanding at the effective time of the merger. The closing of the merger is subject to receipt of approvals from regulators, approval of the merger by Harmony Bank s shareholders and other customary conditions. Harmony Bank, a New Jersey state-chartered commercial bank that focuses on serving consumers and small-to-medium-size businesses, is headquartered in Jackson, New Jersey, with additional branch offices in Lakewood and Toms River, New Jersey. As of December 31, 2015, Harmony Bank had total assets, total loans, total deposits and total stockholders equity of $295 million, $241 million, $257 million and $28 million, respectively.

At December 31, 2015, Lakeland Bancorp had total consolidated assets of $3.9 billion, total consolidated deposits of $3.0 billion, total consolidated loans, net of the allowance for loan and lease losses, of $2.9 billion and total consolidated stockholders equity of $400.5 million. Following the closing of Lakeland Bancorp s acquisition of Pascack Bancorp, Inc. and its subsidiary, Pascack Community Bank, on January 7, 2016, Lakeland Bancorp s total assets approximated $4.3 billion.

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, the Hudson Valley region in New York, and surrounding areas. 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.

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 Bancorp in 2013, 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.

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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, 2015, the Company had 551 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.

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

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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 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

As part of the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001, Congress adopted the International Money Laundering Abatement and Financial Anti-Terrorism Act of 2001 (collectively, the USA PATRIOT Act). 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

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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.

- 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. Banking agencies have strictly enforced various anti-money laundering and suspicious activity reporting requirements using formal and informal enforcement tools to cause banks to comply with these provisions.

Sarbanes-Oxley Act of 2002

The Sarbanes-Oxley Act of 2002 (the SOA) added new legal requirements for public companies affecting corporate governance, accounting and corporpate reporting, to increase corporate responsibility and to protect investors.

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.

The Securities and Exchange Commission (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. Each of the national stock exchanges, including the NASDAQ Stock Market where Lakeland Bancorp s common stock is listed, have corporate governance listing standards, including rules strengthening director independence requirements for boards, and requiring the adopting of charters for the nominating, corporate governance and audit committees.

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 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. The CRA also requires all institutions to make public disclosure of their CRA ratings. Lakeland Bank received an outstanding CRA rating in its most recent examination.

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

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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 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. Banking institutions that fail to maintain the minimum capital ratios, or that maintain the requisite minimum capital ratios but do so at a level below the minimum capital ratios plus the new capital conservation buffer, will face constraints on their ability to pay dividends. See Capital Requirements below.

Capital Requirements

Pursuant to the Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA), each federal banking agency has promulgated regulations, specifying the levels at which a financial institution would be considered well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, or critically undercapitalized, and to take certain mandatory and discretionary supervisory actions based on the capital level of the institution. To qualify to engage in financial activities under the Gramm-Leach-Bliley Act, all depository institutions must be well capitalized. The financial holding company of a bank will be put under directives to raise its capital levels or divest its activities if the depository institution falls from that level.

In July 2013, the Federal Reserve Board, the FDIC and the Comptroller of the Currency adopted final rules establishing a new comprehensive capital framework for U.S. banking organizations (the Basel Rules). The Basel Rules implement the Basel Committee s December 2010 framework, commonly referred to as Basel III, for strengthening international capital standards as well as certain provisions of the Dodd-Frank Act, as discussed below. The Basel Rules substantially revise the risk-based capital requirements applicable to bank holding companies and depository institutions, including Lakeland Bancorp and Lakeland Bank, compared to prior U.S. risk-based capital rules. The Basel Rules define the components of capital and address other issues affecting the numerator in banking institutions regulatory capital ratios. The Basel Rules also address risk weights and other issues affecting the denominator in banking institutions regulatory capital ratios and replace the existing risk-

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weighting approach, which was derived from Basel I capital accords of the Basel Committee, with a more risk-sensitive approach based, in part, on the standardized approach in the Basel Committee s 2004 Basel II capital accords. The Basel Rules also implement the requirements of Section 939A of the Dodd-Frank Act to remove references to credit ratings from the federal banking agencies rules.

The Basel Rules became effective for us on January 1, 2015 (subject to phase-in periods for certain components).

For bank holding companies and banks like Lakeland Bancorp and Lakeland Bank, January 1, 2015 was the start date for compliance with the revised minimum regulatory capital ratios and for determining risk-weighted assets under what the Basel Rules call a standardized approach. As of January 1, 2015, Lakeland Bancorp and Lakeland Bank were 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 Basel 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, effectively resulting in the following minimum capital ratios on January 1, 2019:

CET1 of 7.0%;

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 began on January 1, 2016 at the 0.625% level (thus effectively resulting in minimum capital ratios as of January 1, 2016 for CET1, Tier 1 Capital Ratio and Total Capital Ratio of 5.125%, 6.625% and 8.625%, respectively), and increases by 0.625% on each subsequent January 1 until it reaches 2.5% on January 1, 2019.

The Basel 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.

The Basel Rules provide for several deductions from and adjustments to CET1, which are being 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 Basel 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 made such an election to continue to exclude these items.

While the Basel 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 Basel 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 Basel 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 Basel Rules adopt alternatives to credit ratings for calculating the risk-weighting for certain assets.

With respect to Lakeland Bank, the Basel 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 (a new standard); (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% (increased from 6%); and (iii) requiring a leverage ratio of 5% to be well-capitalized (increased from the previously required leverage ratio of 3% or 4%). The Basel Rules do not change the total risk-based capital requirement for any prompt corrective action category. Effective as of January 1, 2015, the FDIC s regulations implementing these provisions of FDICIA provide that an institution will be classified as well capitalized if it (i) has a total risk-based capital ratio of at least 10.0 percent, (ii) has a Tier 1 risk-based capital ratio of at least 8.0 percent, (iii) has a CET1 ratio of at least 6.5 percent, (iv) has a Tier 1 leverage ratio of at least 5.0 percent, and (v) meets certain other requirements. An institution will be classified as adequately capitalized if it (i) has a total risk-based capital ratio of at least 8.0 percent, (ii) has a Tier 1 risk-based capital ratio of at least 6.0 percent, (iii) has a CET1 ratio of at least 4.5 percent, (iv) has a Tier 1 leverage ratio of at least 4.0 percent, and (v) does not meet the definition of well capitalized. An institution will be classified as undercapitalized if it (i) has a total risk-based capital ratio of less than 8.0 percent, (ii) has a Tier 1 risk-based capital ratio of less than 6.0 percent, (iii) has a CET1 ratio of less than 4.5 percent or (iv) has a Tier 1 leverage ratio of less than 4.0 percent. An institution will be classified as significantly undercapitalized if it (i) has a total risk-based capital ratio of less than 6.0 percent, (ii) has a Tier 1 risk-based capital ratio of less than 4.0 percent, (iii) has a CET1 ratio of less than 3.0 percent or (iv) has a Tier 1 leverage ratio of less than 3.0 percent. An institution will be classified as critically undercapitalized if it has a tangible equity to total assets ratio that is equal to or less than 2.0 percent. An insured depository institution may be deemed to be in a lower capitalization category if it receives an unsatisfactory examination rating. Similar categories apply to bank holding companies. When the capital conservation buffer is fully phased in, the capital ratios applicable to depository institutions under the Basel Rules will exceed the ratios to be considered well-capitalized under the prompt corrective action regulations.

As of December 31, 2015, Lakeland Bancorp and Lakeland Bank met all capital requirements under the Basel Rules as then in effect, and the Company believes that as of such date, it would meet all capital requirements under the Basel Rules on a fully phased-in basis, if the full phase-in of such requirements were currently in effect.

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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 on July 21, 2016. These rules generally became 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.

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 in both 2015 and 2014.

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 $193,000 in 2015 and expects to pay a similar amount in 2016.

The Dodd-Frank Act

The Dodd-Frank Act, which was signed into law on July 21, 2010, significantly changed the bank regulatory landscape and has impacted and 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. Generally, the Dodd-Frank Act became effective the day after it was signed into law, but different effective dates apply to specific sections of the law.

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 Capital Requirements 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.

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 guidance from the bank regulatory agencies on compensation may impact the Company s compensation practices.

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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.
Final rules have been issued which implement the ability-to-repay and qualified mortgage (QM) provisions of the Truth in Lending Act, as amended by the Dodd-Frank Act (the QM Rule). The QM Rule impacted our mortgage originations when it became effective in January 2014. The ability-to-repay provision requires creditors to make reasonable, good faith determinations that borrowers are able to repay their mortgages before extending the credit based on a number of factors and consideration of financial information about the borrower from reasonably reliable third-party documents. Under the Dodd-Frank Act and the QM Rule, loans meeting the definition of qualified mortgage are entitled to a presumption that the lender satisfied the ability-to-repay requirements. The presumption is a conclusive presumption/safe harbor for prime loans meeting the QM requirements, and a rebuttable presumption for higher-priced/subprime loans meeting the QM requirements. The definition of a qualified mortgage incorporates the statutory requirements, such as not allowing negative amortization or terms longer than 30 years. The QM Rule also adds an explicit maximum 43 percent debt-to-income ratio for borrowers if the loan is to meet the QM definition, though some mortgages that meet GSE, FHA and VA underwriting and eligibility guidelines may, for a period not to exceed seven years, meet the QM definition without being subject to the 43 percent debt-to-income limits. We cannot assure you that existing or future regulations will not have a material adverse impact on our residential mortgage loan business or the housing markets in which we participate.

In addition, provisions in the Dodd-Frank Act which have revised 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 Capital Requirements.

The Dodd-Frank Act contains numerous other provisions affecting financial institutions of all types, many of which may have an impact on our operating environment in substantial and unpredictable ways. Consequently, the Dodd-Frank Act is likely to continue to increase our cost of doing business, it may limit or expand our permissible activities, and it may affect the competitive balance within our industry and market areas. The nature and extent of future legislative and regulatory changes affecting financial institutions, including as a result of the Dodd-Frank Act, remains very unpredictable at this time.

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.

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. Some of the provisions in the Dodd-Frank Act remain subject to regulatory rule-making and implementation, the full effects of which are not yet known. Although we cannot predict the full and 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 continue to impose additional administrative and regulatory burdens that will obligate us to continue to incur additional expenses and will continue to 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 mandating modification of the capital requirements applicable to the Company and the Bank, and the resulting adoption by federal regulators in July 2013 of the new capital requirements described under Business-Supervision and Regulation-Capital Requirements, could require the Company and the Bank to seek additional sources of capital in the future. Recent or additional regulations may limit or expand our permissible activities, and may affect the competitive balance within our industry and market areas, with the nature and extent of future legislative and regulatory changes affecting financial institutions remaining very unpredictable at this time. More stringent consumer protection regulations could materially and adversely affect our profitability. We also have a heightened risk of noncompliance with all of the additional regulations. Finally, the full impact of some of these new regulations is not known and may affect our ability to compete long-term with larger competitors.

The Company and the Bank are 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-Capital Requirements, we were required to meet new capital requirements beginning on January 1, 2015. In addition, beginning in 2016, banks and bank holding companies are required to maintain a capital conservation buffer on top of minimum risk-weighted asset ratios. The implementation of the capital conservation buffer began on January 1, 2016 at the 0.625% level, and increases by 0.625% on each subsequent January 1 until it reaches 2.5% when fully phased in on January 1, 2019. Banking institutions which do not maintain capital in excess of the capital conservation buffer 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.

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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 and volatility in China s financial markets 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 and concerns about Chinese financial markets have 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 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.

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.

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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, 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, 2015, the Company had approximately $442.3 million and $116.7 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 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.

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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-Capital Requirements, beginning in 2016, banks and bank holding companies are required to maintain a capital conservation buffer on top of minimum risk-weighted asset ratios. The implementation of the capital conservation buffer began on January 1, 2016 at the 0.625% level, and increases by 0.625% on each subsequent January 1 until it reaches 2.5% when fully phased in on January 1, 2019. 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.

If we are unable to remediate the material weakness in our internal control over financial reporting that we have reported in this Annual Report, or if other material weaknesses are identified in the future, our results of operations or financial condition could be materially adversely affected.

As disclosed elsewhere in this Annual Report on Form 10-K, during the fourth quarter of 2015, we identified a material weakness in our internal controls over financial reporting over the completeness and accuracy of the information used to determine the qualitative component of the allowance for loan and lease loss estimate. No restatement of prior period financial statements and no change in previously released financial results were required as a result of this finding. Management has taken steps to remediate this weakness by enhancing review controls, including adding an additional independent level of review over the information used to determine the qualitative factors in the allowance for loan and lease loss estimation process. If our remedial measures are insufficient to address this material weakness, or if additional material weaknesses or significant deficiencies in our internal control are discovered or occur in the future, our results of operations or financial condition could be materially adversely affected.

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The concentration of our commercial real estate loan portfolio may subject us to increased regulatory analysis.

The FDIC, the Federal Reserve and the OCC have promulgated joint guidance on sound risk management practices for financial institutions with concentrations in commercial real estate (CRE) lending. The 2006 interagency guidance did not establish specific CRE lending limits or caps; rather, the guidance set forth supervisory criteria to serve as levels of bank CRE concentration above which certain financial institutions may be identified for further supervisory analysis. According to the guidelines, institutions could be subject to further analysis if (i) their loans for construction, land, and land development (CLD) represent 100% or more of the institution s total risk-based capital, or (ii) their total non-owner-occupied CRE loans (including CLD loans), as defined, represent 300% or more of the institution s total risk-based capital, and further, that the institution s non-owner-occupied CRE loan portfolio has increased by 50% or more during the previous 36 months.

The Bank s total reported CLD loans represented 36% of total risk-based capital at December 31, 2015. The Bank s total reported CRE loans to total capital was 386% at December 31, 2015 while the Bank s CRE portfolio has increased by 54% over the preceding 36 months. Had Pascack been merged into the Company as of December 31, 2015, the combined CRE portfolio would have increased by 45% over the preceding 36 months.

The Bank s CRE portfolio is segmented and spread among various property types including retail, office, multi-family, mixed use, industrial, hospitality, healthcare, special use and residential and commercial construction. Management regularly reviews and evaluates its CRE portfolio, including concentrations within the various property types based on current market conditions and risk appetite as well as by utilizing stress testing on material exposures and believes its underwriting practices are sound.

There is no assurance that in the future we will not continue to exceed the levels set forth in the guidelines.

Our mortgage banking operations expose us to risks that are different than the risks associated with our retail banking operations.

The Bank s mortgage banking operations expose us to risks that are different than 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, a 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, which rules became effective on January 10, 2014, may expose the Company 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;

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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.

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 their 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 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.

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 Pascack Community Bank and any banks that we may acquire in the future, including without limitation Harmony Bank, which we entered into an Agreement and Plan of Merger, dated February 17, 2016, to acquire, the combined company may be adversely affected.

Our acquisition of Pascack Bancorp and Pascack Community Bank closed on January 7, 2016. We are in the process of integrating Pascack Community Bank and, if we make additional acquisitions in the future, including without limitation Harmony Bank, 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 the acquisition of Pascack Community Bank and 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.

At December 31, 2015, Lakeland Bank conducted business through 48 branch offices located in Bergen, Essex, Morris, Passaic, Somerset, Sussex, Union and Warren counties in New Jersey. Lakeland Bank also operates five New Jersey regional commercial lending centers in Bernardsville, Montville, Newton, Teaneck and Wyckoff/Waldwick; and two commercial loan production offices serving Middlesex and Monmouth counties in New Jersey and the Hudson Valley region of New York. The Company s principal office is located at 250 Oak Ridge Road, Oak Ridge, New Jersey 07438.

The aggregate net book value of premises and equipment was $35.9 million at December 31, 2015. As of December 31, 2015, approximately 27 of the Company s facilities were owned and approximately 28 were leased for various terms.

On January 7, 2016, the Company closed its acquisition of Pascack Bancorp, Inc., pursuant to which Pascack Bancorp, Inc. merged with and into the Company, and Pascack Community Bank (Pascack Bancorp s subsidiary bank) merged with and into Lakeland Bank. As a result of the mergers, the Company acquired eight branches. The Company is in the process of closing three branches in overlapping areas, which will result in a net total of 53 branches for Lakeland Bank.

ITEM 3 - Legal Proceedings.

Certain former shareholders of Pascack Bancorp, Inc. brought a purported class action (the Action) in the Superior Court of New Jersey, Bergen County, in connection with the merger of Pascack Bancorp with and into the Company, and the merger of Pascack Community Bank with and into Lakeland Bank. The complaint alleged that the Company had aided and abetted the individual defendants (former board members of Pascack Bancorp) in their alleged breaches of fiduciary duty. The parties reached an agreement-in-principle concerning the proposed settlement of the Action on December 1 and December 2, 2015. The mergers were consummated on January 7, 2016. The parties have agreed to a stipulation of settlement which is pending court approval.

Other than as described above, 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.

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 58	2008	President and CEO, Lakeland Bancorp, Inc. and Lakeland Bank (April 2, 2008 - Present); 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.
Joseph F. Hurley Age 65	1999	Executive Vice President and Chief Financial Officer of the Company (November 1999 - Present).
Robert A. Vandenbergh Age 64	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).

Name and Age	Officer of the Company Since	Position with the Company, its Subsidiary Banks, and Business Experience
Stewart E. McClure, Jr. Age 65	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 64	1999	Executive Vice President and Senior Government Banking/Business Services Officer of the Company (June 2009 - Present).
David S. Yanagisawa Age 64	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).
James R. Noonan Age 64	2003	Executive Vice President and Chief Credit Officer of the Company (December 2003 - Present).
Ronald E. Schwarz Age 61	2009	Senior Executive Vice President and Chief Revenue Officer of the Company (January 2016 - Present); Executive Vice President and Chief Retail Officer of the Company (June 2009 - December 2015); Executive Vice President and Market Executive of Sovereign Bank (June 2006 - June 2009).
Timothy J. Matteson, Esq. Age 46	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, 2015, there were 2,948 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, 2015			
First Quarter	$ 11.66	$ 10.66	$ 0.075
Second Quarter	12.23	11.25	0.085
Third Quarter	12.37	10.53	0.085
Fourth Quarter	12.25	10.74	0.085

	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

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 $281.5 million was available for the payment of dividends from Lakeland Bank to the Company as of December 31, 2015.

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 Capital Requirements.

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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 95 Regional Northeast Banks.

Company/Market/Peer Group	12/31/2010	12/31/2011	12/31/2012	12/31/2013	12/31/2014	12/31/2015
Lakeland Bancorp, Inc.	100.00	84.33	107.31	134.06	137.14	142.49
NASDAQ Market Index	100.00	99.17	116.48	163.21	187.27	200.31
Regional Northeast Banks	100.00	94.33	110.26	140.38	150.86	159.06

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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.

	2015	2014	2013	2012	2011
Years Ended December 31	(in thousands except per share data)				
Interest income	**$ 127,514**	$ 122,503	$ 114,199	$ 110,959	$ 117,524
Interest expense	**10,874**	8,937	9,657	15,446	20,111
Net interest income	**116,640**	113,566	104,542	95,513	97,413
Provision for loan and lease losses	**1,942**	5,865	9,343	14,907	18,816
Noninterest income excluding gains on investment securities and gain on debt extinguishment	**19,090**	17,720	18,925	17,856	16,888
Gains on sales of investment securities	**241**	2	839	1,049	1,229
Gain on early debt extinguishment	**1,830**		1,197		
Merger related expenses	**1,152**		2,834		
Long-term debt prepayment fee	**2,407**		1,209	782	800
Noninterest expenses	**83,652**	79,135	74,698	66,891	67,351
Income before income taxes	**48,648**	46,288	37,419	31,838	28,563
Income tax provision	**16,167**	15,159	12,450	10,096	8,712
Net income	**32,481**	31,129	24,969	21,742	19,851
Dividends on preferred stock and accretion				620	2,167
Net income available to common shareholders	**$ 32,481**	$ 31,129	$ 24,969	$ 21,122	$ 17,684
Per-Share Data(1)					
Weighted average shares outstanding:					
Basic	**37,844**	37,749	34,742	29,000	27,901
Diluted	**37,993**	37,869	34,902	29,077	28,015
Earnings per share:					
Basic	**$ 0.85**	$ 0.82	$ 0.71	$ 0.72	$ 0.63
Diluted	**$ 0.85**	$ 0.82	$ 0.71	$ 0.72	$ 0.63
Cash dividend per common share	**$ 0.33**	$ 0.29	$ 0.27	$ 0.24	$ 0.22
Book value per common share	**$ 10.57**	$ 10.01	$ 9.28	$ 9.00	$ 8.56
Tangible book value per common share(2)	**$ 7.62**	$ 7.06	$ 6.31	$ 6.21	$ 5.47
At December 31					
Investment securities available for sale and other(5)	**$ 456,436**	$ 467,295	$ 439,044	$ 399,092	$ 471,944
Investment securities held to maturity	**116,740**	107,976	101,744	96,925	71,700
Loans and leases, net of deferred costs	**2,965,200**	2,653,826	2,469,016	2,146,843	2,041,575
Goodwill and other identifiable intangible assets	**111,519**	111,934	112,398	87,111	87,111
Total assets	**3,869,550**	3,538,325	3,317,791	2,918,703	2,825,950
Total deposits	**2,995,572**	2,790,819	2,709,205	2,370,997	2,249,653
Total core deposits(3)	**2,652,251**	2,510,857	2,413,119	2,067,205	1,890,101
Term borrowings	**303,143**	243,736	160,238	136,548	232,322
Total stockholders equity	**400,516**	379,438	351,424	280,867	259,783
Performance ratios					
Return on Average Assets	**0.89%**	0.92%	0.80%	0.77%	0.71%
Return on Average Tangible Common Equity(2)	**11.58%**	12.21%	11.42%	12.85%	13.65%
Return on Average Equity	**8.28%**	8.48%	7.78%	8.42%	7.79%
Efficiency ratio(4)	**60.18%**	59.35%	59.74%	58.33%	56.87%
Net Interest Margin (tax equivalent basis)	**3.47%**	3.64%	3.69%	3.70%	3.85%
Loans to Deposits	**98.99%**	95.09%	91.13%	90.55%	90.75%

Capital ratios					
Common Equity to Asset ratio	**10.35%**	10.72%	10.59%	9.62%	8.54%
Tangible common equity to tangible assets(2)	**7.69%**	7.81%	7.46%	6.84%	5.63%
Tier 1 leverage ratio(6)	**8.70%**	9.08%	8.90%	8.62%	8.33%
Tier 1 risk-based capital ratio(6)	**10.53%**	11.76%	11.73%	11.52%	11.23%
Total risk-based capital ratio(6)	**11.61%**	12.98%	12.98%	12.77%	13.39%
CETI Ratio(6)	**9.54%**	NA	NA	NA	NA

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(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.
(6) Beginning March 31, 2015, these ratios were calculated according to the Basel III capital rules that took effect on January 1, 2015.

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, competition, the failure to realize anticipated efficiencies and synergies from the merger of Pascack Bancorp into the Company, and Pascack Community Bank into Lakeland Bank, and failure to obtain Harmony Bank shareholder or regulatory approval for the merger of Harmony Bank into Lakeland and failure to realize anticipated efficiencies and synergies if the merger of Harmony Bank into Lakeland is consummated.

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 53 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, and through 2015, Lakeland has opened 27 new branch offices (including acquired branches). In 2015, the Company opened two new Loan Production Offices (LPOs) that

allowed Lakeland to expand geographically in New Jersey and to enter New York State for the first time. In addition to organic growth, through December 31, 2015, 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. Additionally, on January 7, 2016, the Company completed its acquisition of Pascack Community Bank and its parent company Pascack Bancorp, with eight branches and an asset total of approximately $390.0 million. Three of the eight Pascack Community Bank Branches will be merged with Lakeland branches, resulting in 53 branches at Lakeland. All acquired banks have been merged into Lakeland and their holding companies, if applicable, have been merged into the Company. On February 18, 2016, the Company announced that it entered into a Definitive Agreement and Plan of Merger to acquire Harmony Bank. Harmony Bank will be merged into Lakeland Bank with Lakeland Bank as the surviving bank. 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.

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 its 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 continually reviewing its ongoing noninterest expense including evaluating its salary expense, its ongoing service contract expense, marketing expenses and other expenses. The Company also decreases 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 branch in 2014, three branches in 2015 and anticipates that trend to continue in 2016.

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 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.

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 the loan is not in the process of collection. Charge-offs are recommended by the Chief Credit Officer and approved by the Board.

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.

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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 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, 2015 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 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, 2015 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, 2015 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, 2015 was $32.5 million, or $0.85 per diluted share, a 4% increase compared to $31.1 million, or $0.82 per diluted share, for 2014. Excluding the impact of $1.6 million in net non-routine transactions, described below, net income for the year ended December 31, 2015 was $33.8 million, an 8% increase compared to 2014, or $0.88 per diluted share.

The $1.6 million in net non-routine transactions in 2015 included $1.2 million of expenses related to the Pascack Bancorp, Inc. (Pascack Bancorp) merger, $2.4 million of prepayment fees from the repayment of $20.0 million of 4.44% long-term debt, $1.8 million of realized gain from the redemption of $10.0 million of trust preferred debt, and $173,000 in related net realized gains on the sale of securities. Merger expenses primarily include the cost of legal, accounting, and investment banking services as well as technology costs.

Total loans increased $312.3 million, or 12%, from December 31, 2014 to December 31, 2015. Commercial real estate loans increased $231.8 million, or 15%, from December 31, 2014 to December 31, 2015. Commercial, industrial and other loans increased $68.8 million or 29% in the same time period.

Total deposits were $3.00 billion at December 31, 2015, an increase of $204.8 million, or 7%, from December 31, 2014. Noninterest-bearing demand deposits, which totaled $693.7 million at year-end 2015, increased by $47.7 million, or 7%, from December 31, 2014. Noninterest-bearing demand deposits represented 23% of total deposits at year-end 2015.

The Company s net interest margin at 3.47% for 2015 was 17 basis points lower than 2014.

The provision for loan and lease losses totaled $1.9 million in 2015, which was 67% lower than the $5.9 million reported for 2014. Net charge-offs at $1.8 million (0.06% of average loans) for 2015 were 65% lower than the $5.0 million (0.19% of average loans) for 2014.

During the fourth quarter of 2015, Pascack Bancorp shareholders approved the merger of Pascack Bancorp with and into the Company. This merger, along with the merger of Pascack Community Bank

with and into Lakeland Bank, was consummated on January 7, 2016, adding approximately $390.0 million in total assets to the Company. The Company also acquired eight branches in the merger. The Company intends to close a total of three branches in overlapping areas, which will result in a net total of 53 branches for Lakeland Bank. On February 18, the Company announced that it entered into a Definitive Agreement and Plan of Merger to acquire Harmony Bank. Harmony Bank will be merged into Lakeland Bank with Lakeland Bank as the surviving bank. For more information on the Pascack and Harmony acquisitions, please see Note 2 Acquisitions.

Net Income

Net income for 2015 was $32.5 million or $0.85 per diluted share compared to net income of $31.1 million or $0.82 per diluted share in 2014. Net interest income at $116.6 million for 2015 increased $3.1 million compared to 2014 due to a $5.0 million increase in interest income partially offset by a $1.9 million increase in interest expense. The increase in net interest income reflects an increase in interest earning assets resulting from organic growth.

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 2015 on a tax-equivalent basis was $117.5 million, representing an increase of $3.0 million, or 3%, from the $114.5 million earned in 2014. The increase in net interest income primarily resulted from growth in average interest-earning assets of $242.8 million. The net interest margin decreased from 3.64% in 2014 to 3.47% in 2015 primarily as a result of a 13 basis point decline in the yield on interest earning assets coupled with a five basis point increase 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 $42.9 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.

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INTEREST INCOME AND EXPENSE VOLUME/RATE ANALYSIS

(tax equivalent basis, in thousands)

	2015 vs. 2014			2014 vs. 2013		
	Increase (Decrease) Due to Change in:		**Total**	Increase (Decrease) Due to Change in:		Total
	Volume	**Rate**	**Change**	Volume	Rate	Change
Interest Income						
Loans and leases	**$ 8,309**	**$ (3,601)**	**$ 4,708**	$ 10,473	$ (4,215)	$ 6,258
Taxable investment securities and other	**847**	**(324)**	**523**	938	1,117	2,055
Tax-exempt investment securities	**(159)**	**(167)**	**(326)**	(4)	24	20
Federal funds sold	**(1)**	**(8)**	**(9)**	(14)	(8)	(22)
Total interest income	**8,996**	**(4,100)**	**4,896**	11,393	(3,082)	8,311
Interest Expense						
Savings deposits	**8**	**2**	**10**	9	(30)	(21)
Interest-bearing transaction accounts	**135**	**151**	**286**	369	(750)	(381)
Time deposits	**109**	**286**	**395**	(164)	(459)	(623)
Borrowings	**1,352**	**(106)**	**1,246**	694	(389)	305
Total interest expense	**1,604**	**333**	**1,937**	908	(1,628)	(720)
NET INTEREST INCOME (TAX EQUIVALENT BASIS)	**$ 7,392**	**$ (4,433)**	**$ 2,959**	$ 10,485	$ (1,454)	$ 9,031

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.

CONSOLIDATED STATISTICS ON A TAX EQUIVALENT BASIS

	2015			2014			2013		
	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)	**$ 2,773,601**	**$ 115,295**	**4.16%**	$ 2,568,056	$ 110,587	4.31%	$ 2,317,158	$ 104,329	4.50%
Taxable investment securities and other	**512,145**	**10,563**	**2.06%**	470,144	10,040	2.14%	423,249	7,985	1.89%
Tax-exempt securities	**69,307**	**2,451**	**3.54%**	73,662	2,777	3.77%	73,768	2,757	3.74%
Federal funds sold (B)	**35,059**	**62**	**0.18%**	35,404	71	0.20%	41,870	93	0.22%
Total interest-earning assets	**3,390,112**	**128,371**	**3.79%**	3,147,266	123,475	3.92%	2,856,045	115,164	4.03%
Noninterest earning assets:									
Allowance for loan and lease losses	**(31,062)**			(30,146)			(30,053)		
Other assets	**289,786**			283,341			276,868		
TOTAL ASSETS	**$ 3,648,836**			$ 3,400,461			$ 3,102,860		
Liabilities and Stockholders Equity									
Interest-bearing liabilities:									
Savings accounts	**$ 399,431**	**$ 212**	**0.05%**	$ 384,715	$ 202	0.05%	$ 370,980	$ 223	0.06%
Interest-bearing transaction accounts	**1,511,954**	**3,652**	**0.24%**	1,454,967	3,366	0.23%	1,341,691	3,747	0.28%
Time deposits	**303,682**	**1,891**	**0.62%**	283,905	1,496	0.53%	309,384	2,119	0.68%
Borrowings	**328,936**	**5,119**	**1.56%**	241,820	3,873	1.60%	169,048	3,568	2.11%
Total interest-bearing liabilities	**2,544,003**	**10,874**	**0.43%**	2,365,407	8,937	0.38%	2,191,103	9,657	0.44%
Noninterest-bearing liabilities:									
Demand deposits	**695,630**			652,685			576,421		
Other liabilities	**16,982**			15,159			14,513		
Stockholders equity	**392,221**			367,210			320,823		
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	**$ 3,648,836**			$ 3,400,461			$ 3,102,860		
Net interest income/spread		**117,497**	**3.36%**		114,538	3.54%		105,507	3.59%
Tax equivalent basis adjustment		**857**			972			965	
NET INTEREST INCOME		**$ 116,640**			$ 113,566			$ 104,542	
Net interest margin (C)			**3.47%**			3.64%			3.69%

(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 $123.5 million in 2014 to $128.4 million in 2015, an increase of $4.9 million, or 4%. The increase in interest income was primarily due to a $205.5 million increase in average loans and leases partially offset by a decrease in the yield on interest earning assets. The yield on average loans and leases at 4.16% in 2015 was 15 basis points lower than 2014, resulting primarily from strong growth in loans and leases originated or refinanced at lower rates. The yield on average taxable and tax exempt investment securities

decreased by eight and 23 basis points, respectively, compared to 2014. The decrease in yield on tax exempt investment securities was primarily due to maturing securities at higher rates and new purchases at lower rates.

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.

Total interest expense increased from $8.9 million in 2014 to $10.9 million in 2015, an increase of $1.9 million, or 22%. The cost of average interest-bearing liabilities increased from 0.38% in 2014 to 0.43% in 2015. The increase in the cost of funds was primarily due to increases in average time deposits and borrowings. Borrowings as a percent of interest-bearing liabilities increased from 10% in 2014, to 13% in 2015 as average borrowings increased $87.1 million in that time period to help fund loan growth. Borrowings at a rate of 1.56% have a higher cost than interest bearing deposits which had an average cost of 0.26% 2015. Additionally, higher cost average time deposits totaling $303.7 million increased $19.8 million compared to 2014. Because loan growth exceeded growth in core deposits in 2015, the Company bid for higher cost time deposits and used term borrowings from the Federal Home Loan Bank of New York to fund loan growth.

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.

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 3.47%, 3.64% and 3.69% for 2015, 2014 and 2013, respectively. The decreases in net interest margin 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 $5.9 million in 2014 to $1.9 million in 2015. The lower provision during 2015 was primarily a result of reduced net charge-offs at $1.8 million (0.06% of average loans), which were 65% lower than the $5.0 million (0.19% of average loans) for 2014.

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.

Noninterest Income

Noninterest income at $21.2 million in 2015 increased by $3.4 million, or 19%, compared to 2014. Included in noninterest income during 2015 was a $1.8 million pre-tax gain on redemption and extinguishment of $10.0

million of Lakeland Bancorp Capital Trust IV debentures and $241,000 in gain on sales and calls of investment securities. Excluding these two items, noninterest income would have been $19.1 million, a $1.4 million increase compared to 2014. Gains on sales of loans at $1.7 million in 2015 was $1.1 million higher than 2014 due to increased origination and sale of residential mortgages. Income on bank owned life insurance at $ 2.0 million in 2015 was $564,000 greater than 2014 due primarily to death benefits received. Service charges on deposit accounts at $10.0 million decreased $499,000, or 5%, primarily due to a decline in overdraft fees. Other income totaling $800,000 in 2015 was $263,000 higher than 2014. Within other income, the Company recorded $396,000 in swap income compared to no swap income in 2014. The increase in swap income was partially offset by loss on disposal of assets relating to branch closures in 2015. Noninterest income represented 15% of total revenue in 2015. (Total revenue is defined as net interest income plus 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 $537,000 in 2014 was $796,000 lower than 2013. Within other income in 2014, the Company recorded no swap income and $129,000 in gains on sales of other real estate owned compared to $181,000 and $749,000, respectively, in 2013. Noninterest income represented 13% of total revenue in 2014.

Noninterest Expense

Noninterest expense totaling $87.2 million increased $8.1 million in 2015 compared to 2014. Included in noninterest expense during 2015 was $2.4 million in long term debt prepayment fees and $1.2 million in merger related expenses. Excluding these two items, total noninterest expense would have been $83.7 million, a $4.5 million increase compared to 2014. Salary and employee benefits at $48.6 million increased by $3.5 million, or 8%, primarily due to the two new LPOs, as well as year-over-year incremental salary increases, pension expenses, increasing benefit costs and benefit increases. Furniture and equipment increased $325,000 compared to 2014 due primarily to an increase in service contract and software licencing costs. Stationary, supplies and postage increased $126,000 compared to 2014 primarily due to special mailings and expenses related to the opening of the new loan production offices. Marketing expense at $1.6 million in 2015 decreased $439,000 compared to 2014 primarily due to website redesign and TV commercial creation expenses during 2014 that the Company did not have in 2015. Data processing expense at $1.5 million increased $279,000 compared to 2014 due primarily to increases related to the Company s mobile offerings. In 2015, other real estate owned and other repossessed asset expense at $181,000 decreased $53,000 compared to last year as a result of fewer transfers of loans into other real estate. Other expenses at $8.9 million increased $669,000 compared to 2014, due primarily to a $929,000 increase in the provision for unfunded lending commitments resulting from an increase in unfunded commercial commitments. The increase in provision for unfunded lending commitments was partially offset by a decline in professional fees.

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. Data processing expense at $1.2 million in 2014 decreased $221,000 compared to 2013, while ATM and debit card expense at $1.4 million increased $72,000 or 5%. Other real estate owned and other repossessed assets expense at $234,000 increased $210,000 compared to 2013. Other expenses at $8.3 million decreased $179,000 compared to 2013, due primarily to decreases in consulting expense, professional fees, legal fees and loan related expenses.

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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 2015, the Company s efficiency ratio on a tax equivalent basis was 60.18% compared to 59.35% in 2014. The efficiency ratio was 59.74% in 2013.

	For the year ended December 31,				
	2015	2014	2013	2012	2011
	(dollars in thousands)				
Calculation of efficiency ratio (a non-GAAP measure)					
Total non-interest expense	$ 87,211	$ 79,135	$ 78,741	$ 67,673	$ 68,151
Less:					
Amortization of core deposit intangibles	(415)	(464)	(288)		(577)
Other real estate owned and other repossessed asset expense	(181)	(234)	(24)	(99)	(780)
Merger related expenses	(1,152)		(2,834)		
Long-term debt prepayment fee	(2,407)		(1,209)	(782)	(800)
Provision for unfunded lending commitments	(864)	65	(55)	(93)	(375)
Non-interest expense, as adjusted	$ 82,192	$ 78,502	$ 74,331	$ 66,699	$ 65,619
Net interest income	$ 116,640	$ 113,566	$ 104,542		